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Federal Agency Mentor-Protégé Programs Offer Participants Subcontracting and Joint Venture Opportunities

By Richard O. Duvall, Esq. and Peter T. McKeen, Procurement Analyst

Earlier this year, Angela Styles, who recently stepped down as Administrator of the Office of Federal Procurement Policy (OFPP), affirmed the Bush Administration's commitment to expanding opportunities for small and medium sized businesses to obtain federal contracts. Part of this commitment includes an assessment of the effectiveness of prime contractor subcontracting plans and a determination on how many tiers should be counted toward satisfying small business subcontracting goals.

Although the Administration will look for new methods of providing contracting opportunities to small businesses, greater use of existing small business programs can expand these opportunities while providing benefits to both small and large businesses. One such program is the mentor-protégé program offered by many federal agencies.

Mentor-protégé programs offered by federal agencies are designed to encourage prime contractors to assist small disadvantaged businesses (SDB's) in improving their capabilities through management, technical and financial assistance and subcontract awards. This assistance may take the form of guidance in general business management, award of subcontracts, advance payments under subcontracts, temporary assignment of mentor personnel to the protégé for purposes of training, loans, or investment in the protégé firm. In return for this assistance, some programs, such as that offered by the Department of Defense (DOD), allow mentor firms to receive credit toward their subcontracting goals for costs incurred in assisting the SDB or they may obtain direct reimbursement of the costs of providing development assistance, up to \$1,000,000 per year. Thus, participation in a mentor-protégé program can assist a contractor in meeting its subcontracting goals, regardless of any changes in

subcontracting plans instituted by the Administration. Such participation will also assist the development of small businesses and promote the government's goal of greater small business participation in federal contracting.¹

Of particular note is the Small Business Administration's (SBA's) mentor-protégé program offered under its 8(a) Business Development Program. SBA's program offers some unique benefits to the participants not available under other agency mentor-protégé programs. Under the SBA program, an 8(a) firm and its mentor may enter into a joint venture agreement to pursue any federal prime contract, including small business and 8(a) set aside contracts, with no finding of affiliation between the firms, regardless of the mentor firm's size, provided the 8(a) meets the small business size standard of the procurement. The protégé firm must be designated as the manager of the joint venture and receive at least 51 percent of the net profits.

The Bush Administration is moving to prevent businesses that are no longer small, as a result of growth or merger, from obtaining small business set aside contracts by requiring annual recertification of small business size status under multiple award contracts. Although the Administration seeks to prevent large businesses from improperly obtaining small business contracts, the 8(a) mentor-protégé program remains a legitimate way for large businesses to participate in set aside contracts while at the same time enhancing the capabilities of small businesses to obtain and perform such work.

¹ In a July 2001 report (GAO-01-767), the General Accounting Office concluded that DOD maintained insufficient data to fully measure the success of its mentor-protégé program. In responding to the report, DOD maintained that its mentor-protégé program was successful. The report noted that since 1992, DOD met or exceeded its goal of awarding 5 percent of total contracting dollars to SDB's. The report also included DOD data indicating that protégé revenues and number of employees increased during program participation.

In addition to providing the management, technical, and subcontracting assistance available under other agency mentor-protégé programs, the mentor of an 8(a) firm under the SBA program may also obtain up to a 40 percent equity interest in the protégé firm. DOD's mentor-protégé program limits a mentor's ownership interest in a protégé firm to no more than 10 percent.

All agency mentor-protégé programs impose certain eligibility requirements on the participants, with the mentor firm generally required to demonstrate solid financial health and the ability to offer meaningful assistance to a protégé firm. SBA's program permits 8(a)'s in the program's Transitional stage as well as graduated 8(a)'s to serve as mentors. For programs other than SBA's, protégé firms are generally required to be certified SDB's, woman-owned small businesses, service disabled veteran-owned small businesses, or other minority-owned businesses. To remain eligible for SBA's 8(a) mentor-protégé program, the protégé firm must be in the Developmental stage of the 8(a), have never received an 8(a) contract or be less than half the size standard corresponding to its primary small business (NAICS) size code.

Agency mentor-protégé programs require approval of an agreement between the mentor and protégé firms which spells out the type of assistance to be provided by the mentor firm. Some agencies impose limits on the length of the agreement, but SBA does not.

Given the Administration's interest in promoting contracting opportunities for small businesses, larger businesses interested in increasing their small business subcontract awards should consider federal agency mentor-protégé programs. In addition, SBA's 8(a) mentor-protégé program offers qualified businesses, both large and small, the unique opportunity to pursue contracting opportunities that they might otherwise be ineligible for through a joint venture.

IT SERVICE PROVIDERS: WHY BANKING REGULATIONS MATTER TO YOU

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Introduction

Many IT service providers are surprised to be faced with new and very probing information requests when providing IT services to banks and other financial institutions. These requests come courtesy of the Gramm-Leach-Bliley Act of 1999 ("GLBA") and new Safeguard Rules. GLBA is the law which created privacy-related requirements applicable to all financial institutions.

GLBA has, for several years, mandated that whenever an IT service provider is given access to the customer information of a financial institution, the financial institution must enter into a written agreement with the service provider. This requirement is easily satisfied by a non-disclosure agreement, or by including confidentiality provisions within the agreement governing the services. Customer information should be specifically called out as confidential. For the comfort of its banking customers, an IT service provider may want to

consider amending its standard form NDA/confidentiality provisions to make specific reference to GLBA. Such specific reference, however, is not required by the law.

What is now sparking a new round of requests from banks and other financial institutions are the regulations mandating the exercise of diligence in selecting service providers, including a review of measures taken by the service provider to protect customer information.

The steps necessary to satisfy these new diligence rules are not obvious. From the IT service provider's perspective, the steps taken by a financial institution should depend upon the extent to which the service provider actually has access to customer information. However, financial institutions may find it simpler to adopt a "one size fits all" approach, in which case the IT service provider could be faced with probing questionnaires even when it has little or no actual access to customer information of the bank.

Overview of GLBA and the Regulations

By now we are all familiar with the notice required by law to be sent to existing customers describing in some detail the institution's privacy policies and practices (the "Privacy Notice"). Additionally, under GLBA, financial institutions must follow the notice and opt out procedures set forth in the regulations before disclosing "consumer" and "customer" nonpublic personal information to non-affiliates.

The notice and opt out provisions of GLBA are notable in regard to IT service providers because of the exception which provides that a financial institution's customer has no right to prohibit the sharing of his or her nonpublic personal information with a non-affiliated third party when the information is being disclosed so that the third party can perform services on the institution's behalf or to engage in joint marketing activities with the institution.

Safeguard Rules

To be eligible for the opt-out exception, the financial institution must comply with other requirements of GLBA, including the relatively new the Safeguard Rules, which came into effect on July 1, 2003. These rules are aimed at securing customer records and information held by the financial institutions. The rules govern all customer information in the financial institution's possession, including information pertaining to customers of other financial institutions that have provided such information. The goal under the Safeguard Rules is to have each bank establish "administrative, technical and physical safeguards to protect the security, confidentiality and integrity of customer information."

With respect to information shared with service providers, the Safeguard Rules require that a bank "exercise appropriate due diligence in the selection of service providers. . . . includ[ing] a review of measures taken by a third party to protect customer information." Further, the Rules state that each financial institution must "exercise an appropriate level of oversight over each of its service providers" to ensure that the service providers implement security measures. The Safeguard Rules do not require banks to engage in on-site examinations of their service providers to ensure compliance, but it appears banks

must request copies of security audits and policies relating to customer information to ensure that the service providers are implementing appropriate security programs to protect customers' information.

Banks and other financial institutions are adopting standard information checklists to comply with these Safeguard Rules. IT service providers may find, however, that the requests seem overly broad, particularly in light of the limited access to customer data the service provider may have. Some of the information requested may appear unrelated to the protection of customer data. For example, a request to disclose human resource policies may be overbroad; many such policies have nothing to do with privacy protection. Some items, such as the background checks done before hiring personnel, may be very pertinent, however. Bank forms may simply request all such human resource policies. The company code of ethics, customer service standards, financial information and quality initiatives for managing are similar items that may be requested but appear unrelated.

The IT service provider may attempt to limit its response to information that bears upon its protection of customer information it receives or has access to from the bank. That being said, if the bank is truly requiring this information from all vendors, the service provider will have to make a business decision whether it will provide the requested information, or provide only the information which it feels bears upon the protection of customer data, and risk difficulties in its relationship with the financial institution.

One approach is for the IT service provider to have already compiled its security policies, certain of its employment policies relating to security requirements, board of directors' policies regarding confidentiality and other pertinent information about the service provider's practices. Such a compilation may be considered by a banking customer to be sufficient to satisfy current due diligence requirements. IT service providers should, in any event, be prepared to respond to financial institutions' requests associated with the new due diligence requirement of the Safeguard Rules of GLBA.

HOW WILL VIRGINIA AND MARYLAND SOLVE A PROBLEM LIKE UCITA?

*By Selwa Masri, Esq.
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In August, 2003, trackers of the controversial computer software and information licensing act known as the Uniform Computer Information Transactions Act (UCITA) received significant news from UCITA's "brainparents," the National Conference of Commissioners of Uniform State Laws (NCCUSL). (NCCUSL is a group comprised of more than 300 lawyers, judges and law professors, appointed by the states, the District of Columbia, Puerto Rico and the U.S. Virgin Islands and charged with drafting uniform laws in the nation such as the Uniform Commercial Code.) After some fifteen years of time, effort and money, NCCUSL decided it would no longer expend resources to promote UCITA in state legislatures and to discharge the UCITA Standby Drafting Committee.

NCCUSL's decision now raises questions about the fate of the UCITA laws enacted by Virginia and Maryland, the only two states that have adopted UCITA. Virginia's statute became effective on July 1, 2001 and Maryland's became effective on October 1, 2000. Will Virginia and/or Maryland repeal, amend or do nothing about its UCITA enactments? Since NCCUSL's decision, the UCITA enactments in Virginia and Maryland appear to be unaffected, however that may change in the coming year. In fact, just weeks before NCCUSL's decision, on July 8, 2003, the Virginia Cyberlaw Advisory Committee, a sub-committee of the Joint Commission on Technology and Science of the Virginia legislature, reviewed roughly six substantive amendments to UCITA that NCCUSL approved in July 2002. Those amendments, briefly explained below, came in response to pressures from a number of fronts, with looming questions about the viability of the statute.

To put the development into perspective, some background on UCITA is helpful. UCITA emerged in July 1999 as a result of NCCUSL's efforts to create a uniform law dealing with Internet and information licensing transactions by clarifying and harmonizing the various and conflicting states laws applicable to computer information transactions such as software and database licensing. Although adopted in July 1999, UCITA's origins trace back to the early 1990s when the Internet and information technology industries started to become a significant force in the national and international economy. Then, industry representatives and law makers alike increasingly viewed the common law and statutory laws applicable to the sale of goods, to be inadequate for transactions involving the *licensing* of software and information and for dealing with the questions presented by the Internet.

As a result, NCCUSL sought to modernize the Uniform Commercial Code (UCC), the umbrella for commercial law in the United States, by updating its Article 2 (governing the sale of goods and leases) and adding a new article for intangibles that would provide consistent and uniform rules for software and information transactions both online and offline. That effort ultimately led to the birth of the UCITA.

The Act has pit a variety of consumer and business groups who oppose UCITA against large ISP's and software owners that generally support the law. UCITA opponents argue that it dramatically shifts the balance of contract law in favor of software licensors and against the businesses and customers who buy and use that software. Additionally, roughly 32 U.S. state attorneys general, the Federal Trade Commission, and the American Bar Association (ABA) have sharply criticized UCITA. In fact, in a January 31, 2002, report by the ABA Working Group on UCITA, the group described UCITA as "extremely difficult to understand" and "daunting for even knowledgeable lawyers to understand and apply." It further warned that if UCITA is not redrafted, the result would be "considerable controversy and litigation over what its various 'rules' really mean."

The problems with UCITA are highlighted by its dismal track record among state legislatures. Virginia and Maryland are the only two states that have enacted UCITA. The District of Columbia and the U.S. Virgin Islands have introduced bills to enact UCITA, which remain pending. Still other states, specifically Vermont, Iowa, North Carolina and West Virginia, have rejected UCITA and introduced what is referred to as

"bomb shelter legislation," which is designed to limit the reach of UCITA and its rules governing choice of law and choice of forum if one of the parties to a transaction is a resident of one of those states.

As a result, NCCUSL approved a number of changes to UCITA, most of which were aimed to clarify the Act, and others to make substantive changes. Among the substantive amendments are the following:

(1) **Ban on Electronic Self-Help.** The UCITA amendments prohibit a licensor of digital information, including software, from disabling the use of that information by electronic means if there is a breach of an information contract. In place of self-help, UCITA provides licensors with an expedited judicial remedy for a material breach of contract.

(2) **Express Authorization of Reverse-Engineering for Interoperability.** The UCITA amendments specifically address reverse-engineering, by permitting the licensee to undertake reverse engineering when needed for interoperability (if otherwise not prohibited by other law), despite contrary contract terms. Reverse-engineering is permitted only when needed to achieve interoperability (i.e., the ability of computer programs to exchange information, and of such programs mutually to use the information that has been exchanged) and only if the needed elements have not previously been made available to the licensee by the licensor.

(3) **Clarification that State's Consumer Protection Law Trumps UCITA.** NCCUSL amended UCITA to state that UCITA would not limit, modify or supersede any consumer protection laws, including laws on the requirements of conspicuous disclosure, unfair or deceptive trade practices laws, and laws relating to electronic signatures and records. The applicability of a consumer protection law is determined by that law and not by UCITA. Notably, even with the amendment to UCITA, if a state consumer protection law is not specifically made applicable to the computer information transaction, then the rules under UCITA would apply if the state has adopted UCITA.

(4) **Right to Criticize is Protected.** Software and data licenses generally include confidentiality provisions aimed at protecting the trade secrets and proprietary information disclosed. That language often prevents disclosure of the results of benchmark tests, competitive advantages and disadvantages, test results and the like, regardless of whether any trade secret is involved, is not uncommon in license provisions. In response to criticism by consumer groups that provisions of this type would "gag" public comment, the proposed amendments expressly invalidate contract terms that limit criticism rights if (1) the copy of the computer information is in its final form and generally made available in commerce, and (2) the licensee is an end user engaging in otherwise lawful discussion of the quality of performance of the computer software or data. The licensor's rights under trade secret, trademark, defamation, commercial disparagement and other laws, nevertheless, are retained.

(5) **Remedies for Known Material Defect Preserved.** NCCUSL amended UCITA to identify laws that it would not displace, namely, trade secret laws, unfair competition laws and

the law of fraud, misrepresentation, and unfair and deceptive practices, including application of such laws as they may deal with failure to disclose defects.

(6) **No Implied Warranties for Special, Open-Source Software Provisions.** "Shareware" software and open-source software have a special provision relating to implied warranties under the amendments. Open-source software is software for which the source code is distributed or accessible via the Internet without charge. Examples include Linux, Apache Web Server and even the Netscape Communicator Web browser. The Act specifically exempts free software licenses from any of the implied warranties created under UCITA including implied warranties of noninfringement and of merchantability in computer information licenses. The drafters felt that noncommercial transactions should not give rise to certain implied warranties that could otherwise subject the licensor to liability, notwithstanding the fact that the software is provided without charge.

Of NCCUSL's amendments, the Virginia Cyberlaw Advisory Committee recommended those concerning a state's consumer protection laws trumping UCITA, the right to criticize an information product, the remedies for known material defects and the special source open source software provisions. The Committee rejected, however, the amendments banning electronic self-help, authorizing reverse engineering and one related to the right of return. The Committee's recommendations will be sent to both houses for consideration in Virginia's 2004 legislative session. To date, Maryland's Joint Technology Oversight Committee is reviewing NCCUSL's decisions, as well as the trend of many states to adopt bomb shelter legislation. It has not decided a course of action.

LATENT IMPACT OF CORPORATE GOVERNANCE REFORMS ON TECHNOLOGY AND OTHER PRIVATE COMPANIES

*By W. Randy Eaddy, Esq., and Neil D. Falis, Esq.
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Private companies are beginning to experience lessons that the public company sector learned six months ago. The reach of corporate governance reforms in the wake of Enron, WorldCom, and other corporate scandals – while focused on public companies and capital markets – extends long and deep.

The reforms have significant implications for private companies, especially those who seek investments from venture capital funds and other institutional investors. Beyond the lingering skittishness of investors occasioned by the technology bubble burst, the continued death of venture capital financing also reflects concern about the impact of corporate governance reforms on the ability of portfolio companies to operate and perform at levels that are attractive to venture capital investors in this new era.

The principal reform initiatives target public companies, whose securities are widely held by large numbers of investors, for several obvious reasons. Such investors have limited (if any) effective ability to assess the quality of their investments other than through reliance on the transparency and integrity of

disclosures made by management. And, they have no control over day-to-day behavior by the managers of their companies, other than through effective governance protocols that prohibit certain conduct, limit others, and require conspicuous disclosures as a deterrent to some actions that might not reflect a proper regard for the interests of the public owners.

The keystone of these initiatives – the Sarbanes-Oxley Act of 2002 and the SEC rules that have been or are being promulgated in its wake – reflect that focus. The reform initiatives of other organizations, such as the NYSE, Nasdaq, and Institutional Shareholder Services, derive from a similar focus on public companies and their investors and on a general concern for restoring investor confidence in the public capital markets.

The focus on public companies masks the impact of these reforms on private companies. But, the latent impact is real, and it is multi-faceted and potentially substantial. Here are four examples of fairly broad impact.

First, many of the protocols that emerge from these initiatives are likely to become standards for “best practices” for private as well as public companies. In particular, institutional investors such as venture capital firms may require private companies to comply with certain provisions of the Sarbanes-Oxley Act and related SEC rules, even though such compliance is not legally required by private companies (just as they do now for many other SEC rules). Likely candidates include the composition and qualification requirements for audit committees, limitations on certain services by the companies’ auditors, prohibitions on personal loans to executives, and implementation of codes of conduct.

Second, even the most clearly public company-targeted of the requirements – such as Sarbanes-Oxley’s mandate that public company CEOs and CFOs make certain certifications as to their companies’ financial statements – can reach private companies. For example, under federal securities laws, a public company that acquires a private firm may be required to file certain historical financial statements of the private company as part of the public company’s SEC reports and other public disclosures. In such a case, the public company CEO and CFO could be required to certify as to those financial statements, either on their own or as their results are reflected in the public company’s financial statements as a result of the acquisition. In either case, these requirements mean that financial information about the acquired private company’s operations (and how it was generated) during pre-acquisition periods will take on enhanced significance.

Third, the Sarbanes-Oxley Act’s general prescription for much more rigorous corporate disclosure is part of a larger movement toward greater transparency at all levels of the financial markets. This evolution has created additional pressure on venture capitalists, among others, to likewise disclose additional information to the public, particularly in an environment where investors already are frustrated by increasing investment losses.

For example, in October 2002, the University of Texas Investment Management Company, the second-largest university endowment in the country, with \$14 billion under management and \$1.3 billion in private equity, disclosed

financial performance information on dozens of venture capital funds, in response to public pressure to do so. Since then, several other investors in venture capital funds have similarly disclosed sensitive financial information. With over half of all venture fund investment coming from public endowments and pension funds, other venture capitalists may be forced to respond as well. In fact, there is a fear that investors will force funds to disclose financial information on individual private portfolio companies. Some of these investors are asserting that, without such transparency, investors in pension funds and elsewhere could be defrauded by venture firms.

Fourth, private technology companies are particularly anxious about the ultimate result of the debate over the accounting treatment of stock options. While the issue has long been considered by the Financial Accounting Standards Board and others, the position that grants of stock options should be recorded as an expense has gained new momentum and support as a result of the scandals that ignited the current corporate governance reforms. Many in Congress argued for mandating the expensing of options as part of Sarbanes-Oxley. While Congress stayed its hand in that regard, the Act did authorize the new Public Company Accounting Oversight Board it created to consider the matter, and it probably will do so.

Meanwhile, the International Accounting Standards Board already has proposed such a requirement, and FASB has requested public comment on such a requirement (the comment period ended February 1), indicating it will attempt to match its standards to those ultimately approved by IASB. In addition, some technology companies, such as Amazon.com and Computer Associates, have voluntarily agreed to expense option costs, although there remains significant objections from many others in the sector.

A mandate to expense stock option costs would have particularly adverse consequences for growing technology firms, in that the costs of recruiting talented employees and managers through generous option grants would lengthen significantly the path to meaningful profitability. In the current environment, that translates into reduced prospects for obtaining venture capital financing, because many venture capitalists will consider investing only in companies with a track record of profitability.

These and other impacts of the corporate governance reforms, while significant, can and will be weathered. As entrepreneurs and venture capitalists recognize the impact of these developments, they will adjust their expectations and conduct accordingly. However, even when venture capitalists become more confident that financial markets are moving in a positive direction, they will take a much harder look before investing in early-stage companies, whether technology or other. Such companies would be well advised to create contingency financing plans that do not rely on such funding becoming available in 2003, and potentially beyond.

**INTELLECTUAL PROPERTY AUDITS:
CENTRAL ISSUES IN THE ACQUISITION OF
INTELLECTUAL PROPERTY RIGHTS**

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I. INTRODUCTION

The driving force in many stock and asset transactions today is the seller's intellectual property portfolio, which may consist of patents, trademarks, service marks, copyrights, trade secrets and trade names. In pursuing such a transaction, a primary goal of the parties' counsel and management is to ascertain what property rights the purchaser desires to acquire and what rights the seller is capable of delivering. The seller's attorney should be prepared to deal with problems that arise or are likely to arise through the purchaser's due diligence check.

The purchaser's due diligence check typically includes, among other things, obtaining a detailed list from the seller describing each intellectual property right within the scope of the transaction, review of relevant company files of the seller, and a computerized search of government and other readily available records to confirm the existence of rights in intellectual property, the status of such rights and, in some cases, the existence of potentially relevant third-party rights. The independent search often serves as an extremely valuable tool in assessing the existence of any gaps or irregularities which may dramatically affect the *nature* and *extent* of the seller's rights in its intellectual property and the *value* of such rights to the purchaser.

In each of the major areas of intellectual property--trademark, patent, and copyright--there exist important doctrinal issues on which one must focus in evaluating any discrepancies between the information provided by or obtained from the seller and that obtained through the purchaser's independent search. This article is intended to highlight some of the more common problem areas that arise in intellectual property acquisitions.

II. TRADEMARKS/SERVICE MARKS

When seeking to acquire trademark or service mark rights from another, there are a number of important issues that one must investigate.

A. Ownership

One should confirm that the seller owns the trademark or service mark rights that it is purporting to convey in the transaction. Licenses, assignments, or other burdens on the seller's absolute rights (such as "field of use" or settlement agreements) must thus be identified. One should also review alleged dates of adoption of trademarks and facts supporting the allegations, since in some cases the stated date of "first use" could be a non-trademark or "token" use that may not support a claim of priority of rights.

B. Registration

One should ascertain whether the marks in question have been registered federally and/or in one or more states. If so, one should investigate whether the registrations have been properly maintained (*e.g.*, the filing of appropriate Sections 8 and 15 affidavits for federal registrations) or renewed, based on statutory requirements.¹ The issue of federal registration may be a particularly crucial one, as it conveys certain legal rights and benefits; in particular,

(1) a Principal Register registration constitutes prima facie evidence of the validity of the registered mark, of the registrant's ownership of the mark, and of the registrant's exclusive right to use the registered mark;² and

(2) a Principal Register registration is constructive notice of a claim of ownership so as to eliminate any defense of good faith adoption and use made after the date of registration.³

One should also inspect federal registrations and pending applications for irregularities (*e.g.*, improper owner named, incomplete or inaccurate description of goods or services, changes in the design form of a mark) which may need to be explained by the seller. A potentially valuable source of information about a particular federal trademark or service mark registration or pending application may be the "file wrapper" maintained by the Patent and Trademark Office. The file wrapper contains a history of communications between the applicant's attorney and the Patent and Trademark Office and may provide enlightening information on a mark's "strength," the scope of registered rights or likelihood of confusion with other marks. Where a seller's portfolio includes one or more marks for which foreign registrations have been obtained or applications are pending, conducting searches in the relevant countries to confirm their existence and status may also be desirable and can be performed with the assistance of foreign trademark counsel.

C. Use

That an active federal registration for a particular trademark or service mark exists does not necessarily translate into protectable rights in and to a mark if that mark is not and has not been used for a substantial period of time in connection with the goods or services covered by the registration. One should investigate the entire list of trademarks and service marks being acquired and verify that all of those marks are still in use. Non-use for a certain period of time might constitute "abandonment," and consequently the loss of trademark or service mark rights. Indeed, the Lanham Trademark Act provides that non-use of a mark for three consecutive years is prima facie evidence of abandonment.⁴ In such cases, an unsuspecting purchaser may acquire one or more marks for substantial consideration which are of little or no value.

¹15 U.S.C. §§ 1058, 1059, 1065 (2000).

²*Id.* §§ 1057(b), 1115.

³*Id.* § 1072.

⁴*Id.* § 1127; *see also* Uruguay Rounds Agreements Act, Pub. L. No. 103-101-103, § 521, 108 Stat. 4809 (1994).

D. Licenses and Assignments

One should carefully evaluate any and all licenses of trademark and service mark rights, as such licenses may significantly restrict or otherwise affect the nature, scope and duration of the purchaser's activities under a particular mark. Licenses should also be scrutinized to determine whether the seller has engaged in uncontrolled or "naked" licensing, which could result in a loss of trademark rights. Trademarks and service marks are not property rights that may be sold apart from the goodwill with which they have been developed and associated. Trademarks that are sold, licensed, or assigned without the accompanying goodwill may be deemed abandoned and available for use by others without risk of infringement. This is because assignments-in-gross or naked licenses generally constitute use of a trademark or a service mark in connection with a business other than the one symbolized by the mark, and thus fraud on the public. The ultimate inquiry is whether any prior licensees or assignees have produced a product or performed a service of substantially similar kind and quality to that of the licensor or assignor so that consumers would not have been deceived or harmed by the license or assignment of a mark they have come to rely on as an indication of quality.

E. Conveyance

As a procedural matter, the purchaser will need an assignment form for each trademark or service mark being conveyed. A seller cannot assign trademarks merely with a general conveyance in the closing documents. Also, some international jurisdictions require that monetary consideration be stated in each assignment.

F. Court and Patent and Trademark Office Litigation

The purchaser should compare the information provided by the seller with independent search results regarding pending or past infringement claims involving any trademarks or service marks being transferred. Often overlooked in transactions is the existence of "inter partes" Patent and Trademark Office litigation, in which one's rights to obtain or maintain a federal trademark or service mark registration may be subject to challenge.

G. Who files? Who Pays?

An agreement should be reached by the parties as to which party will be responsible for preparation and recordal of appropriate assignment documents. The fees required to record assignments and transfers of trademark rights can be substantial, particularly when there are many marks or many foreign registrations. It is thus important that the agreement be clear as to which party is required to pay for recording the transfers involved in the transaction.

II. PATENTS

Representations and warranties can provide comfort that acquired technology is the subject of appropriate commercial exclusivity, and that the technology does not infringe third party rights. Patent issues deserve great attention in this respect because of the broad scope of protection they afford and because of the formidable array of sanctions that are avail-

able when infringement occurs. Representations and warranties are, however, no substitute for the information that competent due diligence reveals about the value, scope, and strength of the patent rights being acquired. The following issues, in particular, deserve close scrutiny.

A. Ownership

One must ascertain that the seller actually owns all rights in the patents it is purporting to transfer. One should further identify in which countries the patent rights exist, whether all required fees have been paid to maintain the rights, and whether the period for patent protection has expired.

B. Applications Pending

One should determine whether any patent applications are currently pending before the Patent Office, as well as the status of any such applications.

C. Validity/Enforceability/Scope

One should determine whether any actions have been filed on behalf of or against the seller for patent infringement with regards to the patents or patented products or processes involved in the transaction. Inheriting a lawsuit is generally an undesirable proposition. Maintenance fees must periodically be paid to keep U.S. (and most foreign) patents in force. One should determine whether these fees have been paid consistently and in the appropriate amount. With technology covered by patents or pending patents that is particularly key, it may be desirable to conduct an independent validity search. Also, if patent rights are important to the purchaser, patent counsel should be retained to review the patent rights and assess their scope.

D. Licenses And Assignments

It is important that any licenses or assignments of patent rights be identified, so that the purchaser does not pay for exclusive rights when, in fact, others have rights to, or interests in, the patent(s) being transferred.

E. Secrecy Agreements

Purchasers need to review all active secrecy agreements to determine whether they also contain provisions that prohibit the assignment of rights and obligations thereunder to assigns and the like. Most secrecy agreements restrict assignment unless written permission is first obtained; therefore, the purchaser must request that the seller obtain written waivers prior to transferring confidential information to the purchaser.

F. Who Pays

One should check the asset sale agreement to see if it specifies whose responsibility it is to record the patent assignments at the Patent and Trademark Office or internationally. As is true with trademarks, the fees involved in recording transfers of rights can be significant, and it is thus important to specify who will bear this burden in the agreement.

G. Patent Term

When acquiring patent rights from another entity, one must carefully consider the term of patent protection. Prior to the General Agreement on Trade and Tariffs ("GATT"), the patent term was 17 years from the date of issuance. Beginning June 8, 1995, a patent term extends from the date of issuance to a date 20 years from the date on which the application was filed in the United States.⁵ If the application contains a reference to an earlier filed application,⁶ then the term expires 20 years *from the filing date of the earliest such application*. This means that continuations, divisionals, and continuations-in-part have a patent term based on their *earliest parent* application.⁷ When acquiring a patent right from another entity, one will therefore need to focus much more carefully on whether the filing date of the patent being acquired was in force and/or filed prior to or after June 8, 1995. Furthermore, for those patents filed on or after June 8, 1995, one will have to ascertain the filing date of the earliest parent application to determine the remaining patent term.

III. COPYRIGHTS

A. Ownership

Any works containing copyrightable subject matter must be examined to determine who owns the respective rights in the copyright bundle, as specified by section 106 of the Copyright Act, and whether appropriate steps have been taken to preserve those rights. The exclusive rights enumerated in section 106 are:

- (1) the right of reproduction;
- (2) the right to prepare derivative works;
- (3) the right of distribution;
- (4) the right of public performance; and
- (5) the right of public display.⁸

One should begin by determining who is the author of the original version of the work in question. This involves a careful examination of all outside sources that contributed to the creation of the work, such as third parties, customers, employees, etc. The lawyer must determine whether the material contributed is public domain or proprietary. If proprietary, the terms pursuant to which such contributions were made must be determined so as to identify any parties who may have rights to the work or portions thereof. If more

⁵35 U.S.C. § 154(a)(2) (2000).

⁶See *id.* §§ 120, 121, 365(c).

⁷As for patents in force on June 8, 1995, and patent applications filed on or before June 7, 1995, 35 U.S.C. § 154(c)(1) provides that such patents will receive a protection term equal to *the longer* of 20 years from the date of filing (as provided in 35 U.S.C. § 154(a)(2)), or 17 years from the date of issue, subject to any terminal disclaimers. As for applications filed on or after June 8, 1995, 35 U.S.C. § 154(a)(2) provides that the term of such patents shall be 20 years from the date of filing of the application, but if the application makes reference to an earlier filed application under §§ 120, 121, or 365(c), the term will be 20 years *from the date on which the earliest such application was filed*. This means that any continuation, divisional, or continuation-in-part that is filed on or after June 8, 1995, will have a 20-year term *based on its earliest priority date*. This could drastically reduce the patent term in cases where an application has a long priority history.

⁸17 U.S.C. § 106 (2000).

than one person or entity made a significant contribution to the creation of the work, the work may be considered a "joint work," resulting in a jointly owned copyright.⁹ If the creator of the work incorporated protected material from other pre-existing works, then the work may be a "derivative work" based upon such earlier works rather than an original work.¹⁰ Additionally, one must consider the work-for-hire doctrine.¹¹ If the work is deemed a "work made for hire," then any copyrights in a work created by an employee or independent contractor belong to the company. Otherwise, the rights may reside with the individual employee or contractor, such that the company has no ownership rights whatsoever. With respect to registered copyrights, it is now possible to conduct a computer search of the underlying works by title or author.

B. Compliance with Statutory Formalities

Although the Berne Convention Implementation Act, which went into effect on March 1, 1989, significantly reduced the significance of copyright formalities, one must consider several specific factors:

(1) Pre-Berne copyrights being acquired are still subject to the more stringent formality requirements under the 1976 Copyright Act. These include the affixation of proper notice (the letter "c" in a circle, or the word "copyright"; the year of first publication of the work; the name of the copyright owner), deposit and registration, and the recordation of transfers of copyright ownership with the Copyright Office.¹² If proper formalities have not been observed, one should determine whether, for example, the failure to affix proper notice may still be cured by taking remedial action. If no cure is possible, one should determine precisely what material has fallen into the public domain.

(2) Registration is generally still required to institute an infringement action¹³ and timely registration is a prerequisite to recovery of statutory damages and attorney fees.¹⁴ Additionally, registration constitutes prima facie evidence of ownership and validity of the underlying copyrights.¹⁵

C. Modification History

Once the original owner of the work is determined, the lawyer should obtain a complete modification history of the work with a listing of all publicly released versions, including dates of creation and first publication for each version. To the extent that any new version contains new protectable material added to the pre-existing material of earlier versions, it will constitute a derivative work based upon such versions. For each derivative work, the lawyer must identify any parties who arguably obtained interests in the work through contributions of new material. Additionally, the lawyer must uncover written transfers of the copyright, or of exclusive or nonexclusive rights in the original version or any of its derivative versions.

⁹*Id.* §§ 101, 201(a).

¹⁰*Id.* §§ 101, 103.

¹¹*Id.* §§ 101, 201(b).

¹²*Id.* §§ 401-412.

¹³*Id.* § 411.

¹⁴*Id.* § 412.

¹⁵*Id.* § 410(c).

D. Infringement Claims

One should compare the information provided by the seller with independent search results regarding pending or past infringement claims challenging validity or ownership of any copyrights being transferred.

E. Copyright Registrations and the Need for Independent Corroboration

Unlike the registration of trademarks and patents, the registration of a copyright does not indicate that the Copyright Office has carefully scrutinized the work to ensure that it meets the requisite level of originality to be copyrighted. This places a burden on one conducting due diligence to evaluate the validity or strength of the copyright independently. In particular, registrants often fail to include, in "Box 6" of their applications, references to all works from which the work being registered was derived.

IV. CONCLUSION

An article of this length obviously cannot cover every potential eventuality that must be addressed in the acquisition of intellectual property rights. Nevertheless, by keeping in mind the above factors, one may be more likely to identify other possible problem areas, or at least become more skeptical when certain information is (or is not) discovered, in an intellectual property audit.

point, however, a plaintiff's right to sue would only be limited to allegations of intentional discrimination by employers. The bill currently contains a specific provision stating that disparate impact claims, which do not require a showing of intentional discrimination, do not establish a cause of action under the Act. However, the bill proposes the formation of a commission over the next 6 years to review the developing science of genetics and to make recommendations to Congress regarding whether to provide a disparate impact cause of action under the Act.

Currently, over 30 states have already enacted laws against genetic discrimination in the workplace. Although coverage and enforcement provisions vary under each state's laws, all prohibit discrimination in hiring, termination, promotion, and/or in the terms and conditions of employment on the basis of genetic test information. In addition, federal employees and applicants for federal jobs are already protected from discrimination on the basis of genetic information pursuant to Executive Order 13145, which was issued by President Clinton in February 2000.

SENATE PASSES LEGISLATION PROHIBITING GENETIC DISCRIMINATION IN EMPLOYMENT

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On October 14, 2003, the United States Senate voted in favor of Senate bill 1053 that would prohibit employers from making employment decisions based upon an employee's or an applicant's genetic information. Such "genetic information" includes an individual's genetic tests; the genetic tests of family members of an individual; or the occurrence of a disease or disorder in family members of an individual. These provisions also apply to labor organizations, employment agencies, and training programs.

Senate Bill 1053 also prevents employers from taking adverse employment actions against employees who take advantage of any "genetic services," which include educational and counseling services. Moreover, employers are not permitted to request genetic information from employees or applicants under the bill, but in the event that an employer somehow learns such information, they would be required to keep it confidential. The new bill also prevents health insurance providers from requesting or utilizing genetic information for underwriting purposes.

Under the new legislation, the Equal Employment Opportunity Commission would have the same administrative and enforcement powers as it does with respect to Title VII of the Civil Rights Act of 1964 and other civil rights legislation. At this