GC Agenda

A round-up of major horizon issues for General Counsel

OCTOBER/NOVEMBER 2016

ANTITRUST

UPDATED IP LICENSING ANTITRUST GUIDELINES

The FTC and DOJ recently proposed the first update to the Antitrust Guidelines for the Licensing of Intellectual Property (Guidelines) since 1995. The Guidelines state the agencies' antitrust enforcement policy for licensing agreements that involve patents, copyrights, trade secrets, and know-how.

The antitrust agencies' efforts to update the Guidelines demonstrate their continued importance in the analysis of potential antitrust issues that arise in intellectual property (IP) licenses. The proposed update to the Guidelines should not change the antitrust agencies' enforcement approach to IP licensing or expand the Guidelines' scope to other topics. Instead, the proposed update modernizes the Guidelines to reflect several important legal developments since 1995. Among other things, the proposed update:

- Incorporates changes in statutory and case law, including the Defend Trade Secrets Act of 2016 and US Supreme Court precedent in *Leegin Creative Leather Products, Inc. v. PSKS, Inc.* and *Illinois Tool Works, Inc. v. Independent Ink, Inc.*
- Ensures that the Guidelines' analysis of markets affected by a licensing arrangement is the same as the analysis outlined in the 2010 Horizontal Merger Guidelines.
- Adds conforming language reinforcing the antitrust agencies' position that the antitrust laws do not impose liability for unilateral refusals to help competitors, since that may undermine incentives for innovation.
- Revises the approach to innovation markets to reflect the antitrust agencies' actual experience, such as by referring to those markets as research and development markets.

Because of the Guidelines' usefulness in predicting whether the FTC and DOJ will view a licensing practice as anticompetitive, counsel should carefully review the Guidelines before entering into licensing agreements.

Search Antitrust Risks in Standard-Setting Organizations for more on how the antitrust laws apply to IP.

COMMERCIAL TRANSACTIONS

CONSUMER CONTRACTS AND CLASS ACTION LAWSUITS

Companies that sell goods or services to consumers in New Jersey, whether in person, online, or through a mobile platform, should be aware of the recent rise in class actions under the state's Truth-in-Consumer Contract, Warranty and Notice Act (TCCWNA). Plaintiffs' attorneys are increasingly using this law to sue major companies and challenge their online terms and conditions.

The TCCWNA applies to any seller, lessor, creditor, lender, or bailee that offers products or services to consumers or

prospective consumers in New Jersey. It prohibits parties from including in a written consumer warranty, notice, or sign any term that:

- Violates any clearly established state or federal legal:
  - right of a consumer; or
  - responsibility of a seller, lessor, creditor, lender, or bailee.
- Waives the consumer's rights under the TCCWNA.
- Broadly states that any of the contract's provisions is or may be void, unenforceable, or inapplicable in some jurisdictions without specifying which provisions are or are not void, unenforceable, or inapplicable in New Jersey (blanket savings clauses). This prohibition against blanket savings clauses does not apply to written warranties.

A consumer contract can violate the TCCWNA and expose a company to liability even if the consumer has not suffered any actual damages. A TCCWNA violation arises simply from the contract's terms. For example, a contract can violate the law if it has provisions that:

- Waive a consumer's right to attorneys' fees.
- Limit a company's liability for personal injury or property damage that occurs on its property.
- Indemnify a company against losses that occur due to its own negligence or recklessness.

Companies that offer written contracts to consumers in New Jersey should carefully review those contracts and ensure that their terms do not violate the TCCWNA.

Search Terms and Conditions for Online Sales for more on contracting with consumers online.

CORPORATE AND M&A

APPLYING *CORWIN* TO CONFLICTED BOARD TRANSACTIONS

Counsel facing post-closing, breach of fiduciary duty claims should carefully review two recent decisions from the Delaware Court of Chancery dismissing stockholder challenges to two completed transactions. *City of Miami General Employees' and Sanitation Employees' Retirement Trust v. Comstock* and *Larkin v. Shah* continue the Court of Chancery's robust approach to applying the Delaware Supreme Court's holding in *Corwin v. KKR Financial Holdings LLC* to post-closing claims for damages.

Under *Corwin*, a fully informed, uncoerced stockholder vote restores the presumptions of the business judgment rule for a transaction that:

- Is not subject to entire fairness review as a result of a controlling stockholder standing on both sides of the transaction.
- Would otherwise have been subject to enhanced scrutiny under *Revlon*.

Delaware law is explicit that a transaction with a controlling stockholder qualifies for the presumptions of the business judgment rule only if the transaction meets the arms-length negotiation requirements described in *Kahn v. M&F Worldwide Corp.*, including conditioning the transaction on negotiation with a special committee of independent directors and subjecting the merger to approval of a majority of the disinterested stockholders.

Delaware law is less clear about how *Corwin* applies to transactions that would have been subject to entire fairness review because half or more of the directors negotiating the transaction were not disinterested and independent. The decisions in *Comstock* and *Larkin* diverge somewhat in their approach to this issue. In *Larkin*, the court held that absent a conflict with a controlling stockholder, a transaction negotiated by a conflicted board still qualifies for the presumptions of the business judgment rule under *Corwin*. In *Comstock*, however, the court applied *Corwin* only after concluding that the target company's directors were disinterested and independent.

This question is likely to remain open until the Delaware Supreme Court addresses the issue.

Search Delaware Court of Chancery Applies "Corwin" in Two Post-Closing Decisions, Takes Divergent Approaches to Conflicted-Board Transactions for more on these decisions.

INTELLECTUAL PROPERTY & TECHNOLOGY

FTC CLARIFIES DATA SECURITY STANDARDS

Businesses should reassess their data security programs to ensure they meet FTC guidance newly articulated in *In re LabMD, Inc.* and the FTC's endorsement of the National Institute for Standards and Technology's (NIST's) Framework for Improving Critical Infrastructure Cybersecurity (Cybersecurity Framework).

In *In re LabMD, Inc.*, the FTC identified basic security controls all reasonable programs should employ, highlighting three often-overlooked elements:

- **Data deletion.** Breaches often involve unnecessary or old data. Collecting and keeping data for only clearly identified business purposes and enforcing data retention policies help limit the risks of data breaches.
- **Routine audits.** Routinely confirming that firewalls, access controls, and other security precautions operate properly and passwords are periodically changed can ensure security controls work when the business needs them.
- **Robust training.** Strong policies are effective only if employees understand and follow them. A business should ensure that its employees know how the business protects personal data and understand their personal role in that process. Specific training should discuss:
  - the risks of certain technologies, such as peer-to-peer file sharing services; and
  - techniques hackers use to compromise data, such as common phishing email formats.

The FTC issued separate guidance recommending the Cybersecurity Framework as a model for establishing reasonable data security practices. The guidance also described how adherence to the Cybersecurity Framework's principles could have prevented certain FTC enforcement actions.

The FTC expects businesses to protect personal data by using measures appropriate to the:

- Data's sensitivity and volume.
- Business's size and complexity.
- Measure's cost.

Search FTC Data Security Standards for more on creating, implementing, and reviewing a company's data security program.

LABOR & EMPLOYMENT

FINAL RULES IMPLEMENTING THE FAIR PAY AND SAFE WORKPLACES EXECUTIVE ORDER

Federal contractors and subcontractors should audit their protocols for information collection and disclosure and their mandatory arbitration agreements in light of the Federal Acquisition Regulatory (FAR) Council's and Department of Labor's (DOL's) recent final regulations and guidance implementing the Fair Pay and Safe Workplaces Executive Order (EO 13673).

EO 13673 and its implementing regulations and guidance require certain federal contractors and subcontractors to, among other obligations:

- Disclose violations of labor laws.
- Provide workers with wage and hour information, notify independent contractors of their non-employee status, and notify overtime exempt employees of their exempt status.
- Avoid using mandatory arbitration agreements for certain discrimination or harassment claims.

The final regulations take effect on October 25, 2016. As a result, counsel for federal contractors and subcontractors should:

- Review and centralize procedures for bidding on federal contracts.
- Understand the scope of reportable information.
- Develop a system for information gathering, retention, and disclosure, including:
  - coordinating multiple information sources, such as human resources and health and safety;
  - documenting mitigating information; and
  - ensuring accurate and complete real-time information.
- Evaluate mandatory arbitration programs to ensure compliance with EO 13673.
- Evaluate strategies for litigation and administrative proceedings in light of possible future disclosure of cases and outcomes.
- Consider if company reorganization to isolate divisions engaged in federal contracts will reduce administrative costs, such as information collection and reporting.

Search Labor and Employment Statutes, Regulations, and Executive Orders Governing Federal Contractors Chart: Overview for more on labor and employment law requirements for federal contractors and subcontractors.

LITIGATION & ADR

SEC AMENDS ADMINISTRATIVE PROCEEDINGS RULES

The SEC's recent amendments to its administrative proceedings rules of practice provide companies facing SEC administrative proceedings with additional procedural and evidentiary safeguards. However, companies should keep in mind that the SEC nevertheless retains significant advantages when prosecuting claims.

Among other things, the amendments:

- Expand the schedule to allow more time both to start hearings and issue initial decisions.
- Enable parties in the longest type of proceedings the right to:
  - notice three depositions per side in single-respondent cases and five depositions per side in multi-respondent cases; and
  - request two additional depositions.
- Clarify the types of dispositive motions that the parties can file at various stages of proceedings.
- Impact rules relating to:
  - the admissibility of evidence;
  - expert disclosures and reports; and
  - the procedures for appeals.

The amendments are effective as of September 27, 2016.

Companies involved in SEC administrative proceedings should know that the amendments do not meaningfully level the playing field for respondents. Even under the amendments, significant procedural differences from court proceedings favor the SEC, including:

- The expedited timing of administrative decisions.
- The unavailability of traditional document discovery.
- Limitations on the number and timing of depositions that respondents can take.
- Respondents' limited power to subpoena third parties for records or testimony.

Given these procedural challenges, counsel should continue to prioritize hearing preparations. Administrative proceedings move quickly and a delay could forfeit the limited advantages the amendments provide.

Search New SEC Rule Amendments for more on the amendments.

CLASS ARBITRATION WAIVERS IN EMPLOYMENT AGREEMENTS

A recent Second Circuit decision reminds counsel that the enforceability of an employee's class action waiver of claims against their employer depends on where the waiver is to be enforced.

In *Patterson v. Raymours Furniture Co., Inc.*, the Second Circuit re-affirmed its earlier ruling in *Sutherland v. Ernst & Young* that class action waivers are enforceable despite employees' collective action rights under the National Labor Relations Act (NLRA). The Second Circuit is aligned with the Fifth, Eighth, and Eleventh Circuits in holding that these waivers are enforceable.

The Seventh and Ninth Circuits (in agreement with rulings from the National Labor Relations Board) have held the opposite, citing employees' rights under Section 7 of the NLRA to engage in "concerted activities for the purpose of...mutual aid or protection." This circuit split is the basis of multiple petitions for certiorari to the US Supreme Court.

Counsel at companies with employees located in the Seventh and Ninth Circuits should be aware that challenges to class action and collective arbitration waivers may succeed at least until the Supreme Court resolves the circuit split.

Search Class Arbitration Waivers in the US: Case Tracker for updates on cases related to class arbitration and class action waivers in state and federal courts.

REAL ESTATE

NEGOTIATING LANDLORD CONCESSION PACKAGES

Commercial tenants should consider taking advantage of recent findings from the Savills Effective Rent Index (SERI) 2016 study and begin negotiating landlord concession packages into their commercial leases. According to SERI, after years of a more landlord-friendly landscape, some major markets are starting to favor tenants due to stagnant rent rates and excess commercial space.

Landlord concessions are incentives a landlord offers to entice a tenant to enter into a lease. Concessions come in many forms and depend on various factors, including the parties' bargaining positions and variations in the particular commercial real estate market.

Landlord concessions can include:

- Rent concessions (also called a free rent period or rent abatement).
- An allowance as part of the tenant's initial build-out or customization of the premises.
- Landlord services.
- Amenities offered on the premises or in the building.
- Fewer restrictions on the tenant's ability to assign or sublease the premises.
- Tenant options, including rights of first offer or refusal.

SERI identified certain markets as especially tenant friendly, including:

- **New York.** Rent increases have stalled in Manhattan, with only small increases in 2015, and more commercial space is now available.
- **Houston.** Total rent has decreased and, as a result, landlord concession packages have continued to increase.
- **Washington, DC.** Rent has decreased for the first time in three years, causing concession packages to reach a record high.

Counsel for companies interested in leasing commercial space should be cognizant of the market conditions of the area in which they are leasing and consider negotiating landlord concessions into their lease agreements.

Search What's Market Leases: Trends in Landlord Concession Packages for more on landlord concession trends.

GC Agenda Interviewees

GC Agenda is based on interviews with Advisory Board members and leading experts from Law Department Panel Firms. Practical Law would like to thank the following experts for participating in interviews for this month's issue:

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