

WHAT'S NEW AT THORP REED & ARMSTRONG, LLP

March 2005 In Your Court

Walter D. Enick, Ira B. Silverstein, James S. Ettelson have joined Thorp Reed & Armstrong as partners, and Lisa Carney Eldridge was hired as senior counsel.

Mr. Enick (Pittsburgh) represents financial institutions and owners in commercial real estate, business/corporate loans and leasing transactions. **Mr. Silverstein** (Philadelphia) concentrates his practice on complex commercial litigation with a particular emphasis on reinsurance fraud and insider misconduct. **Mr. Ettelson** (Philadelphia) practices in the areas of corporate and business law with an emphasis on equity and debt finance negotiation, business organization and counseling, and lease/sale negotiation and agreement preparation to land use and zoning issues. **Ms. Eldridge** (Philadelphia) practices in complex and general commercial litigation, with a special interest in insurance insolvency and commercial fraud.

Four attorneys from the Pittsburgh office have been selected to partnership: Sarah "Sally" Lockwood Church, Anthony A. Ditka, Sean M. Girdwood and Allen M. Lopus.

Ms. Church concentrates her practice on employee benefits and executive compensation.

Mr. Ditka focuses his practice on tax-exempt financing of municipal projects, including schools, municipal buildings and recreational facilities.

Mr. Girdwood's practice focuses primarily on corporate and commercial finance.

Mr. Lopus' work focuses on medical malpractice, nursing home defense, product liability, mass tort, benefits and general commercial litigation.

Barry Cohen, a partner in our Philadelphia office, has been named a "Lawyer on the Fast Track" by *The Legal Intelligencer*. This award is

bestowed upon Pennsylvania lawyers under 40 who have "shown outstanding promise in the legal profession and as having made a significant commitment to the community-at-large."

Thorp Reed & Armstrong, LLP is pleased to be part of the Allegheny County Bar Association's **Diversity Initiative**, by signing a pact with specific goals to increase the number of minority attorneys employed by local law firms, government agencies and corporate law departments. Our commitment to diversity in signing this pact includes the following objectives: recruit minorities; hire minorities; strengthen mentoring programs; support collective efforts of the bar association; and submit data to measure progress.

Congratulations to **Jeff Conn**, a partner in our Pittsburgh office, on being named a "Fast Tracker" — one of the region's front-runners — by the *Pittsburgh Business Times*!



Continuing with our 110-year tradition of responsible law, Thorp Reed & Armstrong has recently co-pioneered an innovative pro bono project called "Lawyers on Loan." For an entire year, Thorp Reed & Armstrong, LLP associate **Jennifer Aitken Schnore** will work full-time for the Neighborhood Legal Services Association (NLSA). NLSA is a private, non-profit corporation, which provides free legal services to victims of domestic violence, vulnerable elderly and income-eligible residents of Allegheny, Beaver, Butler and Lawrence counties. This is the first time a law firm has donated an experienced lawyer to work for a local legal services organization for this amount of time.

Please visit www.thorpreed.com to learn more about the Lawyers on Loan Project.

EMPLOYERS BEWARE:

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law. The employer's insurance company refused to defend the action and denied coverage based on the employee exclusion clause contained in the CGL policy. The employer argued that the exclusion was contrary to public policy and to the Pennsylvania Legislature's intent to provide the greatest amount of coverage to employees injured on the job.

However, the Superior Court declared that while the Legislature's intent was to protect employees, the means by which to achieve that result was through the requirement that employers provide workers' compensation insurance. The Court cited to a prior case it decided, stating that "to find otherwise would encourage employers to ignore their obligation to obtain workers' compensation insurance and rely on their general liability policy, which in turn necessarily would require a higher premium schedule reflecting the additional risk." Therefore, the Court held that the employee exclusion contained in the CGL policy was not void as against public policy, and that the waitress could seek damages for her injuries directly from her employer.

Hogan demonstrates the importance for employers to carry a sufficient amount of workers' compensation insurance. Employers should also review their CGL policy's language to determine exactly which persons and what types of injuries are covered. If there appears to be a gap in coverage between workers compensation and the CGL policy, the employer should obtain additional insurance.

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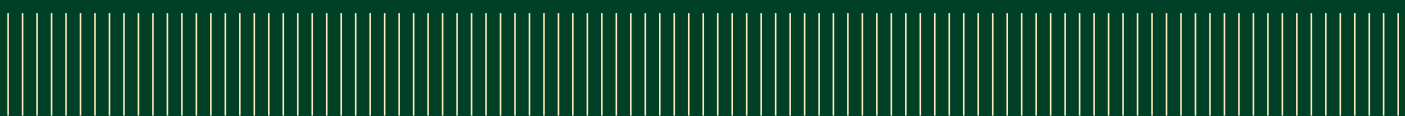
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THORP REED & ARMSTRONG, LLP TRADITION

Since 1895, Thorp Reed & Armstrong, LLP has been defined by a tradition of high standards, hard work and client commitment. Our attorneys practice law in a manner that earns the respect, trust and appreciation of clients, peers and those who live in our communities.

Over the years, Thorp Reed & Armstrong attorneys have gained a reputation as “lawyer’s lawyers” — lawyers who exemplify the profession’s best practices, and lawyers that other lawyers turn to when they need counsel.



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SUPREME COURT:

Proof Of Absence Of Confusion Is Not Good Faith Defense To Trademark Infringement

By Kevin P. Allen, Esq.

In *KP Permanent Make-Up, Inc. v. Lasting Impression I, Inc.*, No. 03-409 (Dec. 8, 2004), the United States Supreme Court held that to assert the trademark infringement defense of fair use, contained in 15 U.S.C. § 1115(b)(4), a defendant need not prove the absence of a likelihood of consumer confusion resulting from its use of a plaintiff's mark. The good faith defense allows the use of a trademark to fairly describe the goods or services of another in good faith. The Court found that the language of the statute made no reference to any burden on the defendant to prove an absence of consumer confusion resulting from its use of a mark. Rather, the Court observed that the relevant Congressional subcommittee had expressly rejected a proposal containing such a requirement. The Court also rejected the Respondent's contention that the statute's requirement that the trademark be "used fairly" incorporated common

law notions concerning the use's likelihood of deceiving the public. Finally, the Court observed that to require proof of an absence of consumer confusion would be anomalous given that, prior to the defendant's assertion of the defense, the plaintiff would have been required to prove a likelihood of confusion to support its prima facie case. In conclusion, the Court noted that its holding resulted in a rule under which some amount of confusion could co-exist with a defendant's successful assertion of the fair use defense. Thus, the Court clarified the fair use defense in a manner likely to limit trademark liability and to enhance opportunities for competitive advertising.

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EMPLOYERS BEWARE:

Commercial General Liability Policy May Not Protect From Employee Lawsuits

By Jeffrey J. Lorek, Esq.

An employer's first and foremost line of defense against a lawsuit brought by an employee injured on the job is workers' compensation insurance. But what happens when an employer finds itself in a situation where it has failed to carry workers' compensation insurance sufficient to protect the employer from liability in the face of a serious workplace accident? A Pennsylvania statute allows the injured employee to bring an action against the employer. See 77 PA. CONS. STAT. § 501. Furthermore, if the employer's commercial general liability ("CGL") policy contains an employee exclusion, the employer may be personally liable for compensating the injured employee for all damages claimed, and therefore out of luck.

The employee exclusion is a standard clause inserted in CGL policies that generally permits an insurer to deny coverage for bodily injury sustained by an employee during the course of employment. Employee exclusions are alive and well in Pennsylvania. The Pennsylvania Superior Court recently affirmed that an employee exclusion is not void as against public policy. See *Certain Underwriters at Lloyds v. Hogan*, 852 A.2d 352, 355 (Pa. Super. 2004). In *Hogan*, a waitress was injured when she fell twelve feet through a trap door in the floor that had been left open by a co-employee. When the waitress' employer failed to provide workers' compensation to her, she properly brought an action against her employer under Pennsylvania (continued on page 2)

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By Peggy C. Heminger, Esq.

Do you have a litigation question that you would like to see addressed in future issues of In Your Court? If so, contact Barry L. Cohen at bcohen@thorpreed.com or 215.563.6711.

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ELECTRONIC DISCOVERY: Why Every Company Should Know Ms. Zubulake

By *Barry L. Cohen, Esq.*

Over the past two years, Judge Shira A. Scheindlin of the United States District Court for the Southern District of New York has issued a series of rulings regarding electronic discovery in the case of *Zubulake v. UBS Warburg*. While the case is based in New York, it nonetheless has broad implications because Judge Scheindlin is regarded as one of the leading jurists on the topic of electronic evidence.

Ms. Zubulake filed a relatively run-of-the-mill employment discrimination case against her former employer, UBS Warburg. Specifically, Ms. Zubulake was a former equities trader who sued for gender discrimination and retaliation based on federal and state law. There is nothing unique about her allegations and it is for this reason that Judge Scheindlin's opinions are worth reading — in other words, the Court's decision could apply to almost any company for a wide variety of legal matters.

Despite the fact that this is a routine discrimination case, discovery has been ongoing for two years and Judge Scheindlin has issued five opinions already.

As part of her discovery request, Ms. Zubulake requested copies of all documents concerning any communication by UBS employees regarding Ms. Zubulake. While UBS produced over 100 pages of e-mails, Ms. Zubulake knew that others existed. UBS claimed an undue expense and burden in producing records that had been archived and requested to shift the cost of production to Ms. Zubulake. Judge Scheindlin disagreed and ordered UBS to produce all such records, including those electronic records which were saved on backup tapes.

In its attempt to restore its e-mail files from backup tapes in order to comply with Ms. Zubulake's discovery request regarding employee e-mails, UBS discovered that some backup tapes were missing and some e-mails had been deleted. Accordingly, Ms. Zubulake

moved for evidentiary and monetary sanctions. Again Judge Scheindlin sided with Ms. Zubulake and ruled that UBS had a duty to preserve such evidence including company e-mails and backup tapes. While Ms. Zubulake did not file her EEOC charges until August 2002, this duty to preserve should have been imposed as of April 2002, when the company should have known that Ms. Zubulake might file a lawsuit. Judge Scheindlin also found that UBS failed to follow its own record retention policy, which would have prevented the destruction of the evidence. However, since Ms. Zubulake could not prove that the missing e-mails supported her allegations of discrimination, the Court did not order an adverse jury instruction. However, the Court required UBS to pay for Ms. Zubulake's costs associated with re-deposing certain witnesses on the topic of the destroyed evidence.

Having gathered evidence regarding the missing e-mails and backup tapes, Ms. Zubulake again moved for sanctions including an adverse jury instruction. Judge Scheindlin focused on whether or not UBS and its outside counsel took all necessary steps to protect the relevant documents and to ensure that those records were produced. The Court found that immediately after Ms. Zubulake filed her EEOC charge (prior to the filing of the Federal Complaint), UBS' counsel instructed its employees not to destroy or delete documents that were relevant to Ms. Zubulake's charge. This warning referenced electronic records and hard copy records, but it failed to specifically mention backup tapes kept by UBS' IT department. UBS' counsel even met with "key players" to remind them not to destroy relevant documents, including e-mails. Yet, despite these instructions, the Court reprimanded UBS and its counsel for failing to preserve e-mails and other evidence contained on backup tapes.

Judge Scheindlin then held that counsel must take affirmative steps to monitor compliance, making sure that all sources of discoverable

information are identified and placed on hold. It is not sufficient to notify employees of a litigation hold and expect the party to retain and produce all relevant information. To do this:

1. Counsel must first issue a litigation hold at the beginning of the litigation or at the time that litigation is reasonably anticipated. The Court found that this occurred several months before Ms. Zubulake even filed her EEOC Charge.
2. Counsel must communicate directly with "key players" to ensure that they preserve all relevant information. In addition, these "key players" must be periodically reminded of their preservation duty.
3. Counsel must also instruct all employees to produce electronic copies of their relevant active files.
4. Counsel must make sure that the company's backup media is retained, identified and properly stored in a safe place.

Judge Scheindlin applied these standards to both outside and inside counsel and found that they failed to communicate the litigation hold with the "key players" and that UBS willfully destroyed potentially relevant information. The Court ordered UBS to pay for costs associated with re-deposing witnesses and awarded attorney's fees regarding plaintiff's motion. Finally, the Court also ordered an adverse instruction to be given to the jury.

It is important to emphasize that Zubulake was not a bet-the-company case. Rather, it was a routine employment discrimination case and that these requirements could be applied to any type of litigation faced by most companies on any given day.

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CONFESSION OF JUDGMENT: A Powerful Tool In Commercial Transactions

By Kristin M. McCormish, Esq.

A warrant of authority to confess judgment in a commercial contract, such as a promissory note, agreement of sale or a lease, is a powerful tool by which to enforce compliance with the terms of the contract or to obtain a judgment with less time and expense than pursuing a breach of contract action.

A contractual provision authorizing the entry of judgment by confession permits a party to whom funds are owed to bypass the usual, and time-consuming, civil litigation process that generally precedes the entry of judgment. Rather, that party may file a complaint against the breaching party and obtain a judgment immediately, without prior notice to the breaching party (unless prior notice is required by the terms of the contract) or a hearing. The non-breaching party files a complaint in confession of judgment, and judgment is immediately entered against the breaching party.

However, because the breaching party does not receive the due process protections of prior notice and a hearing before the entry of judgment, courts require strict compliance with

legal formalities relating to confessions of judgment. Although not entitled to prior notice and a hearing, a party against whom judgment is entered is not without recourse once the judgment is entered. That party may seek to strike or open the judgment by asserting, for example, that the warrant of authority to confess judgment was not enforceable, that no default existed or that the legal formalities required for entry of a judgment by confession were not met. If the party against whom judgment was entered meets the required legal standards, the court may, depending on the circumstances, strike the judgment or open the judgment and hold a trial on the merits of the dispute. Significantly, if the judgment is merely opened, rather than stricken, the judgment remains of record while the parties' dispute is litigated. Thus, even though the non-breaching party may be required to establish his case at trial, the lien of the judgment remains in effect.

Where a guaranty agreement is executed in connection with a commercial transaction, the guaranty agreement may also contain a confession of judgment clause. The guaranty agreement itself should contain a separate

confession of judgment clause. That is, the confession of judgment clause in the underlying agreement should not be relied upon to confess judgment against a guarantor. A confession of judgment entered in connection with a guaranty agreement is often challenged by the guarantor, who wants to avoid personal liability. Recently, in *Stahl Oil Co., Inc. v. Helsel*, 860 A.2d 508 (Pa. Super. 2004), the Superior Court of Pennsylvania rejected guarantors' claims that they signed the guaranty agreement as corporate officers and should not be held individually liable.

Judgment by confession is only available in a commercial transaction. A judgment by confession may not be entered in a "consumer credit transaction." Similarly, a judgment by confession for ejection cannot be entered with respect to a residential lease. However, with respect to commercial agreements, proceeding on a confession of judgment provision is an effective means to enforce one's legal rights and remedies.

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FULL AND ACCURATE DISCLOSURE: Protecting The Rights Of Businesses To Commercial Information

By J. Alexander Hershey, Esq.

Business leaders are well aware of the central role played by information in the decision making, operations, and marketing efforts of commercial enterprises. While the term "information age" is often associated with the modes of communication offered by our technologically-advanced society, it is the substantive information and knowledge exchanged that is often crucial in the success or failure of a particular business.

Information that the law requires be accurately disclosed. The law of fraud and misrepresentation protects businesses against harm resulting from the failure of an individual or entity to make full and accurate disclosure of material information. Under the common law,

a party may be liable for knowingly, recklessly, or negligently making inaccurate statements upon which a business counterpart reasonably relies to its detriment. Where a party speaks, or where circumstances require that the party speak to be fully forthcoming, the law will require accurate disclosure of all relevant pieces of information and will award appropriate relief where truthful information is withheld.

These obligations have been formalized under state and federal statutes in various circumstances, including the sale of investment securities, governmental procurement, public reimbursement and entitlement programs, and advertising and consumer protection. As a

result of such statutory provisions and common law principles, businesses should be careful to make only complete and accurate representations in their business dealings and to assert against others their right to accurate information.

Information that the law protects against disclosure. Under certain circumstances a business may be entitled to relief where confidential information is improperly released or misappropriated. Pursuant to agreements often executed in employment and business arrangements, employees or business counterparts may owe contractual duties of confidentiality to the owner of valuable proprietary information. If the information is

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improperly released to third-parties, the owner may be entitled to relief for injuries suffered pursuant to the terms of the agreement.

In addition, under tort law, a party may be entitled to protection of valuable trade secrets where proprietary information provides a clear commercial benefit, the owner of the information takes steps to safeguard its confidentiality, and the information is improperly misappropriated by another. Thus, in appropriate circumstances, the law will protect the owner of valuable confidential

information against its improper release.

Information that the law protects against use by third-parties. Finally, the law provides certain parties with exclusive rights to various forms of information known to the public. Most notably, the law will prevent the infringement of patent, copyright or trademark rights.

A patent is a negative right. It is the right to exclude others from making, using, selling, offering to sell and importing the claimed invention. A copyright provides an exclusive

right to use a creative expression recorded in a tangible medium of which the claimant is the author or assignee. A trademark provides an exclusive right to use a commercial mark or trade dress that signifies to consumers in the relevant market that the labeled product or service emanates from a single source, often with a good will or commercial reputation known to the consumer.

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DIRECTORS WITH SPECIALIZED EXPERTISE:

Beware!

By Peggy C. Heminger, Esq.

Following the passage of the Sarbanes-Oxley Act of 2002 and its impact on the corporate governance of publicly-traded companies, directors have become more concerned about the personal liability that could arise from actions taken as members of the board. In *In Re Emerging Communications, Inc. Shareholders Litigation*, No. Civ. A. 16415 (Del. Ch. May 3, 2004 revised June 4, 2004), a Delaware Court suggested that a director with specialized expertise may be held to a higher standard of fiduciary duty than other directors on the board.

Emerging Communications, Inc. ("ECM") was a publicly-traded company that owned and operated several telecommunication businesses. Jeffrey J. Prosser, ECM's Chairman and CEO, also owned a holding company which owned 52% of ECM. Based upon his experience, Prosser recognized that ECM stock was undervalued and proposed a private acquisition of the publicly-owned shares of ECM, whose Board consisted of Prosser and six other individuals.

ECM's board appointed a special committee of three directors to review the proposed transaction. After receiving a fairness opinion from ECM's financial advisors, the special

committee recommended that ECM's board approve the proposed transaction, which it did. The transaction was thereafter consummated after receiving stockholder approval. Former ECM stockholders then filed suit seeking, among other things, a ruling that the ECM board had breached its fiduciary duties by agreeing to an unfairly low price.

In analyzing the potential liability of each of ECM's directors, the Court concluded that one of the directors, Salvatore Muoio, among others, had breached his duty of loyalty and/or good faith. Muoio was a principal and general partner of an investment advisory firm and had over ten years of experience in the telecommunications sector, including service as a securities analyst and as the portfolio manager of a telecommunications mutual fund.

The Court found that Muoio possessed a specialized financial expertise and an ability to understand ECM's intrinsic value that was unique to ECM board members. Muoio was culpable because he knew, or at the very least had strong reasons to believe, that the \$10.25 per share merger price was unfair. Muoio had conceded during the trial that \$10.25 was at the low end of the fair value range, and expressed his view to a member of the special

committee that the special committee might be able to get up to \$20.00 per share.

The Court found that it was "incumbent upon Muoio, as a fiduciary, to advocate that the board reject the \$10.25 price" recommended by the special committee. Based on the evidence, the Court concluded either (i) that Muoio had made an affirmative decision that it was in his best interest to demonstrate his loyalty to Prosser by not advocating a higher price or (ii) that he "consciously and intentionally disregarded" his responsibility to protect the minority stockholders from a risk, of which he had unique knowledge, that the transaction was unfair. According to the Court, under either scenario, Muoio had violated his duty of loyalty and/or good faith.

It is not possible to predict the extent to which this case will be used to apply a higher standard for directors or the extent to which this case will be adopted in jurisdictions outside of Delaware. However, those directors with specialized expertise should be cognizant of the possibility that such a higher standard may be applicable to them.

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