If you’re looking for top-notch legal thinking, you’ve come to the right place. We’ve gathered some of North Carolina’s top lawyers to offer advice on some timely issues.

How could tax-law changes affect alimony payments? How can an employment contract reduce headaches — and perhaps save your business? What’s behind the rise of arbitration in the construction business? Is it time to add an in-house counsel to your legal team? What’s the state-of-play for lawsuits involving economic losses? And, why you’ll want to think long and hard before foregoing directors and officers insurance. Read on to learn what these legal professionals have to say on these topics and more.

Protect directors, officers with coverage
BY PATRICK MINCEY, Cranfill Sumner & Hartzog LLP

Is it time for your company to hire in-house counsel?
BY REID PHILLIPS AND SUE YOUNG, Brooks, Pierce, McLendon, Humphrey & Leonard LLP

Bye-bye love, hello taxes: the alimony deduction ends
BY J. GREGORY HATCHER, Hatcher Law Group PC

Employment and non-compete agreements are everything
BY MATTHEW MARCELLINO, Marcellino & Tyson PLLC

Protecting your business’ intellectual property
BY JEFF WILSON AND SCOTT MOORE, Jenkins, Wilson, Taylor and Hunt PA

Construction arbitration: the pros and cons
BY JASON T. STRICKLAND, Ward and Smith PA

The economic-loss rule and Section 75-1.1: current trends
BY JEREMY FALCONE, Ellis & Winters LLP
In both public and private companies, executives and board members are sued for a variety of reasons. Directors and Officers liability insurance—commonly referred to as “D&O” coverage—exists to protect them and their companies.

As the Federal Government continues to ramp up enforcement against white collar crime and combat corporate fraud across industries from finance and health care to defense contracting and real estate development, it is more essential than ever for business leaders to recognize the role D&O coverage can play in criminal investigations and prosecutions.

A company’s indictment — let alone conviction — can lead to the death of the business.

Because of this reality, and the full-blown crisis it creates, I encourage clients to rely on D&O coverage and think about how to engage their insurance providers if and when the government comes knocking.

Wait, The Government is Looking at My Company in a Criminal Case?

The government can signal its interest in your company in a criminal investigation in many ways, from the in-person contact between an FBI agent and the company’s accountant to surreptitious scrutiny by intelligence agencies monitoring transactions with foreign politicians abroad. Often times, recognizing the first clue the government is scrutinizing your business depends on your industry. A securities broker will receive different types of notices from the Securities Exchange Commission compared to a hospital provider that might be contacted by the Department of Health and Human Services. A defense contractor and bio-pharma company may be operating in the same sub-Saharan nation but receive very different kinds of scrutiny from various United States agencies about their respective business practices.

Executives and management must be extremely sensitive to becoming entangled—even peripherally—in a criminal investigation. Often, the loudest alarm sounds through the Grand Jury subpoena. In my experience, companies too often treat the Grand Jury subpoena like a routine civil lawsuit subpoena.

That is a mistake.

Grand Jury Subpoenas Are Different

The Grand Jury investigates in secret, directed by prosecutors from the United States District Attorney’s Office. While protections like the right to remain silent under the Fifth Amendment technically exist, a corporation has no such privilege. A witness’s attorney may not be present while the government elicits testimony before the Grand Jury.

Even for seasoned executives who have been engaged in corporate litigation throughout their careers, testifying in a criminal inquisition while your lawyer sits in the hallway can be a uniquely terrifying experience.

Grand Juries Can Demand Crippling Amounts of Data from Your Company

Even if your company is not the subject or target of the investigation, Grand Juries have broad powers to demand the production of your records. In this day, that usually means electronic data.

Data means massive. And massive means expensive.

Because companies must comply with Grand Jury subpoenas but also
not obstruct justice by hindering the government’s investigation, this can often mean expending exorbitant costs to manage data until there are assurances the investigation is complete. Compound those costs with industry-specific compliance issues such as health care or financial records, and the legwork to ensure regulatory compliance becomes extremely onerous.

The Life of a Company Will Be Shaped by Its Response at an Investigation’s Infancy

A criminal investigation against a company or its directors and officers is likely to be a watershed moment in the life of the organization.

Unlike a civil lawsuit, which starts with a filed complaint detailing facts and legal claims, a company must often make crucial, snap decisions with just a keyhole peek at the scope of what the government is concerned with in a criminal investigation.

Whatever form initial contact between the government and the company takes—through a subpoena, personal contact from an agent, or even a search warrant and raid of company facilities—the first interaction between law enforcement and corporate counsel will be critical. This initial interaction sets the tone of the investigation, its scope, and the government’s willingness to make accommodations to respond to its demands for information.

The criminal investigation process often will shape related civil litigation that may be brought by other stakeholders claiming to have been harmed by the same corporate acts.

D&O insurance providers recognize that civil liability can rise and fall with the outcome of the criminal investigation. This means that initial contact with the government should immediately trigger your company to contact its D&O coverage provider to assist with a defense.

D&O Coverage Can Help Identify Competent White Collar Defense Counsel and Allay Costs

Early and thorough cooperation by a corporation may lead to a decision not to file criminal charges, to defer criminal charges, or for a civil agency to decline to make a referral for criminal prosecution.

On the other hand, a company that fully cooperates may unnecessarily educate the government about its position too early in the game, foreclose various strategic approaches, and leave the corporation exposed later at trial.

While it may be incumbent on the company to cooperate with law enforcement, the company and its officers must also be prepared to defend themselves. Only by knowing the benefits and risks of a particular strategy can management make important decisions that can affect the future existence of the company. Early agreements with the government such as a Non-Prosecution Agreement can sometimes set the company up for failure, create burdensome compliance requirements that cripple business, or preclude lucrative government business contracting all together.

There is no universal strategy for a response to the government’s scrutiny. The critical need is to recognize at the outset that 1) there must be a quick and thought-through response made with the assistance of attorneys; and 2) that this will be an expensive endeavor. D&O insurance can be an essential ally to assist with both identifying competent white-collar defense counsel and alleviating legal defense costs.

Here are key questions to consider when evaluating your D&O policy:

1. Does the policy provide “pre-claim inquiry” coverage for the costs of responding to informal document requests or interviews with government investigators? If not, your company could be coming out of pocket before a “claim” your carrier recognizes.

2. Can coverage be denied before a “final, non-appealable adjudication” that fraud has been committed? Your company should ensure that the insurance company will not refuse coverage for a mere fraud allegation before a court has made a final determination the company has actually committed fraud.

3. Is your policy “eroding,” meaning fees and costs incurred by defense counsel eat into money available under the policy? Your company should recognize that responding to initial contact of an investigation can be extremely costly and diminish policy resources that may still be needed after an indictment or collateral civil litigation.
Your company has seen nice growth over the past five years – revenues are up, you are employing more people and you see new opportunities ahead.

You are beginning your budget planning for next year. Your eye lights on the six-figure line item that reads: “legal expenses.” And you ask yourself: Is it time to hire an in-house attorney?

It might be. The right in-house counsel can provide a number of advantages over outside counsel. The most important of which are that in-house counsel, by being closer and more involved, can know your business better and therefore can respond more quickly and more efficiently to your everyday legal needs.

There are eight factors companies should weigh when determining if the time is right to hire in-house counsel:

1. Are you in a government-regulated business or industry?
2. Do you have more than 100 employees?
3. Do you have shareholders and investors (such as venture capitalists) with different financial stakes and interests?
4. Do you enter into contracts with terms that vary substantially from one deal to the next?
5. Do you contemplate going public within the next five to ten years?
6. Are you or will you be developing valuable intellectual property?
7. Is the person now in charge of your legal matters stretched too thin or diverted too often from other important work?
8. Are you regularly incurring more than $500,000 per year in legal expenses?

If the answer to any of these questions is yes, it’s time to consider in-house counsel.

Once you’ve arrived at this conclusion, the next step is to draft a job description. This will guide your decision about whether your objectives can be met with a new in-house attorney and who might do the work best. Will you be looking for someone whose primary function will be to guide your human resources department? Will you be looking for someone who knows patent and trademark law? Will you be looking for someone who can help negotiate and finalize your most important supplier or customer contracts? Do you need someone who already has a good understanding of the laws and regulations that apply to your business? Will you be looking for someone who can help you fulfill your fiduciary duties to
shareholders and your contractual obligations to your lenders and other investors? The answers to these questions will help you write a job description that is realistic and that will point you to the best candidate.

Your next step is to call the two very best sources for the candidate you need. Your first call, believe it or not, should be to the law firm you currently use. If they’ve been paying attention to you and your growing legal needs, your outside counsel will not be surprised by your call. And they will want to work with you to identify the very best candidate for your needs. Why? Because they will want to maintain a continuing relationship with your growing business, even as some of your legal work moves in-house. Placing an associate or colleague within your company is one way for your current firm to keep that bond strong. In fact, as more and more law firm partners and associates see the advantages of working as in-house counsel, you might discover that the attorney you call at your existing firm is looking to make a move himself or herself.

Your second call should be to a credentialed legal recruiting firm. Insist on a recruiting firm that belongs to the National Association of Legal Search Consultants and that subscribes to its Code of Ethics. Don’t bother with others. A legal recruiting firm without these credentials is likely to be disappointing. An ethical, experienced recruiting firm will bring you only candidates who match your needs and who are likely to be contributors to the long-term success of your business.

Sounds straight-forward and easy, doesn’t it? What can go wrong? Here are the five most common mistakes.

1. Unrealistic expectations. The law is complex. No one lawyer can know every single thing about every aspect of the law. A “generalist” who becomes your general counsel and, eventually, your trusted adviser, can add enormous value to your enterprise. But don’t expect your new general counsel to be a securities lawyer, an environmental lawyer, a tax lawyer, and a labor and employment lawyer all wrapped into one. “Jack of all trades, master of none,” can be a dangerous beginning, leading to costly mistakes. Respect the fact that whoever you hire as counsel cannot know everything and cannot solve all your legal problems alone.

2. Not hiring someone with enough of the right experience. Fresh law school graduates are eager to learn and they will be willing to come to work for you at lower a salary than more seasoned professionals. But, as with everything in the world except lottery tickets, you “get what you pay for.” A young lawyer with growth potential might be the right choice but consider factors other than cost when making the decision. You might find that a senior lawyer, perhaps looking towards retirement in 5-7 years, will give you much more value.

3. Not investing the time. As with every new hire, to really help your new counsel become effective and successful, you will need to invest time in teaching him or her about how your business works. What makes you successful? Where are your business risks and pitfalls? Who are your best customers? Who are your most important suppliers? What and who are your most valuable resources? What are the critical aspects of your operations? Only with that knowledge can your new in-house counsel provide you with the legal advice you need.

4. Not understanding professional obligations. Lawyers are licensed professionals who, as conditions of keeping their law licenses, must adhere to ethical obligations. For example, a lawyer for a company has ethical duties to shareholders that, in cases of conflict, supersede their obligation to follow contrary instructions from the CEO. Take time to understand those ethical obligations and the limitations they might impose on your expectations.

5. Expecting in-house counsel to eliminate all outside legal costs. Your new in-house lawyer will not be able to eliminate all outside legal expense. There will be times when you will need either the specialized legal knowledge that law firms provide or the additional resources they can provide for big projects. Trust your new general counsel to know when it is best to call for help from your law firm and to help you manage the expense of those consultations. But do not expect that you will be able to eliminate all outside legal expense.

Hiring in-house counsel, teaching them about your business, and then involving them in your important business decisions, can help your growing company prosper. Is it time to consider hiring in-house counsel?
The terms alimony, spousal support and maintenance typically refer to money paid by one separated spouse to another in a set amount over a set period of time. It is not child support but instead, support which enables the receiving spouse to maintain the standard of living that was achieved during the marriage, in addition to paying for certain expenses he or she could not otherwise afford without the other spouse’s assistance. Hundreds of thousands of Americans pay alimony each year. Under the 75-year-old federal law, alimony payments are deductible from the paying spouse’s gross income while the receiving spouse must report the payments as taxable income. The purpose of the tax benefit is to help bridge the financial gap created when spouses separate and two households are created. Recent tax changes will determine if, and how, many spouses receive alimony in the future. As a result, family law attorneys are scrambling to help their clients resolve alimony claims before the end of the year, at which point they lose a valuable tool they have depended on to reach settlements and assist clients reach their financial objectives.

How things work under our current tax law.

In North Carolina, only a spouse who earns more money than the other spouse can be required to pay alimony. As a result, the spouse receiving the alimony is typically in a much lower tax bracket such that the alimony received is taxed at a much lower level than if it had simply remained as income of the paying spouse. Under our current tax code, alimony dollars can be stretched further with the tax deduction available to the supporting spouse. For instance, if the supporting spouse has $6,000 a month available to pay as alimony to the dependent spouse ($72,000 per year), but the dependent spouse needs $8,333 of alimony per month ($100,000 per year), the current tax code allows the supporting spouse to adjust his withholdings and typically reach the $8,333 per month alimony goal. The supporting spouse would be able to rely upon the tax deduction to “find” more after tax dollars to pay the dependent spouse.

Rationale for the changes to the tax code.

In 2017, the government put in place a sweeping tax reform that included the abolishment of the alimony deduction. The Joint Committee on Taxation was of the opinion that divorcing Americans had an advantage over married Americans through what they describe as a “divorce subsidy.” The divorce subsidy is created as follows: husband pays wife $100,000 per year in alimony. Husband is entitled to adjust his gross income through a $100,000 deduction for the alimony he paid in that year. Given his presumed high tax bracket, husband is assumed to save $50,000 in taxes. Wife, on the other hand, reports as income the $100,000 of alimony she received, but only pays $20,000 in taxes because of her low tax bracket. The net difference is the $30,000 between what husband saved and what wife paid. The government lost out on $30,000 of tax money. As such, the federal government considered this tax break ripe for abolishment.
in its efforts to reduce the federal
deficit. It has been argued that elimina-
tion of the alimony tax deduction will
increase federal revenues by $7 billion
over a 10-year period. However, it is
important to realize that the $7 billion
in presumed savings accounts for
less than half-a-percent of the current
federal deficit. It is also important to
consider the ramifications on parties as
divorcing couples attempt to negotiate
a settlement without this tax deduction.

The reality of the tax changes.
As between the spouses.

Some may initially believe that the
new tax law will benefit the spouse
receiving the alimony. After all, the
receiving spouse will no longer have to
claim the alimony payments as taxable
income, which should result in more
support for the dependent spouse.
However, the opposite is likely true.
Supporting spouses will negotiate
harder for a reduced amount of sup-
port. Lawyers will no longer have the
ability to “find” money to pay the ad-
tional support needed. Litigation will
likely escalate and more fees will be
incurred by both parties. Even after an
amount is settled upon by the parties
or ordered by a judge, the impact on
the receiving spouse continues. Using
the example above of a dependent
spouse needing $8,333 of alimony per
month, the supporting spouse will now
only have $6,000 to pay the depen-
dent spouse. The dependent spouse will
receive $27,996 less in alimony.
The dependent spouse is already in a
lower tax bracket than the supporting
spouse, so the loss of overall sup-
port is probably more significant than
the benefit of the non-taxable nature
of the alimony. The decrease in the
overall amount of alimony is further
compounded by future reductions in
child support. Frequently, it is the case
that spouses who receive alimony
served as a stay-at-home parent during
the marriage and receive child support
after the parties separate. Although
child support is non-taxable, in North
Carolina, the obligation to pay it typi-
cally ends when the child graduates
from high school or turns 18—which
ever comes later. Child support can
help a spouse pay the bills if there is
a shortfall in alimony. But if that same
spouse is receiving less alimony from
the beginning, he or she is doubly
harmed when the child support ends.

Pre- and postnuptial agreements.

A prenuptial agreement is one cre-
ated by parties who intend to marry. A
postnuptial agreement is one created
by parties who are already married but
not yet separated. Both types of agree-
ments attempt to resolve future issues
between the parties such as property
distribution and alimony obligations.
Since the current tax law has been
in effect for 75 years, it is likely that
most pre and postnuptial agreements
were based upon the assumption that
alimony would be taxable to the receiv-
ing spouse and deductible by the paying
spouse. No IRS opinions have ad-
dressed the impact of the new tax law
on these agreements or future modifi-
cations under the new tax law. There
are significant questions as to whether
these agreements would meet the IRS
code’s requirements to allow for the
alimony payments to be tax effected as
under our current law. No party to such
an agreement should want to be the
test case on these issues with the IRS
or any other government agency.

What to do? Be proactive.

• Spouses who anticipate a
  separation in the foreseeable future
  should consult with a family law
  attorney immediately to determine
  how the new tax law will impact
  their case. Communicate with your
  tax expert or financial divorce plan-
  ner and your family law attorney to
calculate the actual tax effect on the
paying and receiving spouses. Also,
confirm that your settlement agree-
ment or order meets the require-
ments of the new tax code.
• Spouses who are already sepa-
  rated would be wise to aggressively
  attempt to resolve alimony claims
  on a permanent basis before the
  end of 2018 and before the court
docket is full.
• Do not make any assumptions.
  There is no indication that parties
who have temporary alimony orders
entered in 2018 will be allowed
current tax benefits for permanent
alimony orders entered after 2018.
• If you have a prenuptial or post-
  nuptial agreement that was created
  without reference to the new tax
laws, see a family law attorney to
discuss revisions and possible re-ne-
gotiation. Remember that the payor
and the payee both have incentives
to avoid the impact of the new tax
law. If you are happily married, re-
egotiation may go smoothly.

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Business North Carolina magazine’s
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Peer Review Rating.
For most business owners, your workforce is one of your largest assets and one of the most significant areas of potential liability. In the same way that you wouldn’t start doing business with a new vendor or customer without a written contract defining the relationship, you should approach all new employee relationships with care and diligence. By setting up a written understanding of the terms of your relationship, you can start the relationship with clarity and transparency about your expectations for the employee and provide crucial evidence about the relationship if it sours. The reputation of your business is directly related to the employees you hire. Things don’t always work out, but efficiently negotiating these relationships on the front end can prevent a lot of headaches on the back end.

An employment contract can include basic terms of the employment: itemization of salary/wages, hours of operation, type of employment (whether part-time, full time, term, or seasonal), general responsibilities and duties, communications, benefits, etc. The terms of the contract can be amended, with consideration (typically pay raises) from time to time throughout the employment as the role changes or the employee progresses. All too often employers avoid entering into formal employment contracts because they are concerned it will void the employee’s status as at-will, or that it will be used against them if the relationship doesn’t work out. In North Carolina, employees are “at-will” unless their contract explicitly provides a defined term (time period) of employment and states that the employee can only be terminated for cause. At-will employees can (and often should) have employment contracts. The contract should clearly state that the employment is at-will. A written contract clearly defines the job, responsibilities, benefits and — if done correctly — prevents confusion and promotes efficiency.

The Restrictive Covenants You Should Know.

It is likely that the most important provisions to be included in an employment contract address confidentiality, non-solicitation, non-interference, and non-competition. These provisions are often referred to as restrictive covenants. These provisions are integral to protect the company’s assets and reputation but can create legal landmines. Even capitalism has its boundaries. The North Carolina Supreme Court has explained that contracts (particularly employment contracts) should not be used to unfairly restrict trade and competition in the marketplace. Restrictive covenants are meant to protect your business, but they must be properly drafted to be enforceable. If they aren’t enforceable, all you have is something to toss into your waste basket, possibly with your business.

Confidentiality clauses are vital to most businesses and should be used in almost all employment contracts. Confidentiality provisions can be used to protect your trade secrets, customer and prospect information, intellectual property and business plans. Pretty much everything you’re business rests upon. As such, make sure to protect what’s yours. Don’t let them walk away with your hard work.

A Non-Solicitation provision restricts former employees from soliciting your business’ employees or clients for
a period of time after their termination or resignation. Non-solicitation provisions are common in sales and service industries but can be useful in many others. If an employee is poached by a competitor, you’ll want to make sure your former employee doesn’t take your other employees with them. And it could be worse, your former employee may take your client lists with them with the intent to draw them away from your business. A non-solicitation provision can prevent these detrimental scenarios from occurring for a period time to allow you to fill the void or shore up your client relationships.

Be careful, there are two types of solicitation — direct and indirect. Your employment contract should prohibit both. Direct solicitation occurs when former employees directly contact customers and current employees to recruit business — either via phone, direct mail, social media, email, pony express, etc. Indirect solicitation occurs through a third party and often sounds like, “call Jane and ask them if they want to come with me to the new company.” It can also mean sending out letters informing customers of the new business or advertising your new position in a location where you know prior customers can see it. Indirect solicitation can be difficult to prove, but a well-crafted non-solicitation agreement can disincentivize the employee. (Side note, your client list is considered confidential information so long as you include a confidential information provision in your agreement. See above!)

Employment contracts can also include what are called Non-Interference provisions. Non-interference provisions are similar to non-solicits, but they apply to third-party contractual relationships the employer has, such as with a distributor. With this provision, the employee agrees not to interfere with those existing contractual relationships. This can be very useful in certain industries, as it is much broader than the non-solicitation agreement but needs to be carefully drafted to avoid antitrust problems.

For example, if you have an exclusivity contract with a vendor that an employee was an integral part in securing, you want to make sure that the employee would not interfere or attempt to undermine that contract after they separate from your company. While the vendor might be liable to you for breaching their contract, a non-interference provision in the employment contract could allow you to seek recovery directly from the separated employee too.

The popular Non-Compete clause is all too often a source of dispute. The intent of this provision is to prevent former employees from going to work for a competitor in a role that is substantially similar to the role they played for your business. To prevent this from happening, you need a well-crafted non-compete agreement in place. A non-compete is an agreement between the employee and employer, stating the employee will not compete with the employer after their resignation or termination. Courts only uphold non-compete restrictions on future employment when the contract is

1. in writing
2. reasonable as to time and territory
3. a part of the employment contract
4. based on valuable consideration (i.e., money)
5. designed to protect a legitimate business interest(s)
6. not against public policy

Typically, the dispute boils down to #2, time and/or territory. Both the time and the territory must be reasonable and not overly restrictive. For example, if your business only operates in North Carolina, with not present intent to move outside of North Carolina, don’t draft a non-compete to define the territory as the entire Southeast. Further, although it depends upon your business, the rule of thumb is that with a larger territory, the time would need to be shorter, and vice versa. It is important to work with an experienced attorney who can draft a non-compete that will aggressively protect your interest while being legally enforceable.

I’ll end with my own question and answer session.

Question: So why is the employment contract, with restrictive covenants, so important?
Answer: Let’s say you hire an employee. Sometime down the road, that employee leaves. We wish that employee all the best. However, that employee might not just leave with their personal effects. Without a contract saying otherwise, he or she might walk-out with your employees, your clients, your lists of potential clients, your vendors, your playbook, and then open a new office right next door.
What are patents, trademarks, and copyrights? How does obtaining these intellectual property rights, or “IP” rights, help create value for your business?

Unfortunately, there are no short answers to these questions. With that being said, in this article we attempt to make the subject of IP more accessible and provide a pathway to understanding how IP can be used to protect the products that your business has spent blood, sweat, and capital on, and also how it can create growth and value for your business.

A patent issued by the United States Patent and Trademark Office is an IP right that grants the patent owner the right to exclude others from making, using, or selling, or importing the invention covered in the patent. In order to obtain a patent, the invention must be a machine, apparatus, process, plant, or composition of matter. Although abstract ideas or mathematical formulas are not patentable, in some instances software is patentable.

There are several different types of patents, including utility patents, design patents, and plant patents. Utility patents, which include provisional patent applications and non-provisional patents, are by far the most common, followed by design patents. Utility patents protect the functionality of an invention. While a provisional patent application cannot itself become a granted patent, it can be used to establish a filing date and later be used as a basis for a non-provisional patent application claiming priority to the provisional patent application. A non-provisional patent typically has a term of 20 years from the earliest effective filing date, with some adjustment possible for time delays. Periodic maintenance fees are required to keep a non-provisional patent in force. Design patents protect the ornamental design of an invention and have a term of 15 years from the date the patent is issued. No maintenance fees are required to keep a design patent in force.

The most obvious reason for filing a patent application is to protect the years of work and capital invested in your product. Since you or your business invested the time and money in the product, providing an ability to stop others from copying your product is one of the main reasons why patents exist. Obtaining a patent on your product, however, can also help your business in other ways. Patent licensing allows you to give certain rights to others to your invention, for a fee, and can result in extra income without having to invest any additional capital.
into your own business. Moreover, if your business plan is to be acquired by a larger company or a merger is in your future, having valuable patents in your list of assets can result in a competitive advantage at the negotiating table. Patents can also be used as collateral to obtain new rounds of funding if your business is looking to expand. These are just some examples of how patents can create value for your business beyond the legal monopoly granted by the Patent Office.

Trademarks are IP rights that protect signs, symbols, names, and colors that are source identifiers for products and services. Product configuration trademarks also can be pursued to protect product designs via trademark rights. Although some trademark rights exist without registration, obtaining a federal trademark or service mark registration not only provides a tool that can be used to prevent others from using an identical mark as yours for the same goods, but a federal registration also can be used to prevent others from using a mark that would create a likelihood of confusion. This type of protection is, therefore, quite broad. As long as they are continuously used and have not become generic or cancelled, federal trademark registrations have a term of 10 years and can be renewed in perpetuity. Federal trademark registrations have been granted for particular color combinations, jingles or short musical pieces associated with a business, and even particular scents. The key is that the trademark is used to identify the source of the product or service as that of the entity that owns the trademark.

Trademarks create value for your business because they can be used to prevent others from passing off their product or service as that of the business that owns the trademark. Furthermore, trademarks help associate products and services to your business in the minds of consumers and contribute to the goodwill of your company. When consumers see a product or service with your company’s trademark on it, they associate it with your company and know the quality they will receive based on past experience with your company and/or your reputation. Many consumers are also loyal to brands they have previously had good experiences with, so they are likely to purchase similar products with your trademark on them because they associate it with the goodwill of your business.

Copyrights are IP rights that protect expressions of ideas by protecting original works of authorship in tangible mediums. Books, instruction manuals, pamphlets, software, videos, and pictures are some of the more common mediums authors choose to protect by obtaining a copyright. Although a copyright attaches to a work as soon as the work is fixed in a tangible form, more powerful rights associated with the copyright result from actual registration of a federal copyright with the United States Copyright Office. Copyright registrations generally have a term of the life of the author plus 70 years after death, or the shorter of 95 years from publication or 120 years from creation for works made for hire. Copyrights create value for your business in ways similar to a patent and can be licensed to others for a fee and the rights sold or used for collateral as well.

It is entirely possible to use all forms of appropriate IP to protect products. With good strategy considerations and approaches, patents, trademarks, and copyrights can be used to protect your hard work and add value to your business.

**THE TABLE BELOW HIGHLIGHTS DIFFERENT FEATURES OF PATENTS, TRADEMARKS, AND COPYRIGHTS.**

<table>
<thead>
<tr>
<th>Coverage</th>
<th>Patent</th>
<th>Trademark</th>
<th>Copyright</th>
</tr>
</thead>
<tbody>
<tr>
<td>Functional or ornamental aspects of an invention.</td>
<td>Name or symbol associated with product or service.</td>
<td>Expression of an idea.</td>
<td></td>
</tr>
<tr>
<td>How to Obtain</td>
<td>Federal grant.</td>
<td>Federal registration.</td>
<td>Federal registration.</td>
</tr>
<tr>
<td>Rights Granted</td>
<td>Exclude others from making, using, offering/ selling or importing.</td>
<td>Exclude others from using confusingly similar marks.</td>
<td>Exclusive right to reproduce work, author derivative works, distribute copies.</td>
</tr>
<tr>
<td>Term</td>
<td>Non-provisional: 20 years from filing. Design: 15 years from issuance.</td>
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Many construction projects end in disputes and many of these disputes are resolved through arbitration, a process by which the parties agree to submit their case to a third-party neutral, an “arbitrator,” who acts as a judge and jury.

What is Arbitration?
Arbitration is often confused with mediation and with a lawsuit. Each involves different forms of dispute resolution.
Mediation is a settlement conference in which the parties meet and use a third-party neutral, a “mediator,” as a settlement facilitator. The mediator has no power to force settlement. The parties mediate because of a court or contract requirement, or because they feel the mediator will be able to facilitate an otherwise unobtainable settlement.
A lawsuit is conducted in a court and usually is initiated by a plaintiff filing a complaint, in which the plaintiff will ask for some form of relief from the defendant. The court is a government institution from which the parties are entitled to seek a decision as to their dispute.
Arbitration is a lawsuit without court involvement. The parties agree (typically in a contract before the dispute arises) to submit their dispute to arbitration. The agreement empowers the arbitrator to decide the dispute. Unlike mediation, the arbitrator’s decision is binding. Frequently parties will mediate and, if unsuccessful, then arbitrate.

Arbitration Versus Lawsuits
The following are the major distinctions between arbitration and court litigation:

Decision Process
In a lawsuit, the dispute is decided after a trial before a “finder of fact,” usually a jury. The judge administers the trial and decides questions of law. Although the judge may hear some construction cases, they are a small subset of the total cases he or she hears. Similarly, a typical juror will not be a construction expert.
In arbitration, the arbitration agreement controls the process. There is a private arbitrator (or a panel) who acts as both the judge and the jury. The arbitrator is chosen based on the subject matter of the dispute; e.g., construction arbitration will have a construction lawyer as the arbitrator. This reduces the effort necessary to “educate” the arbitrator and better suits the arbitrator to render a decision.

Rules
Arbitration is less formal than a lawsuit. The rules of evidence and civil procedure are not strictly enforced and an arbitrator has wide latitude to frame the process. Typically, the parties and the arbitrator will agree to a scheduling order setting forth the deadlines, rules for conducting the arbitration, process for discovery, where and when the evidentiary hearing will occur, and the content of the arbitrator’s award.
In a lawsuit, there are a set of rules dictating how the parties will conduct themselves and present their claims. These rules allow the parties less flexibility than in arbitration.
Arbitrations are intended to be a more efficient and economic means of dispute resolution. However, many parties frequently turn arbitration into what attorneys call “arbigation,” in which just as much discovery is conducted in arbitration as would be the case in litigation. This can make arbitration more expensive than litigation.
Appeals

There is no appeal from an arbitrator’s decision—appeals create costs and delays; the things arbitration is designed to avoid. If a party believes that an arbitrator has made a mistake of law or determined facts incorrectly it will be difficult to pursue an appeal. The bases for asking a court to overturn an arbitrator’s decision are fraud (arbitrator took a bribe), bias (arbitrator evidenced overt favoritism), or the arbitrator decided an issue outside the arbitration scope.

No appeals is good insofar as a final result can be achieved more quickly and less expensively. It’s bad in the sense that a party may be stuck with a result that is both undesirable and erroneous. Another downside: as more construction cases are resolved with arbitration there have been fewer published court decisions on common construction issues, creating little precedent.

In litigation, the parties can appeal the final decision of the trial court to an appeals court. Frequently there are multiple levels of appeals courts creating precedential guidance.

Adding Additional Parties

Construction disputes involve claims between multiple parties. Arbitration is limited to those parties who have agreed to resolve their disputes through arbitration.

In a lawsuit, the parties can add other parties if the court has jurisdiction. Jurisdiction exists if the added party has substantial connections to the state in which the court sits. The ability to add parties is beneficial as it avoids inconsistent results that can occur if there are separate lawsuits concerning the same subject.

In situations where some of the parties to a lawsuit have an arbitration agreement, the judge will order the parties with the agreement to arbitrate and stay the lawsuit until the arbitration is finished.

Court Involvement

The Federal Arbitration Act (“FAA”) allows a party seeking to enforce an arbitration clause to have courts compel the other party to arbitrate. The FAA doesn’t contain many, if any, specifics on the process for conducting arbitration.

Many states, including North Carolina, have adopted some form of the Revised Uniform Arbitration Act, similar to the FAA. North Carolina’s version (“NCRUAA”) contains mechanisms for conducting arbitration, including provisions on compelling parties to arbitrate, appointing the arbitrator(s), staying pending court cases while the arbitration is conducted, seeking the court’s assistance in conducting discovery, and enforcing an arbitration award in court.

Avoiding Local Law

Arbitration can also allow parties to avoid application of local substantive law on issues like venue and choice of law. Most federal courts have held that enforcing a requirement to arbitrate includes enforcing the process set forth in the arbitration agreement. If the parties agreed to “arbitrate any and all disputes arising from the contract in Wake County” then a court will likely hold that enforcing the arbitration agreement includes enforcing the requirement that the arbitration occur in Wake County—even if there is a state law requiring a different venue.

Parties seeking to avoid state laws regarding venue or choice of law will include an arbitration clause, allowing them to choose a venue, choice of law, or other procedure that would otherwise be barred by state law. Outside of arbitration, the state statute would control the terms of a contract.

The state law can be avoided in arbitration because the FAA pre-empts the contrary state law.

Third Party Administration

Several organizations administer arbitrations. The two most common are the American Arbitration Association (“AAA”) and JAMS. These organizations facilitate and oversee the arbitration process. Use of these services will increase the cost and time of arbitration, but may help to move the arbitration process along. In order for these services to be involved the arbitration agreement must include the requirement.

Many standard form construction contracts contain arbitration clauses that require the AAA to oversee the arbitration. Parties frequently attempt to opt out and arbitrate under the AAA Rules while avoiding AAA administration. The parties should be careful when doing this because the AAA Rules require AAA administration.

Conclusion

Most parties on a construction project have a contract that defines their responsibilities. Many construction contracts contain arbitration clauses. Participants in the construction process must be aware of the pros and cons of arbitration.

Ed. Note: For further examination of arbitration in construction, see www.wardandsmith.com/articles/construction-arbitration-vs-lawsuits
When a dispute involves economic losses in a contractual setting, the economic-loss rule operates to bar tort claims to recover those economic losses. Defendants frequently rely on the rule as a defense to any of those extracontractual claims. While the rule’s application in those settings is relatively clear, how does it apply to claims brought under Section 75-1.1 of North Carolina’s Unfair and Deceptive Trade Practices Act?

Courts have not agreed. Even on similar facts, courts have reached different conclusions. This article examines some courts’ decisions on the issue, with some applying the rule to bar the claims and others refusing to apply the rule. In the absence of guidance from the North Carolina Supreme Court, it appears that the economic-loss rule’s application will continue to depend on the circumstances of the case and the particular court’s approach to the issue.

Applying the economic-loss rule in Buffa v. Cygnature Construction & Development, Inc.

In Buffa v. Cygnature Construction & Development, Inc., the North Carolina Court of Appeals held that the economic-loss rule barred an UDTPA claim.

In 2006, the plaintiffs built a home in Beech Mountain. Five years after the construction ended, the plaintiffs discovered extensive water damage that had already harmed the structural integrity of the home. Several inspections suggested that the water had entered through windows. The plaintiffs sued several companies associated with the construction, including the window manufacturer. The plaintiffs’ UDTPA claim alleged only that the window manufacturer failed to notify a known design defect. The trial court granted summary judgment in favor of the window manufacturer because the economic-loss rule barred the 75-1.1 claim and several tort claims.

The plaintiffs appealed. On the section 75-1.1 claim, the plaintiffs argued that the economic-loss rule does not apply to UDTPA claims at all. They cited a string of state and federal cases that allowed consumers to recover under section 75-1.1 “for purely economic loss.”

The court rejected the plaintiffs’ “contention that the trial court erred by applying the economic-loss rule to a claim of unfair and deceptive trade practices.”

While the Buffa decision suggests that the decision is resolved, a different panel of the Court of Appeals held otherwise at nearly the same time.

Declining to apply the economic-loss rule in Bradley Woodcraft, Inc. v. Bodden

In Bradley Woodcraft, Inc. v. Bodden, a different panel of the Court of Appeals issued an opinion in the opposite direction. The court appeared to hold that fraud claims are never subject to the economic-loss rule. As a result, the court appeared to similarly refuse to apply the doctrine to the UDTPA claim as well.

In 2013, Christine Bodden and her husband bought a 20-year-old home in Raleigh. They signed an agreement with a contractor to renovate the home. The homeowners were dissatisfied with the renovation work and discussed their complaints with the contractor. After the discussion,
they believed that the contractor had promised to fix the problems, so the homeowners used a credit card to pay the final $26,000 due. The contractor, in contrast, did not believe that he had agreed to do any further work. When the contractor did no further work, the homeowners disputed the $26,000 charge on the credit card.

The contractor then sued for breach of contract. The homeowners counterclaimed for breach of contract, fraud, and violations of the UDTPA. The case went to trial. At the close of plaintiffs’ evidence, the contractor moved for a directed verdict on the fraud and UDTPA counterclaims, citing the economic-loss rule. The trial court granted the contractor’s motion.

On appeal, the Court of Appeals focused on the fraud claim. On that claim, the court seemed to hold categorically that the economic-loss rule does not apply to fraud claims: “[W]hile claims for negligence are barred by the economic-loss rule where a valid contract exists between the litigants, claims for fraud are not so barred.”

The court went on to reverse the directed verdict against the homeowners’ UDTPA claim because it was “factually interwoven” with the fraud claim. This ruling arguably extended the court’s economic-loss reasoning to section 75-1.1.

With the North Carolina courts coming to different conclusions, perhaps courts outside the state can provide some clarity.

Still another approach from a federal court in Duncan v. Nissan North America, Inc.

A recent decision from the United States District Court of Massachusetts provides another data point in the analysis. In Duncan v. Nissan N. Am., Inc., Judge Denise Casper applied the economic-loss rule to dismiss a UDPTA claim brought under North Carolina’s statute in a putative class action.

The putative class in Duncan included eight plaintiffs from across the country who had purchased several different models of Nissan vehicles. Their claims focused on the vehicles’ timing chain tensioning systems, or TCTS. According to the plaintiffs, the TCTS was defective, caused damage to the vehicles’ engines, and posed attendant safety risks. One of the named plaintiffs was a North Carolina citizen. She purchased her 2007 Nissan Pathfinder in North Carolina, and she learned in 2015 that the car’s TCTS needed to be replaced.

The named plaintiffs alleged violations of the unfair and deceptive trade practices statutes of several states, including a claim under the North Carolina statute. The court’s analysis of the claim turned on its reading of the economic-loss rule and its views of how the rule applies to an UDTPA claims.

The court reviewed the history of the economic-loss rule in North Carolina and relied on Moore v. Coachmen Industries, a 1998 decision of the North Carolina Court of Appeals. Judge Casper characterized the holding in Moore as the plaintiff having “failed to state a claim under UDTPA.” The plaintiff in Moore, however, asserted a negligence claim, not a UDPTA claim. When the court characterized the holding in Moore, it was likely relying on other courts’ extension of Moore to section 75-1.1 claims. The court separately distinguished on the facts each of the cases on which the plaintiffs relied, and held that “Moore makes clear that where the parties have done so [through an agreement], the UDTPA does not provide an additional remedy that would upset the balance struck by the parties.”

Conclusion

These courts’ differing decisions provide guideposts to litigants in navigating the economic-loss rule in the context of a UDPTA claim. Plaintiffs can rely on decisions like Bradley Woodcraft to attempt to bring extracontractual claims—and seek the attendant damages multiplier and potential of attorneys fees—even in the face of a contract. Defendants can find some support in decision like Buffa and Duncan to try and block those extracontractual claims.

At some point, however, the North Carolina Supreme Court will need to provide some clarity on the rule’s application to the UDTPA. Until then, litigants will need to be aware of the different holdings by different courts on this issue.

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