

From *Side Hustle to Run the World*: Top Legal Issues for Entrepreneurs

May 18, 2021

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What We'll Cover

- Introductions
- When & how to move from your side hustle to a “real” business
- Employees or independent contractors – the pros & cons of each
- Important ways to protect and monetize your intellectual property
- Key issues for agreements
- Keeping up with ever-evolving data privacy requirements

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Martell Media House

Martell Media House represents creators, innovators, and entrepreneurs across the media & technology spectrum

- General Counsel
- Licensing & Entertainment
- Intellectual Property
- Marketing Campaigns
- Data/Privacy



My Background

Kermit the Frog to the WWE



Jumping In!



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A Legal Frame of Mind

- **The worst thing you can do is ignore your questions**
- Hiring an attorney can be necessary, but not at every stage
- Online research is your first stop
- For business questions – the Secretary of State for each US state provides resources, FAQs etc
- US Copyright & Trademark Offices have TONS of resources for consumers
- Nonprofit organizations often provide free or low-cost access to attorneys

Advice From Attorney > Info From Internet > Nothing



Get Corporate

- What type of business should you form? Sole proprietorship? DBA? LLC? S Corp?
- At what point does it make sense to formally incorporate as a business?
 - When is it no longer a hobby or a side hustle?
 - How many people are involved?
- Liability
- Taxes

- Side note re starting a nonprofit...

Types of Business Structures

- Sole Proprietorship (DBA)
- General Partnership
- Limited Liability Company (LLC)
- Corporation (C Corp)



Business Structure Considerations

1. Difficulty of Formation
2. Cost of Formation
3. Taxation
4. Liability Issues
5. Business Decisions/Management
6. Fund-raising Implications



Sole Proprietorship

- Owned and operated by **One Person** (One decision maker)
- Easy to form and low cost
- Business income and expenses are reported on individual tax return
- The Owner is 100% liable for any losses, debts, or violations that are caused by the business
- File “Doing Business As” (DBA)



General Partnership

- Two **or** more owners (decision responsibilities shared amongst owners)
- Easy to form
- Business income and expenses are reported on individual tax returns
- The Owners are 100% liable for any losses, debts, or violations that are caused by the business regardless of ownership split
- General Partnership can own property and enter into contracts
- File “Doing Business As” (DBA)
- Develop Partnership Agreement with Attorney



Limited Liability Corp

- One or more owners (members)
- Members' profits reported on individual taxes
- The decision responsibilities can be shared amongst the owners (*based on **Operating Agreement***)
- ***** Owner's liability is limited *****
- Ownership rights can be passed on to successors
- If more than one member, recommend working with an attorney to draft an appropriate Operating Agreement

Difference between EQUITY ownership and ECONOMIC rights



S Corp vs. C Corp

There is a big difference in how a C Corp and an S Corp are taxed.

For federal tax purposes, C corporation profits are taxed, and are reported on the corporation tax return. Any after-tax profits distributed to shareholders as dividends are taxed again, and are reported by the shareholders on their personal tax returns.

This “**double taxation**” can be avoided by electing S Corp status for your corporation. An S Corp is treated like a sole proprietorship or a partnership in that the profits (or losses) are passed through the S Corp. to the shareholders, and are only taxed to the shareholders and reported on their personal tax returns.

LLCs are often structured as S Corps given the flexibility.



LLC vs. C Corp

Starting your company as an LLC (with S Corp status) can have significant benefits—including a flexible structure and easy setup—but you may need to restructure as a corporation later.

Converting from an LLC/S Corp to a C Corp can make it easier to scale, fundraise, have international investment, or have shares owned by other entities.



Employees vs. Independent Contractors

Determining whether someone is an EE or an IC matters for a variety of reasons, including potential IRS liability and intellectual property ownership

If you classify an employee as an independent contractor and you have no reasonable basis for doing so, you may be held liable for employment taxes for that worker

Does Your Employer Own Intellectual Property You Create? LegalZoom



Employees vs. Independent Contractors

How to Determine Whether the Individuals Providing Services are Employees or Independent Contractors:

Facts that provide evidence of the degree of control and independence fall into three categories:

- Behavioral: Does the company control or have the right to control what the worker does and how the worker does his or her job?
 - Financial: Are the business aspects of the worker's job controlled by the payer? (these include things like how worker is paid, whether expenses are reimbursed, who provides tools/supplies, etc.)
 - Type of Relationship: Are there written contracts or employee type benefits (*i.e.* pension plan, insurance, vacation pay, etc.)? Will the relationship continue and is the work performed a key aspect of the business?
- <https://www.irs.gov/businesses/small-businesses-self-employed/independent-contractor-self-employed-or-employee>



California: Employees vs. Independent Contractors

Recently enacted California AB 5 codified the ABC test - employers have the burden of showing that **all three of the following factors** are met for a worker to be properly classified as an independent contractor:

- The worker is free from the control and direction of the hiring entity in connection with the performance of the work, both under the contract for the performance of the work and in fact.
- The worker performs tasks that are outside the usual course of the hiring entity's business.
- The worker is customarily engaged in an independently established trade, occupation or business of the same nature as the work performed for the hiring entity.



Work For Hire

[Section 101 of the Copyright Act](#) defines a “work made for hire” in two parts:

- a ***work prepared by an employee within the scope of their employment*** or
- a ***work specially ordered or commissioned for use***
 - as a contribution to a collective work
 - as a part of a motion picture or other audiovisual work
 - as a translation
 - as a supplementary work
 - as a compilation
 - as an instructional text
 - as a test
 - as answer material for a test
 - as an atlas
 - if the parties ***expressly agree in a written instrument*** signed by them that the work shall be considered a work made for hire.



Employment & IP Rights

Broadly speaking, if an employee creates new intellectual property *as part of their job*, the employer owns that intellectual property.

The Copyright Act automatically assigns authorship to **employers** rather than employee creators or inventors in two specific situations:

- The **first** situation is where an employee develops the work within the scope of their employment
- The **second** occurs when the employer specifically orders or commissions the work from the employee.

Employment Agreements should specifically state scope of rights to work created by employees.



Independent Contractors & IP Rights

Typically, an IC Agreement includes WFH language AND an assignment provision, assigning the copyrights in the work to the client in the event deemed not to be a Work For Hire.

NOTE: Multiple California statutes provide that using a WFH clause in an independent contractor agreement **transforms the contractor into a “statutory employee** for purposes of Workers Comp, Unemployment Insurance & other regs.

If an assignment is used (rather than WFH), the author (or the author’s heirs) may terminate any assignment at any time during the five-year period beginning at the end of the thirty-fifth year after the transfer. This right to terminate may not be contracted away or waived in advance.



Copyright v. Trademark

The difference between Copyright and Trademark:

Copyrights protect the rights of people who create literary, dramatic, musical, artistic, and certain other intellectual works. As soon as you create something, copyright law protects it, and no one can use it without your explicit permission.

Trademarks protect the use of a company's name and its product (or services) names, brand identity (logos, product design, “trade dress”) and slogans. When you trademark something, you protect your brand from copycats who sell similar products and services.

<https://www.uspto.gov/trademarks/basics/trademark-patent-or-copyright>



Copyright Basics

- “Bundle of sticks” – various rights
- Copyright provides the **owner of copyright** with the **exclusive right** to:
 - **Reproduce** the work in copies or phonorecords
 - **Prepare derivative works** based upon the work
 - **Distribute** copies or phonorecords of the work to the public by sale or other transfer of ownership or by rental, lease, or lending
 - **Perform** the work publicly if it is a literary, musical, dramatic, or choreographic work; a pantomime; or a motion picture or other audiovisual work. Perform the work publicly by means of a digital audio transmission if the work is a sound recording
 - **Display** the work publicly if it is a literary, musical, dramatic, or choreographic work; a pantomime; or a pictorial, graphic, or sculptural work



Copyright Basics - Registration

When you **register the copyright** for your creation, you create an asset that can be sold or licensed. A copyright registration also provides the following benefits:

Gives evidence of **validity**. Registration creates a legal presumption of validity that anyone challenging must prove isn't correct when registration is made before or within five years of publication.

It's a **pre-requisite for a lawsuit**. If you ever file a lawsuit about copyright infringement, the court will require registration before filing the lawsuit.

Can entitle you to **statutory damages and attorney's fees**. Statutory damages and attorney's fees are often the biggest part of monetary awards asked for in copyright cases.

Satisfies the **deposit requirement**. By completing the registration process, which includes sending in two copies of published work (for non-electronically published works), you already meet this requirement with registration.



Trademark Basics

A trademark is a word, phrase, symbol, and/or design that identifies and distinguishes the source of the goods of one party from those of others. A service mark is a word, phrase, symbol, and/or design that identifies and distinguishes the source of a service rather than goods.

The term "trademark" is often used in a general sense to refer to both trademarks and service marks.

You don't need to wait until you use a trademark in connection with your goods or services in commerce before filing an application at the USPTO. You may file on an intent-to-use basis. However, the intent must be bona fide and you must use the trademark in commerce in connection with your goods or services before the USPTO will issue a Certificate of Registration.

File in a specific "category" – Delta Dental, Delta Airlines, Delta Faucets



Key Contract Terms

- What is the “offer” – make sure there is clarity re what is being provided, deliverables, timeline
- Is there “acceptance” – do both parties understand and agree to the terms?
- “Consideration” – is there an exchange of value?
Payment, services, etc.
- TL;DR – read everything, take nothing for granted and ASK QUESTIONS if you are confused
- Get everything in writing – if meaningful info is exchanged, document in a follow up email or addendum
- Red flag words: exclusive, perpetuity, royalty-free, obligation
- Payment & termination clauses based in reality



Data Privacy By Design

Data privacy and security are headline news – whether it is the California Consumer Privacy Act, the EU’s General Data Protection Regulation or regulations covering specific industries like health care, education, children etc.

Privacy by Design means thinking about protecting consumers’ data, using the least amount of data possible, and being transparent about your practices.

If you are providing services for another entity that is itself covered by a data protection rule, you may be required to demonstrate your compliance with applicable privacy regulations.



CCPA

Determine whether the California Consumer Privacy Act (CCPA) applies to your business.

- **A business is only subject to the CCPA if it**
 - Is for profit,
 - Does business in California,
 - Collects consumers' personal information, and
 - Determines the purposes and means of processing consumers' personal information.
- **In addition, the CCPA only applies to a business that**
 - Has annual gross revenue in excess of \$25 million;
 - Annually buys, receives for commercial purposes, sells, or shares for commercial purposes personal information of 50,000 or more consumers, households, or devices; or
 - Derives 50% or more of its annual revenue from selling consumers' personal information.

Revise your privacy policy.

- Businesses covered by the CCPA must provide, at or before the point of collection, in their website privacy policy or otherwise, a privacy policy that includes the following:
 - **Right to know.**
 - The categories of personal information to be collected about the consumer and the purposes for which the information will be used,
 - The categories of sources from which personal information is collected, and
 - The categories of consumers' personal information that were actually collected in the preceding 12 months and sold or disclosed for business purposes in the preceding 12 months.
 - **Right to delete.** Businesses must also inform consumers of their right to request deletion of their personal information.
 - **Right to opt out of sale of personal information to third parties.** In order to comply with the right to opt out, a business must describe the right in its privacy policy. A business must either state that it does not sell personal information or describe how the opt-out right may be exercised.



GDPR

The GDPR applies to US businesses, regardless of their size in terms of revenue or staff, if at least one of the following two conditions are met:

- The company offers good or services (even in the absence of commercial transactions) to EU residents.
- The company monitors the behavior of users inside the EU.
- Personal data and behavior covered by the GDPR include names, contact information, device details (e.g., IP addresses, location data), biometric information, photographs, and videos, among others.

If you ship to EU customers, target clients in the EU, or perform data processing services on behalf of a third party who is subject to the GDPR – compliance could be required.



Q & A



Further Information

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