Business & Litigation Update Summer 2009

PUBLISHED ON

May 1, 2009

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Section 363 Sales: An Opportunity for Your Business in the Downturn

By: Donald R. Geiter, CIPP/US

You may have been following the recent news relating to the purchase of bankrupt automotive manufacturer, Chrysler, by Fiat. Chrysler is participating in what is called a "363 Sale" (in reference to Section 363 of the United States Bankruptcy Code) within its bankruptcy case. A 363 Sale affords a relatively quick avenue for a prospective buyer to purchase all, or a portion of, the assets of a bankrupt company free and clear of liens and encumbrances.

Everywhere you look there seem to be troubled companies looking to sell some or all of their assets as a way to escape financial devastation. Some of these opportunities may seem promising to your own business since they may offer an opportunity to buy at an extreme discount. Unfortunately, however, as you negotiate the terms of the deal, you may learn that the troubled company is in an "upside down" position relative to the value of its assets -- in other words, the sale of the assets to your business will not net sales proceeds sufficient to fully repay the troubled company's secured creditors. If a secured creditor is not paid in full, it likely will not release its liens on the assets, making a conventional, "free and clear" sale of the assets to your business impossible. In such a case, a 363 Sale may be an option worth exploring. While a 363 Sale may not net proceeds for the troubled company to pay the secured creditors in full, the sale still results in the sale of the assets to your business free and clear of any liens and encumbrances.

A prerequisite to any 363 Sale is the filing for bankruptcy by the troubled company. Once this hurdle is cleared and upon Bankruptcy Court approval, any asset of a bankrupt company may be sold through a 363 Sale. This includes the sale of traditional, "hard" assets, such as equipment and inventory, but can also include intangible property, such as trademarks, copyrights, and other intellectual property. Once a bankrupt company identifies which assets to sell, it next identifies the likely buyer, the so-called "stalking horse." In most cases, the stalking horse is a bidder that had expressed interest in purchasing the assets from the company immediately prior to bankruptcy -- in these cases, the terms of the 363 Sale may have been negotiated by the bankrupt company and the stalking horse prior to the bankrupt company's filing for bankruptcy (a so-called "pre-packaged bankruptcy"). In less frequent cases, the stalking horse is a bidder that the bankrupt company sought out and found after it filed for bankruptcy. The stalking horse has several advantages. It not only defines the transaction -- setting the proposed purchase price and the other terms and conditions of the purchase agreement -- it also has a better opportunity to conduct due diligence on the bankrupt company and the assets than later bidders. Be warned, however, 363 Sales are not for the faint of heart since most frequently they include an auction process. This means, of course, that the stalking horse could be outbid in the auction process. In exchange for such risk, however, the stalking horse can negotiate for the Bankruptcy Court to approve certain bid protections in advance of the sale.

Once a sale has been agreed to by and between the bankrupt company and the stalking horse, the bankrupt company then seeks certain permissions from the Bankruptcy Court. First, it seeks the approval from the court of the procedures for the sale, including the mechanics of the auction process and the bid protections afforded to the stalking horse, all as negotiated by and between the bankrupt company and the stalking horse. Specific bidding procedures are typically allowed if the court determines that the procedures are likely to maximize the sale price of the assets. What this means is that the proposed procedures must not deter higher and better offers from other bidders. The bidding procedures may address a wide variety of issues, including the time and manner of notice of the sale to prospective bidders, qualification of bidders, due diligence procedures, bidding increments, and deposits to be made with bids.

A savvy stalking horse will also seek for the bankrupt company to obtain, in connection with the other bidding procedures, permission to award a "breakup fee" to the stalking horse if another bidder wins at auction (or in case of some other default of the bankrupt company). While the allowance of any breakup fee is determined on a case-by-case basis by the court, generally the breakup fee is paid from the proceeds of the winning bid. A court typically employs a balancing test to determine whether such a fee is warranted -- weighing the need for the fee to entice the stalking horse bidder against the effect of the fee as an additional cost on competing bidders. While there is not a predetermined formula employed by courts in approving breakup fees, such fees are often up to five percent of the purchase price.

Extraordinary conditions or provisions governing the bidding process and sale require special disclosure by the bankrupt company and will warrant close scrutiny by the court. Some of these conditions or provisions include proposed sales to insiders, employment agreements between the buyer and the management of the bankrupt company, and private sales (vs. auction). The court will likely require good cause or compelling circumstances in allowing these types of conditions or provisions. Following the approval of the bidding procedures and completion of the approved auction process, the bankrupt company then seeks final approval from the court of the sale itself to the successful bidder at the auction.

While your business may not be in a position to purchase the assets of a multi-billion dollar automotive manufacturer, keep in mind that 363 Sales take form in all shapes and sizes. With the growing number of bankruptcy filings, the right 363 Sale opportunity may be out there for your business. However, you should seek the advice of experienced counsel to guide you through the process. If your business is interested in learning more about 363 Sales or needs assistance in structuring a 363 Sale, please contact Don Geiter or any member of our Corporate and Business Law

Barley Snyder

Group or Bankruptcy and Creditors' Rights Group.

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Recent Court Case Offers Guidance on Use of Special Litigation Committees

By: Donald R. Geiter, CIPP/US

The availability of special litigation committees to boards of directors in Pennsylvania is not new. In fact, special litigation committees have been around for awhile, here and elsewhere. However, due to a lack of authoritative guidance on how corporations and their boards should utilize special litigation committees, Pennsylvania corporations have historically shied away from using them. This may all change, however, due to a recent Pennsylvania Superior Court case, *LeMenestrel v. Warden*, decided in December 2008. *LeMenestrel* offers significant guidance to corporations and their boards of directors on how to form and utilize special litigation committees.

A special litigation committee is a committee of the board of directors of a corporation. The board forms such a committee for the purpose of fulfilling the board's obligation to investigate shareholder derivative claims. Toward that end, the board of directors delegates to the committee the full authority to act in the name of the board with respect to derivative claims. A derivative claim is a claim, often alleging mismanagement or breach of fiduciary obligations by an officer or director of the corporation, that is brought by a shareholder on behalf of a corporation with respect to actions taken by the corporation.

What does a special litigation committee do?

Generally, the decision whether a corporation should proceed with any litigation, including derivative actions, is a business decision for the corporation's full board of directors. Accordingly, it is the corporation's board that is entitled to make the decision as to whether it is in the best interests of the corporation to pursue a derivative claim brought by one or more shareholders. Ordinarily, a shareholder who wishes to bring a derivative action must first make a formal demand upon the board of directors. In that case, the board may, as a matter of business judgment, determine that it is not in the best interests of the corporation for the derivative claim to go forward. If the board's decision is to not proceed (and assuming the board has the capacity to so decide), then that is the end of the matter. However, due to the possible nature of the claim and/or the identity of a particular defendant (i.e., certain board members, officers, or other insiders of the corporation), the board may be incapable of fairly reaching the decision not to proceed with the derivative claim. The board of directors must then either allow the suit to go forward or try to identify from among its members (or even add to its membership) board members who do not have a conflict. If the board can find a sufficient number of disinterested members from their constituency or if the board can add more members, the board can constitute a special litigation committee of the board. In doing so, the board can delegate to that committee the full authority to act in the name of the board of directors with respect to the derivative claim.

LeMenestrel v. Warden

In *LeMenestrel v. Warden*, the Superior Court affirmed a trial court order that dismissed a derivative suit brought by a group of shareholders. The court decided that the special litigation committee, constituted by the board of directors of a company, fulfilled its obligation by sufficiently investigating claims brought to the company's attention by shareholders. The case is important because it makes clear that a Pennsylvania court should apply the business judgment rule and defer to the findings of a special litigation committee when the special litigation committee independently and adequately conducts an investigation into the claims made by shareholders.

The facts of the case were straightforward (and common) and involved a dispute between two of four families who owned all the shares of a privately-held company. Members of the LeMenestrel family accused members of the Warden family, who were managers and directors on the company's board of directors, of breaching their fiduciary duties. The LeMenetrels accused the Wardens of engaging in various acts of wrongdoing, including mismanagement. In response to the LeMenestrel's demand letter, the company's board formed a special litigation committee to investigate the claims and determine whether prosecution of the claims would be in the best interests of the company. The company's special litigation committee, composed of three independent directors, retained independent counsel to investigate the claims and analyze whether the company should pursue the claims. The independent counsel conducted an extensive investigation and found no basis for a suit by the company against the Wardens. The company's special litigation committee ultimately followed the independent counsel's recommendations and chose not to bring suit against the Wardens.

The LeMenestrels, however, were not satisfied with the decision of the company's special litigation committee and filed a derivative suit on behalf of the company against the Wardens and the members of the company's special litigation committee. The LeMenestrels alleged that the members of the company's special litigation committee breached their fiduciary duties with respect to their investigation of the claims. They further alleged that the committee conducted and provided a "sham investigation and report." The Wardens filed preliminary objections in response to the suit seeking to dismiss the suit -- claiming protection under the business judgment rule.

The trial court dismissed the LeMenestrel's suit with prejudice, citing the American Law Institute's Principles of Corporate Governance: Analysis and Recommendations (ALI Principles) concluding that the special litigation committee's decision to not pursue those claims was reasonable and, therefore, protected from scrutiny under the business judgment rule. More specifically, the trial court concluded that: (a) the company properly established a special litigation committee in compliance with the ALI Principles; (b) the special litigation committee was adequately informed of the investigation by independent counsel; (c) the investigation was adequate in scope and conducted properly; and (d) the members of the special litigation committee were independent and disinterested. On appeal, the Superior Court affirmed the trial court's ruling in favor of the Wardens.

What guidance does *LeMenestrel* provide to Pennsylvania corporations?

LeMenestrel provides corporations in Pennsylvania with helpful advice on how to use special litigation committees. From *LeMenestrel*, corporations know that they can be guided by the ALI Principles, with confidence, in administering the activities of the special litigation committee and establishing the scope of an investigation of a shareholder's derivative claim. In doing so, corporations now have parameters to assist them in ensuring that the members of the special litigation committee are both independent and disinterested. Furthermore, *LeMenestrel* provides a corporation with the clear ability to allow its special litigation committee to sub-delegate its investigative duties to independent counsel. In doing so, *LeMenestrel* cautions that a special litigation committee needs to ensure that the independent counsel develops and executes a preliminary plan to involve and advise the committee throughout the entire investigation -- this includes regular discussions between the committee and the special counsel about the scope of the investigation, the general procedures to follow during the investigation, and the nature of the claims raised in the shareholder's demand letter.

Following the additional guidance provided by the court in *LeMenestrel*, a special litigation committee now provides an even more powerful vehicle for a corporation's board of directors to fulfill its obligation to investigate a shareholder's derivative claim. For more information about special litigation committees and how your corporation can utilize them now or in the future please contact Don Geiter or any member of our Corporate and Business Law Group.

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Licensing Guidelines Revised for Foreign Nationals Employed by ITAR-Registered Corporations

Foreign nationals (other than U.S. permanent residents and protected individuals) must be licensed by the U.S. Department of State, Directorate of Defense Trade Controls (DDTC) before receiving access to technical data controlled for export under the International Tariff in Arms Regulations (ITAR), according to revised guidelines published in March 2009 by the DDTC. These revised guidelines are of critical importance to any ITAR-registered corporation that employs, or is considering employing, a foreign national in a position requiring access to ITAR-controlled technical data or defense services.

U.S. employers of foreign nationals must be cognizant of DDTC's determination to authorize employment of a foreign national only through a Form DSP-5 Export License, eliminating the requirement of an additional Technical Assistance Agreement (TAA). Now, all requests for licensing of a foreign national must be made using the DSP-5 process. Accordingly, employers need to be explicit in describing the level of required technical data and defense services. Additionally, DDTC recommends only one DSP-5 for each employee, so careful drafting of the DSP-5 application to fully address the scope of technical data and defense services that are, or may be, required of the position to be held by the foreign national is extremely important.

These new revisions to DDTC's policy guidance restate its determination to utilize the DSP-5 license for foreign nationals. Some of the important additions in the guidelines include DDTC's strong recommendation that only one application for a DSP-5 be submitted for each foreign national requiring "access to ITAR-controlled defense articles and/or technical data in the performance of their job responsibilities" as well as a reiteration of the need to prevent unauthorized access to ITAR-controlled defense articles and technical data by foreign national employees whose position does not require such access. The applicant must have a document that provides internal company procedures for controlling the release of technical data to foreign persons and for preventing unauthorized access to defense articles. Furthermore, a Non-Disclosure Agreement must be signed by the foreign national employee. Once the foreign national is licensed by DSP-5, it is the responsibility of the employing company to notify other entities, U.S. and foreign, with which the employee will have contact or exchange technical data, of the foreign person's participation.

Summary of the Guidelines

The DSP-5 license will authorize the transfer of technical data and the performance of defense services to the employee on behalf of the employing U.S. person. It will also authorize the foreign person to perform defense services on behalf of the U.S. employer. Note that foreign national employees of a U.S. person located outside of the U. S. are considered to be "employed" by the U.S. person, and the DSP-5 requirement is applicable.

A DSP-5 license must be obtained for all foreign person employees of the U.S. person who require access to technical data or defense services. Foreign national employees who do not require such access must be segregated from all ITAR-controlled technical data, and internal polices and controls must be in place to prevent any unauthorized access.

Foreign national employees of U.S. persons that require access to classified technical data must submit a Form DSP-85 export license application in lieu of the Form DSP-5.

All foreign nationals employed by a U.S. person and licensed under a

Upon issuance of a DSP-5 license by the DDTC authorizing transfer of ITAR-controlled technical data and defense services to the foreign national employee, the foreign national will be treated by DDTC as an employee of the U.S. person. However, the foreign national's access to technology will be limited by the scope of the approved DSP-5 and any provisos issued by the DDTC in conjunction with the license. If the foreign national is expected to have contact with other entities, U.S. or foreign, the U.S. employer must make known the presence of the foreign national employee to the other entities. In the context of a Technical Assistance Agreement (TAA) between the U.S. employer and foreign parties, the foreign national employee must be identified in the TAA.

Foreign national licenses will be authorized by the DDTC according to the standard four year duration of a DSP-5 license, or the remaining period of stay authorized by the U.S. Citizenship and Immigration Services, whichever is shorter.

Companies employing foreign nationals who require access to ITAR-controlled technical information must ensure that they follow the new DDTC guidance. Incidental or unintended access by a foreign national is a violation of the ITAR and may subject the U.S. person to substantial penalties.

DSP-5 license must execute a Non-Disclosure Agreement (NDA), which must be maintained in the records of the employer. A sample is provided in the guidelines.

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Has Protection for Your Software and Business Method Inventions Vanished?

By: Salvatore Anastasi

The battle over whether business methods should be patentable subject matter has long been and continues to be one which plagues the United States Patent and Trademark Office (USPTO), our courts, and our legislators. The issue is not whether these inventions are new and useful but instead, whether they should even be eligible for patent consideration. So the threshold question is: do these inventions even get in the door of the USPTO?

The issue arises over how to interpret 101 of the patent statute:

Inventions patentable *- Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefore, subject to the conditions and requirements of this title.*

The courts have, for a long time, wrestled with the language of 101 and have traditionally given its words and congressional intent a broad interpretation to cover almost anything created by man. They rely on the broad language of the statute, "any new and useful process, machine, manufacture, or composition of matter." Laws of nature have been excluded, as have mathematical equations, laws of physics etc. But somewhere in between laws of nature and patentable methods lies a gray area. For example, should a method of operating a mold making plastic parts, or a method of instantaneously updating a mutual fund price based on the prices and weights of the underlying investments, or a method of hedging risk in commodity trading, be patentable subject matter? Therein lies the dilemma.

After allowing inventions such as the method of updating a mutual fund price and the method of opening a mold, the courts recently clarified the law in the case of *In Re Bilski*. This case resulted in a shrinking of the right to patent business method inventions, especially where the method does not involve any software but instead is limited to a pure method of doing something.

Prior to the court appeal, Bilski attempted to patent a method of hedging risks in commodities trading. He claimed a three-step method for a broker to hedge risks for a product or service defined as a commodity as follows: (1) initiating a series of sales or options transactions between a broker and purchaser by which the purchaser buys the commodity at a first fixed rate based on historical price levels;
(2) identifying sellers of the commodity; and
(3) initiating a series of sales or options transactions between the broker and sellers, at a second fixed rate, such that the purchasers' and sellers' respective risk positions balance out.

For example, an electric power plant might be a purchaser and user of coal, which it purchases from coal-mining companies (sellers) and uses to make electricity. The power plant might seek to insulate itself from upward changes in the price of coal by engaging in hedging transactions. The risk can be quantified in terms of dollars and then balanced through a series of transactions.

After being rejected by the USPTO Examiner under 101 for not having patentable subject matter, Bilski appealed to the courts. His case was appealed several times and eventually heard by the Court of Appeals for the Federal Circuit. A decision denying Bilski patent protection for his invention was handed down by the court on October 30, 2008.

In its opinion, the court said Bilski's method of hedging risk, and any business method presented to the USPTO for patent protection, must pass a machine or transformation test to be considered patentable subject matter under 101. The test requires that the invention: 1) is tied to a particular machine or apparatus, or
2) transforms a particular article into a different state or thing.

So how can an inventor meet one of these criteria to get a patent application in the door to be considered by the USPTO? In January 2009, initial guidelines were issued by USPTO management in response to the *In Re Bilski* opinion and gave the examiners the following instructions for considering whether a patent application meets the requirements of 101. It said:

"the test for a method claim is whether the claimed method is (1) tied to a particular machine or apparatus, or (2) transforms a particular article to a different state or thing. This is called the "machine-or-transformation test".

There are two corollaries to the machine-or-transformation test. First, a mere field-of-use limitation is generally insufficient to render an otherwise ineligible method claim patent- eligible. This means the machine or transformation must impose meaningful limits on the method claim's scope to pass the test. Second, insignificant extra-solution activity will not transform an unpatentable principle into a patentable process. This means reciting a specific machine or a particular transformation of a specific article in an insignificant step, such as data gathering or outputting, is not sufficient to pass the test."

So there are two ways to get your patent application to pass 101 scrutiny. First, tie your method to a machine. That machine can be a known apparatus, such as an assembly machine being controlled by the method, a special purpose computer like a microprocessor specially developed to operate the method, or a general purpose computer like a PC or server operating the method.

Second, show a physical transformation caused by the method, for example, changing a memory as a result of a computer program running the method, changing a signal being controlled by an apparatus or computer operating the method, or changing the form of an object like transforming from liquid to solid or changing the shape of an article etc.

To avoid pitfalls under the two corollaries, merely reciting a step of inputting data will not meet the transformation prong. The same is true with outputting data unless the output represents a physical transformation. For example, a graphical user interface output which changes color based upon some piece of physical equipment changing state would be acceptable, but merely outputting a number result of a calculation would not.

We have the following suggestions for patent owners who already have patents which passed 101 scrutiny before *In Re Bilski* and now face the proposition of having that patent held invalid because it does not meet the new machine or transformation test. The claims of those patents can be amended using several post issuance procedures.

If the original patent specification supports amendments to conform the claims to the machine or transformation test, the applicant may request reissue of amended claims or reexamination of the application with amended claims. If the patent has issued within the last two years, then the claims may even be broadened in the reissue application as long as the broader claims are supported by the specification.

For those who have affected pending patent applications, breaking news from the U.S. Supreme Court may change the rules. On June 1, 2009 the Supreme Court agreed to hear a further appeal from *Bilski* presenting the following questions: 1) Whether the Federal Circuit erred by holding that a "process" must be tied to a particular machine or apparatus, or transform a particular article into a different state or thing ("machine-or-transformation" test), to be eligible for patenting under 101, despite the court's precedent declining to limit the broad statutory grant of patent eligibility for "any" new and useful process beyond excluding patents for "laws of nature, physical phenomena, and abstract ideas."
2) Whether the Federal Circuit's "machine-or-transformation" test for patent eligibility, which effectively forecloses meaningful patent protection to many business methods, contradicts the clear Congressional

intent that patents protect "method[s] of doing or conducting business."

Until we receive further clarification from the Supreme Court, the machine or transformation test is the one that the USPTO will apply to patent applications. If you need assistance in protecting your software or business method inventions or would like further information on the topic, please contact Salvatore Anastasi at (610) 722-3899 or sanastasi@barley.com.

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Identity Theft Protection: How to Comply with the Red Flag Rule

By: Troy B. Rider

Each year, as many as nine million Americans have their identities stolen. In addition to the economic and psychological harm identity theft inflicts on its victims, the costs to businesses can be staggering. As a measure to counteract such damage, the Federal Trade Commission (FTC), the Federal Bank Regulatory Agencies, and the National Credit Union Administration (NCUA) have issued regulations known as the "Red Flags Rule."

The Red Flags Rule requires many businesses and organizations to implement and adopt written identity theft prevention programs to detect the warning signs - or "red flags"- of identity theft in their day-to-day operations, take steps to prevent the crime of identity theft, and mitigate the damage identity theft inflicts. The Rule applies to sole proprietorships, partnerships, limited liability companies, and corporations alike.

Although best practices dictate that every business or organization with an ongoing relationship with consumers should be on guard for the possibility of identity theft, the Red Flags Rule only applies to "financial institutions" and "creditors." "Financial institutions" are banks, savings and loans, credit unions, and other entities that maintain consumer transaction accounts. Most of these institutions are regulated by the federal bank regulatory agencies and the NCUA. Financial institutions under the FTC's jurisdiction include state-chartered credit unions and certain other entities that hold consumer transaction accounts. A transaction account is a deposit or other account from which the owner makes payments or transfers. Transaction accounts include checking accounts, negotiable order of withdrawal accounts, savings deposits subject to automatic transfers, and share draft accounts.

Most of the businesses covered by the Rule, however, fall under the "creditor" definition. Determination of whether a business is a "creditor" involves a two step process. First, the business must regularly extend, renew or continue credit. In its simplest terms, under the Rule, a business is a "creditor" if it accepts payment after the product was sold or the service was rendered. Creditors include, among others, finance companies, automobile dealers, mortgage brokers, utility companies, and telecommunications companies. Where non-profit and government entities defer payment for goods or services, they, too, are considered creditors.

Second, the "creditor" must have a "covered account." A "covered account" is broadly defined under the Rule to include any account used mostly for personal, family, or household purposes, that involves multiple payments or transactions. Covered accounts include credit card accounts, mortgage loans, automobile loans, margin accounts, cell phone accounts, utility accounts, checking accounts, and savings accounts. A "covered account" is also an account for which there is a foreseeable risk of identity theft - for example, small business or sole proprietorship accounts.

The Rule requires that the written program include four basic elements, which create a framework to address the threat of identity theft:

The program must include reasonable policies and procedures to identify "red flags" of identity theft. For example, if a customer has to provide some sort of identification to open an account with your company, an ID that looks like it might be fake would be a "red flag" for your business.
The program must be designed to detect the red flags you've identified. For example, if you've identified fake IDs as a red flag, then you must have procedures in place to detect possible fake, forged, or altered identification.
The program must spell out appropriate actions you will take when you detect red flags, for example, asking follow up questions or, in extreme cases, contacting the local police.
Because identity theft is an ever-changing threat, you must address how you will re-evaluate the program periodically to reflect new risks from this crime, for example, by implementing an Identity Theft Committee.

The Rule is flexible enough to permit all financial institutions and creditors the opportunity to design and implement a program that is appropriate to their size and complexity, as well as the nature of their operations. Accordingly, some businesses may need a comprehensive program that addresses a high risk of identity theft in a complex organization, while others with a low risk of identity theft could have a more streamlined program. Moreover, businesses may incorporate any existing policies and procedures into the program.

Once drafted, the program must be adopted by the organization's board of directors. In the event the organization does not have a board of directors, the program must be adopted by a senior level employee.

No matter how good the program looks on paper, the true test is how it works. The program must state who is responsible for implementing and effectively administering the program. Your company's board of directors may oversee, develop, implement, and administer the program or it may delegate such responsibilities to a committee or senior level employee. Responsibilities should include assigning specific responsibility for the program's implementation, reviewing staff reports about how the organization is complying with the Rule, and approving important changes to the program. In addition, organizations must have a program that includes appropriate staff training for their employees. If your business outsources or subcontracts part of the operations that would be covered by the Rule, the program must also address how you will monitor your contractors' compliance. For example, if the subcontractor opens or manages accounts, they must apply the same standards you would if you were performing the tasks yourself. Simply having a written identity theft prevention program is only the starting point under the Rule. Implementation of the written program is key.

Finally, despite being adopted in early 2008, the FTC delayed enforcement of the Rule until August 1, 2009. Although there are no criminal penalties for failing to comply with the Rule, financial institutions and creditors may be liable for civil monetary penalties. Regardless of the FTC's enforcement of the Red Flags Rule, there is a good reason to develop and implement an identity theft prevention program: it is just good business. Taking a proactive approach to the issue of identity theft assures customers and clients that you are taking important steps to protect personal and often confidential information vital to their interests.

If you think you might be covered under the Red Flags Rule and need guidance about creating and/or implementing an identity theft prevention program in your organization, please contact Troy Rider at (610) 898-7178 or trider@barley.com.

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Managing Your Intellectual Property in a Down Economy

By: Salvatore Anastasi and Joseph R. Falcon, III

Managing the assets of a business requires a complete and structured approach. But identifying and maintaining such assets, whether they are classed as a tangible or intangible asset, may present challenges. Tangible assets, such as inventory, land, buildings, and equipment, are clearly recognizable and valued quite easily. However, intangible assets are not so easily recognizable, as they are generally nonphysical resources or rights such as financial assets/instruments, good will, and intellectual property. In this article we will examine the importance of recognizing and properly valuing intellectual property, particularly in a down economy.

We often find that businesses are not aware of the IP assets they have or, if they have IP assets, have not taken a portfolio approach to managing them. Does your business have a process for identifying inventions that are created in the company? If so, and you have protected some of your intellectual property, do you find yourself receiving letters from your lawyers, one by one, asking for decisions on whether to file or maintain a patent or trademark? When making decisions on what to file or what to maintain, are those decisions tied to some strategic business plan?

It is intellectual property that provides an owner rights which grant a noteworthy advantage to a holder of those rights. Companies that appropriately manage intellectual property rights create improved opportunities to cultivate, protect, and exploit their intellectual property as valued assets. Developing and maintaining intellectual property, as a management strategy, has proven to be an effective tool for any company, and having such a strategy may be essential for a business to gain and maintain a competitive advantage, especially in today's economy.

Maintaining intellectual property first requires identification of intellectual property the business already possesses. An innovation should be dissected, so that all types of IP protections available under the law can be considered. While this classification step is crucial, businesses often fail to fully perform it. Intellectual property rights are classified into various categories, each protectable by different legal instruments such as patent, copyright, trademark, and trade secret.

A United States patent provides protection for novel and useful processes, machines, manufacture, or compositions of matter. An issued patent provides the owner the right to exclude others from making, using, selling, and/or importing a product that is covered by a patent. It is important to recognize that this protection is one of exclusion, granting a company's innovations value and validity. As society has developed and progressed, the definition of what can be patented has become more liberal, expanding patentable subject matter to living matter, software, and business methods.

The U.S. government further provides intellectual property protection for an original work of authorship in literary, audio-visual, and other works of expression in the form of copyright.

The owner of a copyrighted work may exclude others from reproduction, distribution, public performance, public display, or preparation of derivative works. Fundamentally, a copyright will protect an original and creative way an idea or procedure is expressed from the moment it is fixed in a tangible medium of expression. Unlike patent protection, registration with the United States Copyright Office is not required. Nevertheless, a registration of a copyright provides additional benefits to a business, including statutory damages and evidence of the ownership of the work.

Trademark and unfair competition laws protect the trade identity associated with a business' goods and services. Assuming that a trademark qualifies for protection, rights to a trademark can be acquired in one of two ways. Actual use of the mark in connection with the sale of goods and services establishes ownership, at least with respect to geographic area of use. However, by being the first to register the mark with the U.S. Patent and Trademark Office (USPTO), the owner of the mark receives additional benefits, including nationwide constructive notice of ownership, an ability to bring infringement suits in federal court, and prima facie "incontestability," establishing the exclusive right to use the mark. Trademark laws provide owners with judicial remedies to prevent others from using confusingly similar marks.

A trade secret is any information that can be used in the operation of a business or other enterprise and that is sufficiently valuable and secret to afford an actual or potential economic advantage over others. A trade secret or confidential information has an indefinite life if it can be kept secret and confidential. A court decides whether a piece of information qualifies for trade secret protection by examining a variety of factors, including how well known the information is to the general public and the steps taken by the owner to protect it from being disclosed.

Acquiring rights through the application process and/or registration, especially for patent protection, can be extremely expensive. Estimating costs is difficult because of uncertainties in the application process, and much depends on the value of that asset once protected and enforced. Logically, it is necessary and desirable for a business to protect every piece of intellectual property; however economically, it is not generally feasible to obtain protection for everything. After matching products and services with the appropriate intellectual property protections, a company can perform a cost-benefit analysis to determine whether securing and maintaining intellectual property protection for each of the identified pieces of intellectual property is warranted. Cataloging the type of intellectual property into portfolios provides further guidance when budgeting for protection.

A global review and evaluation of an intellectual property portfolio provides enhanced value and security. Portfolio maintenance should be performed on a global basis, rather than an asset-by-asset basis. The key to success is being able to tie the IP portfolio to those products/projects likely to bear fruit, or those which are required to keep competition from making infringing products.

The owner of intellectual property must become increasingly savvy about the value of its portfolio, and more educated about the best ways to identify and manage intellectual property. Armed with portfolio management and strategic decision making processes in place, an IP owner will approach business, marketing, licensing, negotiating, and litigation decisions from a position of knowledge and power. Failure to monitor an intellectual property portfolio may lead to waste and even compromise certain valuable rights. The most common danger of ignoring intellectual property is the loss of business opportunities, because the business owner was not attentive to whether those opportunities were worth pursuing. For example, an issued patent requires maintenance fees periodically through the life of the patent. Failure to pay a maintenance fee will cause the patent to expire. The business owner must make an informed decision as to whether or not maintaining that patent is in the business' best interests. On the other hand, the unnecessary payment of a maintenance fee may result in a lost opportunity to invest those funds in new projects or patents. It is therefore critical to maintain a portfolio of patents which is driven by the business' needs, strategy, and long-term goals.

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From the Desk of the Managing Partner: What's Next?

By: Timothy G. Dietrich

Recently, I have found myself participating in a number of discussions about business conditions, each of which has ended with someone stating that "this will soon be over" or "things will soon turn around," or another variation of this thought. In each case, it has been my impression that the thought left unspoken at the time was " and then things will get back to normal." As a bit of a psychological experiment, when I now hear the phrase "this will soon be over," I have begun posing a simple question: "What's next?"

By merely posing this question, I have had some very interesting interactions with both clients and colleagues. Some have responded to my question with uncertainty or a description of how they believe things will be different. However, I am surprised by the number of people who believe, or hope, that things will "return to normal." Again, it is my impression that the unspoken thought here is that the word "normal" is intended to mean a *status quo ante* or, more succinctly, life in 2007. Is this wishful thinking? I believe it is.

I noticed that ABC News is currently presenting a series of news stories attempting to outline the "New Normal" for consumers. In other words, how will life be different in the future for consumers with respect to their jobs, their incomes, household economics, and assets? The point of their series is to emphasize that we will not return to an "Old Normal," or 2007 conditions, but rather we will evolve into a "New Normal" in which some aspects of life will certainly be the same as in the past, but others will be substantially changed.

I submit that for businesses, institutions and governments, there will also be a "New Normal." We often speak of the opportunities which arise during a recession, if one is only willing to understand the nature and meaning of the turmoil and act upon it. However, much like consumers, all businesses, institutions and governments will face a change imperative which is not discretionary and which will be foisted upon them as the "New Normal." Some sectors of the national and regional economy, such as banking and real estate, have felt the recession acutely and are assessing the changes which they must make to adapt to the "New Normal." Of course, everyone associated in some way with the automotive industry is scrambling, first to survive and then to adapt to the "New Normal."

In the legal profession, the broad outlines of the "New Normal" are beginning to emerge, centered around the concept of delivering real value to the client. In most industries, doing so would involve continuous improvement of skill, quality and service, at a cost customers agree is aligned with skill, quality and service. For us and our clients, it will be no different.

Are you thinking about "What's next?"

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