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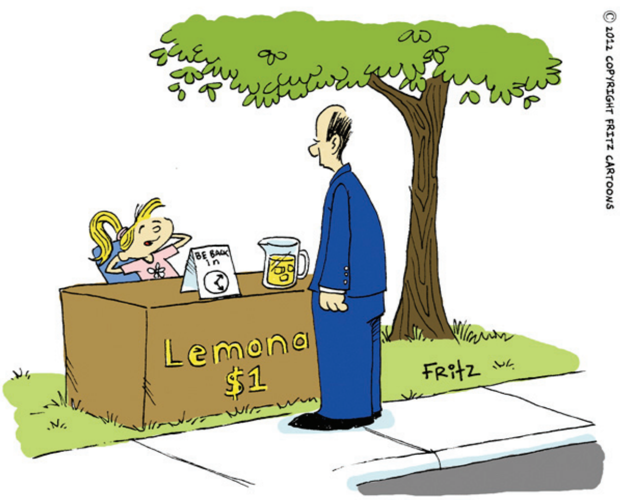

I'M CURRENTLY ON MY REQUIRED REST BREAK.

In This Issue

Brinker: Meal and Rest Periods Clarified, But...

Paul Bressan and Cynthia Fair Moir

On April 12, 2012, the California Supreme Court issued its long-awaited decision in *Brinker Restaurant v. Superior Court*. The unanimous decision provides welcome relief to employers with respect to their obligations in providing meal periods and rest breaks, and the timing of those meal periods and rest breaks. However, in addressing the class certification issues, the Court stopped short of making determinations that effectively would have sounded the death knell to class actions based on issues concerning meal periods and rest breaks.

Meal Periods

1. Scope of an Employer's Duty

The Court first considered what it means for an employer to provide a meal period to a nonexempt employee. Rejecting the plaintiff's argument that an employer is obligated to "ensure" that the employee stops work for 30 minutes, the Court held that an employer must relieve the employee of all duty for the designated meal period, but need not ensure that the employee does no work during the meal period. More specifically, the employer must relieve the employee of all duties, relinquish control

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Dodd-Frank and Bankruptcy Law

Benjamin S. Seigel, Jeffrey B. Kirschenbaum and Anthony Napolitano

This article is the second in a series discussing the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank"). The first, entitled, *Banker Beware: Bank Practices Under Increased Scrutiny as Dodd-Frank Implementation Begins*, written by Jeffrey Kirschenbaum appeared in the Winter 2012 edition of *Points & Authorities*. This article provides an overview of Title II and Title X of the Dodd-Frank as their provisions relate to bankruptcy law and issues.

Troubled Financial Companies—Title II

Dodd-Frank contains over 2,000 pages and deals with numerous areas of federal regulation including legal guidelines for financial and non-financial companies, instructions to various existing federal agencies to develop regulations to enforce provisions of Dodd-Frank and

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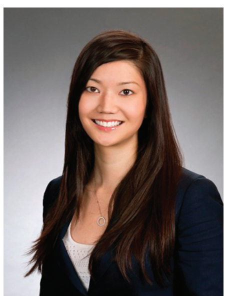

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Points from the President

RICK COHEN

This issue of *Points and Authorities* has something for everybody.

The two lead articles address recent developments—one in case law, the other statutory—with far-reaching impact.

The California Supreme Court decided a case that brings a sigh of relief to business owners across the state who, prior to this decision, walked a tightrope of ambiguity with regard to the rules on employee meal and rest breaks. That ambiguity has been clarified now, but the Court stopped short of disallowing class-action certification for such suits. Instead, it provided general principles for the trial court to consider when class certification is sought. *Brinker*, by Paul Bressan and Cynthia Fair-Moir, lays out guidelines for employers to follow to comply with the new law.

Dodd-Frank and Bankruptcy Law, by Jeff Kirschenbaum, Ben Seigel and Tony Napolitano, is the second in our series addressing various sections of the 2000-page Dodd-Frank Wall Street Reform and Consumer Protection Act. This issue's article talks about Title II of Dodd-Frank, which applies to financial institutions that are "too big to fail," and Title X, which establishes the Bureau of Consumer Financial Protection and gives that bureau authority over a wide range of Federal consumer protection laws.

For those who are considering courting celebrities to take their products to the next level, *Celebrity Brands: To Wed or Not to Wed?* by Jessie Reider and Sarin Tavlian, is informative. The article offers ways to structure that venture and secure intellectual property rights, so that the parties are protected long after the first blush has faded. For lenders who intend to hold a security interest in intellectual property, Richard Ormond and Oren Bitan's article on collateralizing IP offers specific tips for inclusion in security agreements to ensure that the interest is, in fact, secured. Jason Goldstein reminds us never to assume anything in his article on whether adding one's name or business to an insurance policy as an additional insured actually offers the protection sought. Wrapping up the issue is Chad Coombs' article discussing when a receivership may be a taxable entity.

If there is a topic that you would like us to address in a future issue of *Points and Authorities*, please let us know.

We welcome your questions and comments.

Sincerely,

Rick Cohen
President and Chief Executive Officer

 

Celebrity Brands: To Wed or Not to Wed?

Jessie Reider and Sarin Tavlian

More and more, celebrities are becoming global brands, known as much for the products they endorse as their acting and music credits. Rock stars have eponymous perfumes; actors have footwear lines and entertainment agents are brokering consumer-goods ventures for their clients. Christina Aguilera and Adam Levine were even in a much publicized Twitter war-of-words over celebrity perfume deals. Celebrities are no longer just sponsoring or promoting products, they are now actively involved in the design and manufacture of myriad types of merchandise. Celebrity brands are good for business, and traditional manufacturers are often eager to do business with well-known celebrity personalities.

The decision to marry a celebrity brand with a consumer products company raises many legal issues that are of great importance as the relationship flourishes—or fails. Among the most important issues are the structure of the corporate entity and the ownership and use of intellectual property, including the celebrity's name and likeness.

The first consideration in forming a joint venture is determining how to structure it. There are multiple ways to structure a joint venture, including a corporation, limited liability company, or forming a contractual relationship between the parties. The tax treatment and ultimate goals of the parties are important considerations in making this determination. For instance, a contractual relationship may be favorable where the joint venture is to be formed for a single project or for a limited term (i.e., a collaboration for a limited item to be produced and sold for a limited time). Forming a legal entity may make more sense if the joint venture is for a business that the parties contemplate will be ongoing. Limited liability companies are a frequent choice of entity for a joint venture because they afford the partners flexibility with respect to ownership, profit/loss distributions, voting, and management. The remainder of this discussion highlights some common issues that arise in joint venture transactions with celebrities in limited liability companies (LLC).

Joint ventures with celebrities are usually between a celebrity and a party who has a service to offer, such as a manufacturer. Together, they will produce and sell products under the celebrities' name/brand and with the celebrity's endorsement. The partners should consider holding their ownership interests through another entity, as opposed to personally. This will limit the partners' personal liability to one another in the LLC. This is equally important for the non-celebrity party, who may not have the same means as the celebrity, and for the celebrity, who may have substantial assets to protect. Frequently, joint venture partners will own their interests in the LLC through their own personal LLCs.

It is important to clearly define what each party's contribution is to the joint venture. Because the celebrity has his or her name to protect, celebrities do not usually contribute their name, likeness or trademarks to the LLC. Instead, they license them pursuant to a license agreement, and they contribute the license agreement to the joint venture. The other party usually contributes its services. For instance, if the celebrity is partnering with a manufacturer, the manufacturer will provide manufacturing services to the joint venture. One or both parties will contribute cash.

One of the most significant and highly negotiated areas in the joint venture agreement is the issue of control, particularly in joint ventures with celebrities. An inherent tension exists between the partners. The celebrity wants to maintain significant controls because he or she has a name, image and a brand to protect. Usually the celebrity is involved with product design and marketing, but the other partner is running most of the operations of the business, including sourcing, manufacturing, selling and distributing the product. Accordingly, such other partner wants and needs control over most aspects of operations. One way to deal with this tug-of-war is to parcel out what decisions, or categories of decisions, are to be decided by a particular partner in the event of a deadlock regarding such issues. For instance, any issues relating to product design, creative decisions, or the use of the trademarks, may be decided by the celebrity. Any issues regarding the sourcing of products and factoring may be decided by the other partner.

There may be some issues, regarding which, neither partner will or should have final say or veto power. For instance, the admission of new members, adopting budgets, and making material changes to accounting policies may be decisions that both partners wish to decide. The question then becomes, what do the partners do in the event of a true deadlock? Sometimes it may be appropriate to seek

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How Safe is your Security Interest in Intellectual Property? Five Tips That Protect You

Richard P. Ormond and Oren Bitan

Unfortunately, it is not uncommon to discover that a lender, whether a financial institution or otherwise, has not properly documented or secured its interest in intellectual property collateral proffered by a borrower to secure a promissory note and loan. In some instances, failure to do so at the outset may impact a lender's priority or security with severe consequences. And, rarely, is there a complete "after the fact" repair available.

Lending against intellectual property assets (including copyrights, trademarks, patents, and domain names, collectively "Intellectual Property") is reemerging as an important financing tool for lenders and intellectual-property holders to maximize the value of their transactions. Lenders get the security of a viable property as collateral and borrowers have something more to offer with their intellectual property. The rules governing the securitization, perfection and foreclosure of intellectual property security interests, however, are not easily navigated. As lending against intellectual property increases in the digital age, it is important not to miss key elements of securitization that can mean the difference between true security and actual loss.

There are two typical scenarios in which intellectual property is used as collateral. In one instance, a lender extends credit using Intellectual Property assets as collateral. If the borrower fails to meet its loan obligations, the lender is entitled to foreclose on the collateral. But if the lender failed to properly perfect its security interest in the collateral, the lender is relegated to the status of unsecured creditor, is unable to foreclose on the collateral, and may be unable to recoup its losses.

The second common method for collateralizing intellectual property, which is now reemerging in popularity following its heyday at the turn of the century, is to pool intellectual property assets and issue a new security backed by those assets (typically music or film royalties or any other asset with predictable cash flow or receivables, such as pharmaceutical license fees). Like collateralized loans, recording the security interests in the intellectual property collateral secures the right to collect the receivables or license fees along with the right to foreclose on the assets in the event of default. Again, failure to properly perfect the security interests in the collateral leads to drastic financial consequences.

Background

The Uniform Commercial Code defines intellectual property as "general intangibles" in which a lender's security interest is perfected by the filing of a UCC-1 financing statement in the state where the borrower's principal place of business is located. It should be noted, however, that when the intellectual property rights at issue are governed by federal statutes, regulations, or treaties, federal procedures typically govern, either in addition to, or instead of, the UCC. As a result, federally registered copyrights, trademarks, and patents are ultimately governed by the Copyright Act, Lanham Act, and Patent Act, respectively, while unregistered copyrights and trademarks are governed by state law. Because perfecting security interests in copyrights, trademarks, and patents (as well as domain names) all have different requirements, and because there are inconsistencies in the law, it is essential to understand the intricacies of each to properly protect secured interests.

Perfecting Security Interests in Copyrights

The Copyright Act defines a detailed system for recording and transferring ownership interests in copyright-protected works. Under the Copyright Act, when a copyright has been registered, a security interest can be perfected only by recording a transfer in the Copyright Office[1]. If a copyright is not registered, however, the Copyright Act does not preempt the UCC with respect to perfection and priority of security interests.[2]

As a result, security interests in unregistered copyrights must be perfected under Article 9 of the UCC. Once the unregistered works become registered, however, the Copyright Act then automatically applies and the security interest must then be re-recorded with the U.S. Copyright Office. As a result, it is advisable, depending upon the nature of the copyrighted works, to require a borrower to register the copyrighted material with the Copyright

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Additional Insured Status: Is the Protection Illusion or Reality?

Jason Goldstein

There are myriad circumstances under which an individual or company may seek to be added as an insured under another's insurance policy. But how does that person or company *really* know whether they actually became an additional insured under that insurance policy? And if they actually became an additional insured, how do they know that the additional insured status that they obtained will actually provide access to the insurance benefits that they are hoping for? This article provides some practical information to assist with the determination of whether additional insured status is an illusion or a reality.

An insurance policy is a written contract of indemnity between an insurer and an insured. The "named insured" is the person for whom the insurance policy is supposed to provide indemnity in the circumstance of a covered loss. If a lawsuit is filed against the named insured with respect to a potentially covered loss, it is the expectation of the named insured that the insurer will provide it with a defense to that lawsuit. These are the reasonable expectations of an insured under an insurance policy.

An insurance policy may also, in certain circumstances, provide indemnity for someone other than the named insured. Additional insured is a term that is generally understood to reference that "someone," in addition to the policy holder, who is also insured for a covered loss under an insurance policy. It should be noted that the term "additional insured" is not necessarily the same thing as an "insured" or a "named insured" under a policy of insurance.

A Certificate of Liability Insurance is a document that is frequently provided in response to a request to be added as an additional insured under another person's insurance policy. Many of these certificates purport to identify the requesting party as an additional insured under the relevant insurance policy on the face of the certificate itself.

While a Certificate of Liability Insurance is a customary document that is regularly issued in the insurance industry, **be warned**: a Certificate of Liability Insurance is virtually worthless as it relates to additional insured status. Its only potential value is to provide information regarding the identification of certain insurance policies that are represented to exist.

This is because a Certificate of Liability Insurance is merely evidence that a policy has been issued. It is **not** a contract between the insurer and the certificate holder, e.g., the person hoping to be added as an additional insured. A Certificate of Liability Insurance is issued by an insurance broker, who is an agent of the insured, not the insurer. It is normally not issued for a fee, or at least not a fee to the insurer, and therefore does not provide a contractual basis to bind an insurer to an additional insured representation.

An individual or company seeking additional insured status under another person's insurance policy should request to be added as an additional insured by an endorsement to the insurance policy. An endorsement is an amendment to, or a modification of, an existing insurance policy. It is not a new and separate contract of insurance. Instead, an endorsement modifies or changes the terms of an existing policy to add new terms or to delete terms.

An endorsement in the context of a person seeking to become an additional insured amends or modifies an existing insurance policy to provide that a noninsured is now an insured, an additional insured or an additional named insured. Depending upon the terms of the particular insurance policy at issue, whether or not a noninsured is classified by endorsement as an insured, an additional insured or as an additional-named insured, may be critical to obtaining the hoped for coverage for a covered loss—the very reason for which the process to become an additional insured under the policy was initiated.

As stated above, an insurance policy is generally obtained to satisfy two primary goals. The first is to obtain

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Brinker: Meal and Rest Periods Clarified, But...

Paul Bressan and Cynthia Fair Moir

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over the employee's activities and permit the employee a reasonable opportunity to take an uninterrupted meal period, without impeding or discouraging the employee from doing so.

Because the employer is not obligated to police meal breaks and ensure that no work is performed during the meal period, bona fide relief from duty and the relinquishing of control satisfies the employer's obligations. Work by a relieved employee during a meal period does not thereby place the employer in violation of its obligation to provide a meal period, nor does it create liability for the one hour of premium pay established by statute and the Wage Orders for failure to provide a meal period. However, the employer will be required to pay the employee for work done during the meal period (at the employee's regular rate, or overtime rate, if applicable), if the employer "knew or should have known" that the employee was working during the meal period.

2. Timing of the Meal Period

The Court next turned to the timing of the meal period, addressing the questions of (i) when each meal period must begin, (ii) when a second meal period is required, and (iii) whether any additional timing requirements are imposed by statute or Wage Order. After extensive discussion regarding the wording and history of the applicable provisions, the Court made several definitive conclusions.

First, the Court held that the first meal period must begin no later than the end of an employee's fifth hour of work, and a second period (if required) must begin no later than an employee's tenth hour of work.

Second, the Court held that a second meal period is required only when the employee is employed for a work period of more than 10 hours per day (unless a waiver is allowed by statute). The Court expressly rejected the plaintiff's argument that a second meal period is required when over five hours of work remain after the end of the first meal period—the so-called "rolling five hour" meal period.

Third, the Court expressly held that the statute and Wage Orders do not impose any timing requirements beyond an employer's obligation to provide a first meal period after no more than five hours of work, and a second meal period after no more than 10 hours of work. Specifically, there is no requirement that the meal period occur sometime *after* a required rest period, nor is there a requirement that a meal period begin "no earlier than" any specific time in the work period.

Rest Periods

1. Scope of an Employer's Duty

Because the Wage Orders require an employer to give employees a 10-minute rest break for each four hours of work "or major fraction thereof," the Court first had to consider the meaning of the phrase "major fraction." The Court determined that this phrase long has been understood to mean a fraction greater than one-half. Accordingly, the Court held that the rest time that must be permitted is the number of hours worked divided by four, rounded down if the fractional part is half or less than half, and up if it is more, i.e., a "major fraction," times 10 minutes.

Thus, recognizing that a rest period need not be authorized for employees whose daily work time is less than three and one-half hours, the Court summarized the rest period entitlement as follows: Employees are entitled to a 10-minute rest period for shifts from three and one-half to six hours in length, 20 minutes for shifts of more than six hours up to 10 hours, 30 minutes for shifts of more than 10 hours up to 14 hours, and so on, in 10-minute increments.

2. Timing of Rest Periods

Plaintiff argued that employers are legally required to permit their employees to take a rest period before any meal period is taken. The Court rejected this argument, finding that neither the statute nor the Wage Orders speak to the sequence of meal periods and rest breaks. However, the Court stated that, as a general matter in the context of an eight-hour shift, one rest break should fall on either side of the meal period, but that this general rule might be altered by shorter or longer shifts and other factors that make such scheduling impracticable.

The Court found that the only constraint on the timing of a rest break is that it fall in the middle of a work period "insofar as practicable." Accordingly, employers have a duty to make a good faith effort to authorize and permit a rest break in the middle of each work period, but employers may deviate from this requirement when practical considerations render

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this condition infeasible. The Court did not offer an opinion as to what considerations might be legally sufficient to justify such a departure.

Class Certification Issues

The trial court had certified all the subclasses sought by plaintiffs. The Court of Appeal reversed all these certifications. The California Supreme Court's holding as to these certifications was mixed. In making these rulings, the Court set forth some general principles.

First, as a general rule, if the defendant's liability can be determined by facts common to all members of the class, a class will be certified even if the members of the class must individually prove their damages.

Second, the decision to certify a class rests squarely within the discretion of the trial court, and that decision is afforded great deference on appeal.

Third, although the certification inquiry generally should not involve an inquiry into the legal and factual issues concerning the merits of the case, to the extent that the propriety of certification depends upon disputed threshold legal or factual questions, a court can and must resolve them.

Applying these principles, the Court held as follows:

- The theory of liability that Brinker had a uniform, corporate policy that violated the "major fraction" provision regarding rest periods supported the trial court's certification of the rest period subclass.
- Because the defined meal period subclass included members with no possible claim (because their claim was based on an erroneous "rolling five hour" theory of liability), the Court remanded the question of meal period subclass certification to the trial court for reconsideration in light of the Court's clarification of the law concerning meal periods.
- In the absence of a uniform, companywide policy or practice requiring off-the-clock work (in fact, Brinker had a policy precluding off-the-clock work), the Court vacated certification of the off-the-clock-work subclass, because proof of liability would have to be made on an employee-by-employee basis.

In a separate concurring opinion, Justice Werdegar (who also authored the majority opinion), joined by Justice Liu, emphasized that the Court's remand of the meal-period class certification issue does not suggest an endorsement of Brinker's argument that the question of why a meal period was missed renders meal period claims *categorically* uncertifiable. Justice Wedegar further emphasized an employer's obligation to record meal periods taken by employees for a shift over five hours, and stated that, if an employer's records fail to show that such a meal period was taken, there will be a rebuttable presumption that the employee was not relieved of duty and that no meal period was provided. The burden of proof is on the employer to overcome the presumption.

Conclusion

The *Brinker* decision generally is good news for employers, because it eliminates the argument that employers are required to ensure that their employees actually take the meal periods they are provided, and because it rejects the "rolling five hours" theory for a meal period requirement. Nevertheless, the decision compels employers to examine their policies, and to make sure that they comply with the meal period and rest period pronouncements of the California Supreme Court. Although the *Brinker* decision has set back the plaintiffs' bar in their campaign of class actions on these provisions, it was not a knockout punch and it is likely that some of these class actions will continue in one form or another.

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out a professional's advice and decision in the event of a deadlock. For example, the parties may agree to seek the advice of an independent accountant with respect to tax or budgeting issues. In addition, or as an alternative, the parties may want the right to walk away from the venture in the event of a deadlock on major issues by including a buy-out provision, whereby one party buys the other out. In such a case, the partners must determine how to calculate the purchase price for the partner's interests and need to describe payment terms for the amount to be paid.

Another important issue that arises is how the partners should deal with other business opportunities that are either in the same marketplace as the joint venture (e.g., apparel), or even directly competitive with the joint venture's business. Parties can agree not to compete with the joint venture. Alternatively, parties can agree on a right of first refusal, whereby each has to submit to their partner any opportunities that are available to them, and those opportunities can be as broadly or as narrowly defined as the parties wish.

Once the joint venture structure is established the partners will need to examine the intellectual property to be used and created and set the parameters for use. The intellectual property will likely include the celebrity's name and likeness, the brand name of the product line, the product designs and formulas, and social networking accounts and domain names. Often, the partners will each license their intellectual property to the joint venture, for the use and benefit of the venture. The celebrity will license her name and likeness; the manufacturer may license an existing brand name or clothing designs. The terms of the license—both business and legal terms—need to be defined to protect the parties and the brand. The following are some of the more common celebrity joint venture license agreement intellectual property issues.

- **Exclusivity** The business partner will often require that the celebrity refrain from marketing any competitive goods. Otherwise, the goodwill associated with the celebrity's name will be diluted by additional uses. There are often celebrity specific issues that need to be addressed. In a musician/clothing partnership, the musician may be precluded from using his or her name on any other clothing, but what about tee-shirts sold at their concerts? Industry specific details should be identified as early as possible to avoid misunderstandings between the partners later on.

- **Brand Ownership** If a jewelry designer brings its brand name to the joint venture and the celebrity brings his name, who owns the composite brand name? At the end of the relationship, can either partner continue to use the brand, or do they both need to stop? Further, who is responsible for ensuring that the brand name, especially a new brand name, is available for use? Celebrity-backed endeavors are often very high profile, and the partners should take all reasonable steps to check the availability of any trademark to be used to avoid becoming the subject of an expensive lawsuit.

- **Product Designs and Approvals** One of the pillars of licensing is the licensor's control and oversight of the quality of the goods being produced. In a joint venture relationship where each partner is contributing a trademark—be it a clothing brand name and a celebrity's name or a perfume name and a celebrity's well known slogan—each party must exert actual control over the quality of the products. The partners have to work together to design the products, approve them prior to manufacture, and monitor the marketplace for quality compliance.

Overall, it is in the best interest of both partners to have a clear understanding of their roles and responsibilities, and each partner's expectations, to avoid disputes. Celebrity joint ventures can be highly lucrative for all involved, but in order to maintain the integrity and well-being of the relationship, it is best to consider as many of these issues in advance as possible—and craft agreements that reflect the partners' intent.

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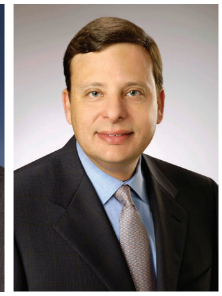


Dodd-Frank and Bankruptcy Law

Benjamin S. Seigel, Jeffrey B. Kirschenbaum and Anthony Napolitano

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procedures for federal regulators to intercede when state regulators fail to act with regard to specified liquidation and rehabilitation protocols. Dodd-Frank became law on July 21, 2010.

Title II of Dodd-Frank provides for the systematic liquidation or reorganization of those specific financial companies that are in danger of default. Dodd-Frank defines a financial company as one incorporated or organized under any provisions of State or Federal law and is a bank holding company as defined under the Bank Holding Company Act of 1956, a nonbank financial company supervised by the Board of Governors of the Federal Reserve System (the "Fed"), a company that is predominantly engaged in activities determined by the Fed to be financial in nature or incidental thereto, including insurance companies, brokers or dealers and investment advisors, among others, or a subsidiary of such companies that is predominantly engaged in activities the Fed has determined are financial in nature or incidental thereto, with certain exceptions.

Title II of Dodd-Frank applies to financial entities whose failure sufficiently threatens market stability, commonly referred to as “too big to fail” financial institutions. Section 165 of Dodd Frank requires that these systemically important financial institutions develop pre-packaged reorganization plans, akin to a “living will,” to facilitate their “rapid and orderly resolution, in the event of a material financial distress or failure.” The irony of this provision is that absent periodic review and revision, these living wills will quickly become outdated as the financial institutions and markets rapidly change.

In the event that a financial institution covered under Dodd-Frank does fail, it may become the subject of an FDIC receivership. The recommendation that an FDIC receivership be initiated must contain very specific findings, including an evaluation of whether the subject company is in default or in danger of default, a description of the effect of a default on financial stability in the United States, a description of the effect that the default would have on economic conditions or financial stability for low income, minority, or underserved communities, a recommendation of actions to be taken, and an evaluation of why a case under the Bankruptcy Code, 11 U.S.C. § 101 *et seq*., is not appropriate.

After determining that an FDIC receivership is appropriate, the Secretary of the Treasury must consult with the President and they must arrive at various conclusions including that:

- the company is in default or in danger of default,
- the failure of the company would have serious adverse effects on financial stability in the United States,
- no private sector alternative is available to prevent default, and
- action taken under Dodd-Frank would avoid or mitigate those adverse effects.

If the appropriate conclusions are reached, the company can agree to the appointment of the FDIC as receiver, or, if it does not agree, an action can be initiated in the District Court for the District of Columbia to have the FDIC appointed as receiver to proceed with the Orderly Liquidation Authority which operates under the principles drawn from the receivership provisions of the Federal Deposit Insurance Act. Only by the Board of Directors of the company can contest this provision, and the scope of review is very narrow. It is limited to assessing whether “the determination of the Secretary that the covered financial company is in default or in danger of default and satisfies the definition of a financial company under [Dodd-Frank] is arbitrary and capricious.” Dodd-Frank, § 202(a)(1)(A)(iii). Further, the District Court must act within 24 hours and the proceedings take place in secret so as to avoid any market disruptions. Dodd Frank, § 202(a)(1)(A)(v). Whether this provision will pass constitutional muster with respect to the limitation on the review of the District Court, the expediency of the review and the secrecy of the hearing remains to be seen.

Impact on Creditors and Counter Parties

How creditors and counterparties will fare in the event

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Office and to record the security interest with the UCC while the application is pending. The secured lender can then record a security interest with the Copyright Office once the copyright application is finalized.

Perfecting Security Interests in Trademarks

Trademarks and service marks protect names, symbols, words, designs, slogans, or combinations thereof, used by an entity to identify and distinguish its goods or services from those provided or manufactured by others. Federally registered trademarks are governed by the Lanham Act while unregistered and state registered marks are governed by state law. Unlike the Copyright Act, the Lanham Act does not specifically preempt state law with respect to perfecting security interests in federally registered trademarks. As a result, a secured creditor should always perfect its interest under the UCC. To fully protect the secured creditor against subsequent purchasers, however, the security interest of a federally registered mark should also be recorded with the USPTO.

In addition, Section 1060 of the Lanham Act requires that an assignment of a federally registered trademark include the mark along with any goodwill of the business in which the mark is used. As a result, if a creditor only secures an interest in a federally registered mark without including the associated goodwill and then attempts to foreclose on that interest, its foreclosure could result in the trademark being voided. Further, a secured creditor should take a lien on enough assets associated with the goods or services to ensure that the quality of the goods or services is preserved following foreclosure of the mark.

Perfecting Security Interests in Patents

Patents protect inventions of new and useful processes, products, or improvements[3]. The Patent Act, like the Lanham Act, does not specifically preempt state law with respect to perfecting security interests. As a result, a secured creditor should record its security interest both with a UCC-1 filing. In addition, it is best practice to also record a lien with the USPTO to cut off any purported rights of a subsequent purchaser or mortgagee for valuable consideration without notice. In other words, a bona fide purchaser that duly records an interest in a patent with the USPTO may defeat a secured creditor that has not recorded its interest in the USPTO.

Perfecting Security Interests in Domain Names

California law recognizes domain names as intangible property subject to the same laws that govern intellectual property[4]. Since there are no federal statutes specifically governing the perfection of security interests in domain names, such interests can be perfected by recording a UCC-1 financing statement listing the domain names and all related: (a) goodwill, (b) intellectual property, (c) accounts, accounts receivable, general intangibles, instruments, and payment intangibles arising from the use of the domain, and (d) proceeds.

Five Tips for Drafting IP Security Agreements

1. Ensure that the collateral description includes everything associated with the Intellectual Property (i.e., film reels, contract rights, licensing rights, distribution rights, receivables, proceeds and income, right to sue for infringement, goodwill, foreign rights, etc.);
2. Include an “after-acquired” clause into the security agreement that includes all “now existing and hereafter acquired or created” Intellectual Property and requires the Borrower to promptly register any newly acquired or created Intellectual Property and to notify the secured creditor of any such newly acquired or created Intellectual Property to permit the secured creditor to properly perfect its interest in the collateral;
3. Preserve the right of the secured creditor to effectively exercise remedies upon default (i.e., the Borrower agrees to cooperate with a power of attorney to permit the secured creditor to assign and register the rights upon foreclosure);
4. Require the Borrower to timely file and pay all maintenance fees for patents and renewal fees for trademarks and to notify the secured creditor of any infringement litigation and to cooperate with the secured creditor in protecting the rights and defending that litigation (at Borrower’s expense); and

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Got Federal Income Taxes? Receiverships that May Have to Pay

Chad C. Coombs

A receiver's obligations with respect to federal income taxes can be very complicated, especially given the different circumstances in which a receivership may arise. While a receivership generally does not create a separate taxable entity, the receiver may be required to notify the Internal Revenue Service of the receivership and file income tax returns for the entity or owner of the property in receivership. For receivers of individuals unable to file their own returns, the receiver must file the individual's returns unless the receiver is in possession of only a part of the individual's assets. For receivers of corporations, the receiver must file the corporation's returns when in possession of all or substantially all of the corporation's assets. For partnerships, there is no express duty under the Internal Revenue Code for a receiver to file the partnerships' returns though the IRS takes the position that a receiver in control of the partnership must do so. Determining when a receiver is required to file returns sometimes can be difficult, even for a traditional equity receiver in possession of a business or a rents-and-profits receiver in possession of a single property, due to lack of information on the entity's ownership structure or the owner's other assets. When the receiver is not required to file returns, the receiver must provide the owner with the information necessary so that it can file its own returns.

Even though a receivership is generally not a separate taxable entity, a receivership that constitutes a qualified settlement fund (QSF) under Treasury Regulations Section 1.468B-1 is generally treated as a separate taxable entity. A QSF is a fund, account, or trust that:

1. is established by government or court order;
2. is established to resolve or satisfy claims (with certain exceptions) that arose either a) under the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA), b) out of a tort, breach of contract, or violation of law, or c) under other circumstances the IRS may designate; and
3. is a trust under state law or segregates its assets from the transferor's other assets.

QSFs have been found to exist in federal receiverships involving recovery of funds in fraudulent investment schemes and will arise in any other cases in which the elements for a QSF are satisfied. A few years ago there were concerns that the IRS might treat even typical rents-and-profits receiverships as QSFs, but those concerns have generally subsided.

A receiver must carefully ascertain the exact filing and payment requirements as the receiver may be held personally liable, pursuant to 31 U.S.C. Section 3713, for failing to pay federal claims, including tax claims, before other claims. While this federal priority statute is absolute on its face, a few exceptions have been carved out. A receiver may pay necessary and reasonable administrative expenses before payment of unsecured federal claims, and the IRS even states in its Internal Revenue Manual that administrative expenses should be paid ahead of a federal tax lien. Furthermore, perfected secured claims retain priority over unsecured federal claims as the federal priority statute does not create a lien or provide priority over other liens.

A receiver is generally responsible for paying federal income taxes incurred during the pendency of the receivership, but this will also depend on the type of receivership. Pursuant to 28 U.S.C. Section 960, a federal court appointed receiver is required to pay all taxes (not just federal) incurred during the receivership, with payment pro rata with other operating expenses. A state court appointed receiver for a C corporation who must file the corporation's returns is responsible for paying federal income taxes that the corporation incurs during the receivership, although it is unclear whether such taxes are entitled to priority as administrative expenses or pursuant to the federal priority statute. A receiver required to file returns for a flow-through entity such as an S corporation, partnership, or multi-member limited liability company treated as a partnership will file information returns for these entities, with any federal income tax liability flowing through to the owners of such entities. A single-member limited liability company is disregarded for federal income tax purposes, and no separate federal return is filed for the entity (though in California a state income tax return is required).

Complications arise exponentially for a receiver who is required to file returns and discovers that the owner either failed to file prior year returns or filed materially incorrect returns. While there is no clear guidance on when the receiver must file or amend prior year returns, a bankruptcy court held that a trustee for a debtor corporation is responsible for filing returns due prepetition. For partnerships, the IRS has stated that a bankruptcy trustee is not obligated to file prior year returns and may rely on current year information to the extent possible for current year returns (although a receiver is well advised to consider any available prior year records and, if necessary, disclose the basis for any departure from positions taken on any prior year returns that the partnership did file). In addition, a receiver for a partnership that has another partnership as a partner, may not be permitted to file amended returns for the partnership. Given this and so many other hidden traps, a receiver is well advised is seek guidance from experienced tax counsel from the beginning of the receivership.

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of an orderly liquidation remains in many respects an open question, because Dodd-Frank deviates from traditional bankruptcy law in several important ways. Under traditional bankruptcy law, a debtor-in-possession (DIP), a DIP lender, and a creditors' committee each have distinct rights and clearly defined roles, and a bankruptcy court is empowered to direct the reorganization process according to established legal precedents.

In contrast, Dodd-Frank concentrates power in the FDIC, including the power to reorganize the failing institution by transferring selected assets and claims to a "bridge financial company" that is owned, controlled, and potentially capitalized by the FDIC. The FDIC may operate a bridge financial company for up to five years, and may merge it with another institution or sell a majority of its equity to private investors. Dodd-Frank also gives the FDIC broad authority to deviate from traditional principles of bankruptcy law in order to promote the amorphous concept of "market stability." This authority includes the ability to favor some creditors over others with equal priority, provided the favored treatment maximizes value, minimizes losses, or is otherwise essential to the receivership.

In remarks made on May 10, 2012 to the Bank Structure Conference at the Federal Reserve Bank of Chicago, Martin J. Gruenbert, Acting Chairman of the FDIC, indicated that, from the FDIC's point of view, "the most promising resolution strategy" will be to "place the parent company into receivership and to pass its assets, principally investments in its subsidiaries, to a newly created bridge holding company." This procedure, newly authorized by Title II, will allow solvent subsidiaries to remain open and avoid the disruption that would likely accompany their closings. "Because these subsidiaries will remain open and operating as going-concern counterparties, we expect that qualified financial contracts will continue to function normally as the termination, netting and liquidation will be minimal. In short, we believe that this resolution strategy will preserve the franchise value of the firm and mitigate systemic consequences," Mr. Gruenberg opined.

Regardless of whether a contracting party is placed in a receivership, Dodd-Frank establishes "safe harbors" to ensure that a counterparty's rights under a qualified financial contract are unaffected. These safe harbor provisions apply to repurchase agreements, commodity and forward contracts, security contracts, and swaps. However, for contractual obligations that do not meet the definition of a qualified financial contract, the FDIC is given authority to repudiate any contract to which the failed institution is a party; and, unlike a debtor or trustee under the Bankruptcy Code, the FDIC may reject contracts regardless of whether they are executory. Additionally, the FDIC may unwind certain types of transactions, including those that would be preferences or fraudulent transfers under the Bankruptcy Code, as well as certain types of setoffs.

These untested new federal receivership procedures give the FDIC great flexibility to do what it deems appropriate on an expedited basis with limited avenues for judicial review. As a result, parties dealing with institutions that may be covered by Dodd-Frank would be well advised to consider carefully whether their agreements fall within the definition of a "qualified financial contract." For parties to contracts that do not benefit for safe harbor treatment, Dodd-Frank creates significant risk, due to the loss of the relative certainty of proceedings under the Bankruptcy Code.

Bureau of Consumer Financial Protection—Title X

Title X of Dodd-Frank establishes the Bureau of Consumer Financial Protection ("Bureau"). Under the structure created by Title X, the Bureau has exclusive rulemaking authority over a wide range of Federal consumer protection laws. This authority could, in limited circumstances, be overruled by the Oversight Council created by Dodd-Frank. One writer on the subject opines,

> "The establishment of the Bureau, and the nature and extent of its responsibilities and activities, were some of the most controversial aspects of Dodd-Frank. Concerns were raised that the creation of a regulatory entity that would be solely focused

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> on consumer protection might not give sufficient attention to the impact of its actions on the safety and soundness of financial institutions that provide products and services to consumers. Concerns were also raised that actions by the Bureau intended to protect consumers could have the impact of restricting the availability and terms of credit and other products and services offered to consumers."

Although Title X does not directly modify existing bankruptcy law, concern has been expressed that it could affect consumer bankruptcy proceedings when consumer debtors seek to attack creditors based on perceived violations of provisions of Dodd-Frank that cover unfair, deceptive or abusive acts or practices.

The Bureau's authority includes certain powers that were previously exercised by existing governmental agencies and an array of broad new powers created by Dodd-Frank.

Under Dodd-Frank departments will be created to protect members of the military and older Americans, foster research and financial education, and insure fair lending.

The Bureau's rulemaking authority extends to a broad range of providers of financial products and services. However, the Bureau's authority for examination, supervision and enforcement is shared with several other regulatory entities. The Bureau has primary supervisory and enforcement authority over certain nondepository institutions, principally those in the mortgage business and large providers of consumer financial service, and depository institutions with more than $10 billion in assets and their affiliates.

Other Provisions of Dodd-Frank

This article touches on only two areas of federal regulations embodied in Dodd-Frank. Other provisions of Dodd-Frank include, Financial Stability Oversight, Supervision of Depository Institutions, Private Fund Advisers, Insurance, Bank and Thrift Regulatory Improvements, OTC Derivatives, Clearing and Settlement, Investor Protection and Securities Regulation, Strengthening the Federal Reserve, Access to Mainstream Finance, Pay It Back Act, and Mortgage Reform and Anti-Predatory Lending.

Some critics have speculated that Dodd-Frank is going to be a gold mine for financial and bankruptcy lawyers. The provisions of Dodd-Frank are confusing, contradictory and contrary to long established legal principals. Regulations are continuing to be formulated and many believe that those will add more controversy and legal actions.

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How Safe is your Security Interest in Intellectual Property? Five Tips That Protect You

Richard P. Ormond and Oren Bitan

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5. Include warranties in the security agreement specifying that the Borrower has good and marketable title, with no previous assignments, no prior security interests, and that affirms the validity and enforceability of the Intellectual Property.

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1 *Morgan Creek Prods., Inc. v. Franchise Pictures LLC (In re Franchise Pictures LLC),* 389 B.R. 131 (Bankr. C.D. Cal. 2008) (citing In re Peregrine Entertainment, Ltd., 116 B.R. 194 (C.D. Cal. 1990))
2 *Morgan Creek Prods., Inc. v. Franchise Pictures LLC (In re Franchise Pictures LLC*), 389 B.R. 131 (Bankr. C.D. Cal. 2008) (citing In re: Aerocon Eng'g, Inc. v. Silicon Valley Bank (In re World Aux. Power Co.), 303 F.3d 1120 (9th Cir. 2002))
3 35 U.S.C. §§ 101-103 (the "Patent Act")
4 *CRS Recovery, Inc. v. Laxton*, 600 F.3d 1138, 1142 (9th Cir. 2010)

Additional Insured Status: Is the Protection Illusion or Reality?

Jason Goldstein

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indemnity in the circumstance of a covered loss. The second is to obtain a legal defense paid for by the insurer if a lawsuit is filed with respect to a potentially covered loss. Becoming an additional insured under an insurance policy does not, in and of itself, satisfy both of these goals, the reason being that an insurance policy **does not always** provide for a duty to defend any insured.

For example, an insurance policy may provide for a duty to defend lawsuits involving a potentially covered loss, but that defense duty may properly be limited to the named insured only. This means that even if an individual or company obtained the recommended endorsement modifying the policy to add them as an additional insured, their additional insured status may not provide them with a defense to a lawsuit resulting from a potentially covered loss. Instead, despite obtaining additional insured status, the additional insured may have to foot the bill for a defense that may dwarf the amount of indemnity ultimately paid out at the end of the case.

Therefore, it is critical to determine at the outset whether or not the additional insured status you obtain provides the type of protection that you seek.

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