

Ballard Spahr
Andrews Ingersoll

ACC AMERICA
Association of Corporate Counsel
Mountain West Chapter



**Third Annual
General Counsel Roundtable**
**Follow Up Outlines and Summaries
For Attendees**
Held June 24, 2009

“Adding Value by Improving Collection: Accounts Receivable in a Down Economy”

Nathan Nelson, General Counsel, Albion Laboratories

101 North Main Street

Clearfield, UT 84015

801.773.4631

nnelson@albionminerals.com

Mark Gaylord, Partner, Ballard Spahr

201 South Main Street, Suite 800

Salt Lake City, UT 84111

801.531.3070

gaylord@ballardspahr.com

“Adding Value by Improving Collection: Accounts Receivable in a Down Economy”

Clearly, this summary is not intended to, nor does it in any way, constitute legal advice. Any reliance upon the material presented below, or in the presentation, is evidence of why you shouldn't have been admitted to practice law. ☺

Click on the statutory references below for a hyperlink to the full text of the statutes.

General fact pattern

Client company seller sells goods or services to buyer. Seller collects 800K, is still owed 200K. Buyer delays payment due to down economy and keeps making promises to pay but does not pay. It's been 70 days since payment was due and CFO enters your office and asks what you can do about it.

Examples of “best practices” shared during the discussion

I. “preventative law”

Prior to the transaction, before extending credit, evaluate the risks and take reasonable precautions

- Whenever client company seller gives anything of value to buyer with promise of later payment, consider upfront risk management procedures and policies
- Evaluate the buyer/debtor
 - Check buyer's entity status with state records

“Adding Value by Improving Collection: Accounts Receivable in a Down Economy”

- Ask for a credit application from buyer
- Run a credit report on buyer
- Run a Dun & Bradstreet (sometimes called a D&B or DNB) on buyer
- Consider personal or parent company guarantees
- Other tools, background searches, court records, skiptracers, etc.
- Ensure your client (Seller) has terms of sale and that they govern the transaction.
 - Every transaction is a contract of one form or another
 - Whether you have an express agreement signed by both parties or you utilize operation of law (ie. UCC) to fill-in the missing pieces of your agreement, you need to ensure that your client’s best interests are protected in this area. Let the business people ACTIVELY decide whether to be obligated to or be restricted by a certain term of the agreement rather than finding your client there because you did not do your job.

II. Even after using preventative measures like those above, if we still find ourselves in the above situation, consider what we can we do, legally? How aggressive can we go after the money owed to us? Are there any rules governing our collections efforts? Federal or State statutes? Contractual obligations, etc.

- Fair Debt Collections Practices Act
 - Is our company client seller a creditor or a debt collector, or both?
 - First party vs. Third Party Collections – From the FDCPA
 - The term “creditor” means any person who offers or extends credit creating a debt or to whom a debt is owed, but such term does not include any person to the extent that he receives an assignment or transfer of a debt in default solely for the purpose of facilitating collection of such debt for another.
 - The term “debt collector” means any person who uses any instrumentality of interstate commerce or the mails in any business the principal purpose of which is the collection of any debts, or who regularly collects or attempts to collect, directly or indirectly, debts owed or due or asserted to be owed or due another.
- Utah Consumer Sales Practices Act

“Adding Value by Improving Collection: Accounts Receivable in a Down Economy”

- (2) (a) "Consumer transaction" means a sale, lease, assignment, award by chance, or other written or oral transfer or disposition of goods, services, or other property, both tangible and intangible (except securities and insurance) to, or apparently to, a person for:
 - (i) primarily personal, family, or household purposes; or
 - (ii) purposes that relate to a business opportunity that requires:
 - (A) expenditure of money or property by the person described in Subsection (2)(a); and
 - (B) the person described in Subsection (2)(a) to perform personal services on a continuing basis and in which the person described in Subsection (2)(a) has not been previously engaged.
- (b) "Consumer transaction" includes:
 - (i) any of the following with respect to a transfer or disposition described in Subsection (2)(a):
 - (A) an offer;
 - (B) a solicitation;
 - (C) an agreement; or
 - (D) performance of an agreement; or
 - (ii) a charitable solicitation.
- (6) "Supplier" means a seller, lessor, assignor, offeror, broker, or other person who regularly solicits, engages in, or enforces consumer transactions, whether or not he deals directly with the consumer.

****There was a question about whether the example of becoming a creditor by one form or another to an individual who used the goods or services sold to him by our client seller in a startup company made us a creditor to a consumer or a business in a purely commercial (non-consumer) transaction. Although maybe not directly on point to the question above, see Slenk vs. Transworld Systems, Inc., 236 F.3d 1072 (9th Cir. 2001). Seriously, read this case; it is very interesting. The Ninth Circuit Court of Appeals held that the business purchased the commercial equipment isn't determinative of whether a "consumer debt" was created. Keep this one in mind folks because the use of the items purchased could throw what you thought was a B2B transaction into being governed by the FDCA (see next bullet point).*

- Fair Debt Collection Practices Act 15 U.S.C. 1692
 - 15 U.S.C. 1692 (e) **Purposes.** It is the purpose of this subchapter to eliminate abusive debt collection practices by debt collectors, to insure that those debt collectors who refrain from using abusive debt collection practices are not competitively disadvantaged, and to promote consistent State action to protect consumers against debt collection abuses.

“Adding Value by Improving Collection: Accounts Receivable in a Down Economy”

- 15 U.S.C. 1692a **Definitions** (5) The term “debt” means any obligation or alleged obligation of a consumer to pay money arising out of a transaction in which the money, property, insurance, or services which are the subject of the transaction are primarily for personal, family, or household purposes, whether or not such obligation has been reduced to judgment.

So, just what type of collection activities might be precluded by application of this rule?
Some items to keep in mind:

- As it relates to communicating with the debtor, pay attention to prohibitions on:
 - Unusual Time or Place
 - Place of Employment
 - Third Parties
 - Disregarding requests to cease communication
- Harassment or Abuse
 - The use of or threat of use of violence
 - Obscene or profane language
 - Causing the telephone to ring continuously
 - meaningful disclosure
- False or Misleading Representations
 - False representation of the character, amount, or legal status of any debt
 - Threat to take an action that cannot legally be taken or that is not intended to be taken
- Unfair practices
 - Collection of any amount unless expressly authorized by the agreement creating the debt or permitted by law
 - communication by post card
 - Language or symbol on envelopes
- Be careful of requirements to validate debts
 - within five days after initial communication
 - written notice containing certain information (see 1692g(a))
 - Amount & Name of Creditor
 - Assume valid, unless disputed
 - Verification
- Be aware of the civil liability of your client potentially available to debtor – 1692k
 - Actual damages
 - Additional damages not exceeding \$1,000
 - Court costs & Reasonable Attorney’s fee

“Adding Value by Improving Collection: Accounts Receivable in a Down Economy”

- Class action

What’s your “out” from the above liability? Will it be available to you?

- *1692k(e) A debt collector may not be held liable in any action brought under this subchapter if the debt collector shows by a preponderance of evidence that the violation was not intentional and resulted from a bona fide error notwithstanding the maintenance of procedures reasonably adapted to avoid any such error.*

Other statutory considerations

- Gramm-Leach-Bliley Act
- Fair Credit Reporting Act
- Fair and Accurate Credit Transactions Act
- Bankruptcy statutes
- The Health Insurance Portability and Accountability Act of 1996 (HIPAA) Privacy Rule

III. Third, after having used preventative strategies to manage the risk, and understanding what collection activities we can or cannot engage in, what next? Some thoughts shared were:

Investigate, investigate, investigate.

- What do the business people want?
 - Preserve the relationship with a key customer
 - Scorched earth collection efforts—we don’t care if we ever do business with these people again
 - How much money, time, and effort do they want spent towards going after the debt?
 - WE TYPICALLY DO NOT WANT TO THROW GOOD MONEY AFTER BAD
- What are the business people telling us about the situation and is it a true picture
 - Do our people have clean hands?
 - If not, where are our people’s skeletons buried? What kind of damage will the skeletons do in a collections case
- What is the likelihood of recovery
 - Who is the debtor?
 - Do your homework, research readily available information

“Adding Value by Improving Collection: Accounts Receivable in a Down Economy”

- Are they going bankrupt
- Is there a pending sale of the company or all of its assets
 - If so, what can you do to through a wrench into the deal until your paid or how else can you leverage it?
 - Should you contact the acquirer? What are the risks in doing so? Are they outweighed by the potential benefits?
- Can you win a battle against the debtor?
 - Find out from business people and other sources as much information as you can about the debtor
- Look at the T&Cs governing the transaction
 - Who’s govern? PO and buyer’s terms of purchase or Seller’s terms of sale
 - Go through the UCC battle of the forms analysis (if applicable)
 - Attorneys’ fees, costs and expenses available to client Seller? Before and after judgment.
 - Interest charges, timeframe before interest starts accruing, etc.
 - What defenses might debtor claim? Look at force majeure, etc.
 - other hammers or leverage points available in the T&Cs?
 - Choice of law
 - Choice of forum
 - Default defined

IV. After determining the likelihood of recovery, we might want to consider who is best suited to attempt to recover the debt and in what form.

- Is it time for a quick short phone call to management at the debtor company?
- Should we send a demand letter?
 - Basic demand letter analysis
 - Tone, how will it be perceived by business people on both sides
 - Will it get a result
 - Will it trigger right for debtor to file dec action
 - Basic elements of a demand letter
 - Parties, basic elements of dispute/demand, specific action demanded with timeframe/deadline and consequence of non-action

“Adding Value by Improving Collection: Accounts Receivable in a Down Economy”

- In-house vs. Outsource Collection Model
 - File suit on behalf of your client?
 - Use a law firm?
 - Documentation (media)
 - Forward costs
 - Blanket suit authorization
 - Litigation decisions
 - Break out “the secret weapon” (inexpensive local collections attorney)
 - Working on straight contingency?
 - Use a collection agency?
 - Sometimes charge as high as 50% of the recovery
- Do we go to small claims court? Not in the example we discussed. But keep in mind the benefits/perils associated with small claims court.

Ultimately, the game here is to quickly and efficiently inform our client of whether there is a likelihood of recovery and the manner and mode of that recovery or to inform the client that the debt is best written off. The sooner we provide the client with that empowering information, the better. Doing full, deep analysis of the matter in a timely manner—that’s where we add our value.

“Protecting Brands Domestically and Overseas in a Brave New Cyberspace World”

Joe Zeidner, General Counsel, 1-800 Contacts

66 East Wadsworth Park Drive, 3rd Floor
Draper, UT 84020
801.858.2113
joe@contacts.com

Michelle Wilson, Associate General Counsel, Xango

3098 West Executive Parkway, 2nd Floor
Lehi, UT 84043
801.816.8000
michellew@xango.com

Barbara Bagnasacco, Partner, Ballard Spahr

201 South Main Street, Suite 800
Salt Lake City, UT 84111
801.517.6831
bagnasaccob@ballardspahr.com

Mary An Merchant, Partner, Ballard Spahr

999 Peachtree Street, Suite 1000
Atlanta, Georgia 30309
678.420.9428
merchantm@ballardspahr.com

“Protecting Brands Domestically and Overseas in a Brave New Cyberspace World”

1. How to Protect Your Mark in a Foreign Country

The problem: A company in a foreign jurisdiction registers a website containing your mark (or a confusingly similar mark), or uses your mark (or a confusingly similar mark) in commerce in a manner that is likely to confuse a consumer.

Some solutions:

- a. If you have registered your mark and/or your domain name in that foreign country, you can enforce your rights against the infringer, as well as the registrar that issued a domain name containing your mark to the infringer, according to the rules of ICANN (Internet Corporation for Assigned Names and Numbers), which provides a fairly simple means to resolve domain name disputes.

“Protecting Brands Domestically and Overseas in a Brave New Cyberspace World”

However, many foreign jurisdictions will offer protection for your registered mark only if that registered mark is actually “used” for commercial purposes in the country; registration is not in itself sufficient to protect the mark. As a general proposition, to show “proof of use” of its mark, a company will need to provide invoices, shipping labels, marketing materials, etc. One of the general counsels participating in the discussion noted how his company reacted to an infringer of their mark in Australia by purchasing advertising in Australia, which promptly generated sales, thus enabling his company to prove its use of the mark in that country and to enforce its rights in the mark.

- b. If you have NOT registered your mark in the foreign country, but you did register your mark in the U.S., you will enjoy some common law protection against the infringer, depending on the country.
 - c. Sending a “cease and desist letter” to the infringer is an effective first step, particularly with infringers that are smaller businesses. Cease and desist letters often are sufficient to deter the infringer from continuing to use your mark, or lead to productive negotiations.
 - d. If a cease and desist letter is not effective, be prepared to file a lawsuit against the infringer. If the mark is registered, a U.S. federal court will have jurisdiction. Companies whose businesses heavily depend on their trademarks tend to be more aggressive with litigation. Ultimately, selecting which marks to protect more aggressively and in which circumstances is a business decision, partially driven by budget considerations.
 - e. If the infringer in the foreign country uses your mark to counterfeit your products and tries to sell the counterfeited goods back in the U.S., you can also seek the assistance of the U.S. Borders authorities, if you have registered your mark with them.
 - f. In China, it is best to be affiliated with a Chinese company in order to effectively enforce your trademarks.
2. How to Manage Expectations on Brand Protection Within Your Company.

Registering, maintaining and enforcing your company’s marks is expensive, particularly if the company owns a substantial portfolio, as a result of organic growth or acquisitions. Participating general counsels discussed some best practices on how to manage the marketing and other departments’ expectations with respect to trademarks, including:

“Protecting Brands Domestically and Overseas in a Brave New Cyberspace World”

- a. educating the marketing department and management as to the process and costs associated with registering and enforcing trademarks domestically and internationally and building a relationship based on knowledge and trust, so that the legal department is not viewed as an obstacle (the “no department”) when the company decides to create a new trademark.
 - b. Charging fees for the administration of trademarks or transferring the trademarks budget to the marketing department so as to increase awareness within the company.
 - c. Encouraging the marketing department to use marks that combine the company’s name with a mark tailored for a specific product, so that the second part of the mark can be dropped when products are abandoned or modified.
 - d. Creating a database and/or a master affidavit with substantive applicable information, which can be quickly updated or integrated with local markets’ information when a request is submitted internally for a new trademark.
3. Protecting Your Trademarks on the Internet; Legislation as an Alternative Solution.

- a. Use of Trademarks as a “Keyword” in Search Engines. It is now common practice for competitors to purchase your trademark as a keyword from a search engine. See Joe Zeidner’s handouts on the subject.

In addition to the filing of keyword search-related lawsuits, which may result in substantial settlements but which are also very time consuming, legislation may soon become an alternative remedy in Utah. 1-800 CONTACTS has proposed a legislation restricting the use of trademarked terms to target online ads to Utah residents. If it passes, the legislation will prevent advertisers targeting Utah users from buying Utah-registered trademarked terms. Companies such as AOL, eBay, Google, Microsoft, and Yahoo strongly oppose it. For more information about the proposed legislation, please contact Joe Zeidner.

- b. Typo Piracy. It is advisable to register you principal marks also based on how consumers spell them. Protection against typosquatters is offered under cybersquatter laws.
- c. Top Level Domains. A top-level domain is the highest level of domain names in the root zone of the Domain Name System of the Internet; it is the last part of the domain name, that is, the label that follows the last dot of a

“Protecting Brands Domestically and Overseas in a Brave New Cyberspace World”

fully qualified domain name (for example, .com, .net, etc.). ICANN has opened the market to new top level domains (for instance, .vegas, which is now active). In order to obtain and administer a new top level domain, a company must have a server and supporting technical team and obtain the vote of 60% of the major players in the applicable industry.

- d. Social Networks. New issues are emerging with the use of companies’ marks on Facebook and other social networks. Many businesses are registering their mark with Facebook, are developing applicable policies and procedures and are actively monitoring the use of the mark, particularly by employees.
- e. Second Life. Second Life is a free 3D virtual world imagined and created by its residents, millions of real people from around the world; each person is represented by an avatar that represents their chosen digital persona. In Second Life, it is possible to buy and sell products, purchase land, exchange money, etc., which will trigger new IP issues related to the use of and infringement upon trademarks.

“In-House Contract Management Pitfalls”

Stan Soper, Vice President Legal Affairs, Nutraceutical Corporation

1400 Kearns Boulevard, 2nd Floor
Park City, UT 84060
800.669.8877
ssoper@nutracorp.com

Anthony Kaye, Partner, Ballard Spahr

201 South Main Street, Suite 800
Salt Lake City, UT 84111
801.531.3069
kaye@ballardspahr.com

OUTLINE

“In-House Contract Management Pitfalls: Best Practices in Reducing Contract Dispute and Litigation Risk in Reviewing, Negotiating and Approving Agreements Throughout Your Organization”

Stan Soper and Tony Kaye welcomed participants and stated that the discussion would revolve around three central topics: (1) improving the quality of contracts, (2) keeping track of contracts and (3) managing risks, liabilities and obligations associated with contracts. Below is a summary of the feedback, ideas and suggests shared by participants in the discussions that ensued.

- i. hCue
- ii. eCounsel
- iii. Synergy
- iv. Encarta
- v. Hummingbird

SUMMARY

Drafting

Where multiple persons in a business are responsible for negotiating contracts, prepare a binder containing contract negotiations guidelines. The binder can contain:

- Standard language for company contracts.
- Explanation of legal reasoning behind provisions.
- Alternative provisions for negotiating purposes.

"In-House Contract Management Pitfalls"

- Include lawyers and business persons on team and require them to follow the playbook
- When contracting with large companies where you have little bargaining power, be prepared to accept most terms, but have alternative language for issues of paramount importance to propose for inclusion in an addendum. In such cases, take care to advise company management of the terms of the contract before signing.
- Checklists that can be used to make sure final version has key contractual terms.
- Consider ongoing training and education of junior lawyers and contract personnel regarding important contracting legal and drafting issues.

Signature Authority

- If running a volume business, sale managers may have signature authority, unless terms are amended, in which case contract should be signed by an officer.
- Avoid problems with apparent authority by having employees disclose their lack of authority in form language at the bottom of their emails.
- Include language regarding lack of authority in letters of intent, where appropriate.
- For smaller companies, risk can be minimized if employees are made personally liable for contracts any they sign without authority.
- Consider escalation or approval requirement based on certain pre-defined triggers (dollar amount, term, etc.)

Enforcement of Contracting Rules

- Include compliance as part of the company's incentive plan.
- E.g., salesperson who fails to comply loses commission.
- Include compliance requirements in employment manual.

Dispute Resolution

- Arbitration tends to be more expensive and less predictable than litigation, so many participants felt that arbitration clauses are to be avoided absent a compelling reason to include one, such as in a consumer contract where the company desires to avoid class actions, or when contracting in foreign countries, where international arbitration may be preferable.
- Arbitration decisions are unappealable, making arbitration more risky.
- Requiring mediation prior to initiating litigation can be effective, particularly in the current economy, provided care is used in selecting a mediator. A poor mediator will try to force the parties to "split the difference" in most cases.
- Companies must consider the jurisdiction in which they are doing business before deciding whether to include/exclude an arbitration clause. For example, arbitration may be preferable to litigating in the California court system.

“In-House Contract Management Pitfalls”

- To avoid being "home cooked," consider including a forum selection clause that requires the party initiating a lawsuit to litigate in the other party's state.
- Some participants suggested if you are going to include arbitration or mediation clauses, include a provision that it will be pursued if the parties “mutually agree.”

Management of Contracts

- There does not seem to be a perfect system available to manage a large volume of contracts. Some members shared the fact that they had tried expensive contract management programs and had not had good success. One participant mentioned her company had spent almost \$200,000 trying to implement a solution and it still didn't work. Another participant was having good success with an Oracle database.
- Using Excel and Outlook works reasonably well, even for large companies with a large number of contracts. There was some concern expressed about making sure that backup copies are kept. Also that the documents are well-managed with only certain users being authorized to make edits and others having read-only rights. Contract Advantage is another web-based option for managing contracts. This software provides a backup function, user licenses, unlimited storage, ticklers, and other useful functions. Stan Soper mentioned that an online paper on contract management at ACC.com referred to the following software programs: hCue, eCounsel, Synergy, Encarta and Hummingbird. No participants had any experience with any of these programs. Stan Soper mentioned his company is using Time Matters from LexisNexis with some success.
- Contracts may be stored in electronic form, but most companies still prefer to maintain a hard copy as well.
- Most participants did not feel it was necessary to keep original signatures any longer as long as legible copies were kept, although it was pointed out that contracts should include a “facsimile signature copies are acceptable” clause in order to ensure this is a valid approach.
- Care should be used in emailing contracts to employees, as emails containing confidential information may be easily and carelessly forwarded on/
- If access to contracts on the company's system is to be limited, use "permission levels," such as in Microsoft Sharepoint or in an Oracle environment.

Risk Management

- Who reviews contracts depends on the size of the legal department and the nature of the contract in question.
- Need for review by in-house legal is often determined based on the time of the contractual commitment and/or the dollar amount of the commitment.
- Risk can be minimized if the department responsible for the contract assumes financial responsibility for the contract. I.e., if the contract results in a loss, the loss is assigned to the department that negotiated it.

“In-House Contract Management Pitfalls”

- In a smaller company, risk can be minimized if employees are made personally liable for contracts any they sign without authority.
- There was some discussion of the need to scrub drafts of “meta data” prior to sharing with the opposite party; otherwise they can see the history of changes, who made them, etc...
- Some participants suggested it is important to advise senior management of risks regarding particular contracts prior to signing, and keep documentation of the advice given

International Contracting

- Start with a standard agreement.
- For each country in which the agreement is to be used, retain local counsel and tailor the contract as necessary.
- Consider including an arbitration provision requiring arbitration in accordance with International Arbitration Rules.

“In-House Contract Management Pitfalls”

Resources Available at the ACC website on this Issue:

- Contract Management Overview:
<http://www.acc.com/legalresources/resource.cfm?show=398657>
- Contract Management Software Review:
<http://www.acc.com/legalresources/resource.cfm?show=268127>
- Contract Management for Small Law Departments:
<http://www.acc.com/legalresources/resource.cfm?show=16797>