Inside 3Q2019

ACC Association of Corporate Counsel

BALTIMORE

FOCUS

President's Message

Prabir Chakrabarty

Greetings and welcome to the Q3 2019 newsletter! It's hard to believe that by the time this letter is circulated that summer will be nearly over and our Fall calendar will be in full swing.

ACC Baltimore enjoyed a great social in July at Under Armour headquarters with Premier Sponsor Miles and Stockbridge. A good time was had by all as we enjoyed great food and drink, tours of the amazing facilities, and an outstanding presentation by Miles' General Counsel Jeff Riley about Privilege and Attorney Work-Product! Many thanks to Under Armour for their hospitality in agreeing to host this excellent event.

Earlier in the summer we had a tremendous Board Retreat. Our Board and Past Presidents had excellent ideas for improving current operations and setting the mission for the Chapter going forward. We also had a very fun time competing with each other at the Charm City Clue Room in an escape challenge!

One last note for fellow in-house counsel. There are certainly many advantages to being in-house, but there is a misperception that stress and deadlines are reserved for private attorneys. Working in a corporate environment, as all of you know, has its own challenges. Therefore, I wanted to urge all of you to use your vacation time for the year, and not to just sit on the beach with your laptop open. There are countless benefits to your health and mental wellness to "going off the grid", if even for a few days. Having recently returned from vacation, with a few days sans my email, I certainly feel recharged and rejuvenated (even with the mountain of messages I had to dig out of when I got back). I urge all of you to do the same!

We have had some great luncheon presentations this summer from Gordon Feinblatt on Defamation and Business Disparagement in the Age of Social Media, Cole Schotz on International Cybersecurity Issues and Best Practices, and DLA Piper on Going International, and we look forward to more in the Fall. Please also look for more exciting details about our Fall Social with Nelson Mullins, and everyone who can make it should go to ACC National in sunny Phoenix, Arizona!

As always, we thank our sponsor firms for their generosity and for providing topical legal updates.

Best Regards,
President
Prabir Chakrabarty

If you ever want to share any ideas or comments with the board, here is the current list of officers and directors:

Prabir Chakrabarty —President

Board Members:

Larry Venturelli
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Matthew Wingerter

Karen Davidson
Immediate Past President

The Modern Partnership: In-house and Outside Counsel

By Cathy Landman and Margo Wolf O'Donnell

As lawyers take on increasingly sophisticated business advisor roles in today's marketplace, the partnership between in-house and outside counsel has become more important than ever. And while every lawyer wants to provide the best possible service to the client, the practical steps for achieving outstanding service in this context are not always clear. Drawing on our shared experience, we have identified four key steps lawyers on both sides of this relationship can take to help them build their credibility and deliver solutions that advance their business.

1. Develop a commercial point of view, and base the legal strategy on business goals

So many skilled lawyers bring a nuanced understanding of the law to their work, but when it is time to apply that knowledge and counsel to the company's business strategy, they have difficulty bridging the divide between the worlds of law and business. The key to becoming a valued business advisor and in-house lawyer is understanding not just the legal risks for the company on a given matter, but also the interplay between those risks and the company's larger business goals.

In a legal practice, that means having a conversation early on to ensure an understanding of the desired result. And that conversation needs to continue as a matter unfolds and new information comes to light.

An understanding of what the company is trying to achieve — where they are now and where they want to be — should drive the legal strategy and lead you to the legal remedy that furthers those goals. That may mean litigating or not, finding a resolution outside of litigation, or coming at the problem from another angle, such as a new approach to a deal or contractual language.

2. Educate each other and constantly reflect on what you are learning

It is crucial for both sides of this partnership to make time to educate each other — for the outside counsel to educate the client on the most pressing legal issues they may face, and for the in-house team to educate the outside counsel on how their business works. To facilitate communication that extends beyond just the discovery phase, develop a work process that includes shared folders, files, timelines, and project plans, and encourage both teams to check in regularly.

Designate time for reflection at important milestones throughout the project so that the in-house and outside teams may ask of themselves and each other what they have learned and how it might alter the goals or process going forward. Finally, make sure both teams are speaking the same language by using the right tools and a shared vocabulary.

While written word is the order within law firms, the business community tends to rely on tools like PowerPoint for communication. Sometimes translating a lengthy document into a more visual mode can facilitate understanding and even yield creative, new solutions to the problem.

Always be thinking not just about communication between the inside and outside teams, but also how to enable the in-house team to present ideas to their internal clients, the business leaders.

3. Build a shared roadmap that can evolve, and demonstrate good judgment

The in-house counsel is continuously juggling big priorities with the day to day responsibilities of the job. The best outside counselors help their clients anticipate what is on the horizon and determine whether the current approach and practices will put the company on the right trajectory.

Timeliness is an important factor in building a workable roadmap. Good business advisors understand how to foreshadow what is to come so business leaders have time to digest information and then decide. The partnership also depends on crystal clear communication and a willingness to use technological tools to improve efficiency.

Because skillful navigation involves looking both at your feet and the path ahead, teams must constantly be asking what's coming next, what's the precedent if we do X, and what are the potential costs and benefits? This is where creative problem solvers can demonstrate significant value. Nothing beats good

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judgment, a great strategy, and a thoughtful plan to execute it.

4. Move beyond a transactional mindset and nurture the relationship

Good client service cannot be merely transactional, so outside counsel can truly demonstrate their worth by providing value outside the billable hours. That means making time to learn their client's business, conduct on-site visits, and make themselves available as a resource. It's also important for other members of the outside team beyond the billing partner — including associates and paralegals — to take ownership of the work.

The in-house counsel can create these connections by inviting everyone on the team to an on-site visit to learn the business and understand the goals of the project. This is an investment in the outside team, which is just an extension of the in-house team, and the work will be more efficient and effective if everyone works together as one entity. The complex legal matters businesses face today require that everyone is on board and invested in achieving the optimal outcome.

In-house and outside counsel see legal and business challenges through distinct lenses that are shaped by their respective training and approach to problems.

We need both perspectives to create innovative legal strategies. By embracing the key steps we have outlined above, lawyers can build a thriving, long-lasting inside-outside partnership that yields creative solutions for the company and its outside partners.

Authors:

Cathy Landman is the chief legal and human resources officer at Corelle Brands.

Margo Wolf O'Donnell is the partner and co-chair of the labor and employment practice group at Benesch.

ACC News

2019 ACC Annual Meeting: Rates Increase after September 25

Mark your calendars for October 27-30 in Phoenix, AZ for the 2019 world's largest event on in-house counsel. Earn up to a year's worth of CLEs, get the essential knowledge and insights you need to navigate today's increasingly complex business environment, and make meaningful connections with your in-house peers from around the globe. No other event delivers such a wealth of education and networking opportunities for corporate counsel all in one place at one time. Group discounts are available. Check out the full program schedule at *am.acc.com*.

Law Department Leadership: Strategic Decision Making for In-house Counsel

Making effective decisions is arguably your most critical responsibility as a professional manager. In uncertain and changing business situations, you need a practical framework to make effective decisions quickly. Attend the Law Department Leadership program (23 September, Toronto, ON) to gain influence and advance your career by learning how to make better business decisions. Register today at *acc.com/LDL*.

Drive Success with Business Education for In-house Counsel

To become a trusted advisor for business executives, it's imperative for in-house counsel to understand the business operations of your company. Attend business education courses offered by ACC and the Boston University Questrom School of Business to learn critical business disciplines and earn valuable CLE credits:

- Mini MBA for In-house Counsel, September 9-11, and November 4-6
- Finance and Accounting for In-house Counsel, September 23-25

Learn more and register at *acc.com/BU*.

Connect Your Circles… Expand Your Reach!

When your in-house peers join ACC, you create opportunities to engage with colleagues, expand your professional network, and share ideas and expertise. Now through 30 September, you are automatically entered into a us $100 monthly drawing when you recruit a new member. As an added bonus, your new recruit is automatically entered into a separate drawing, too! Learn more at *acc.com/MemberConnect*.

In-house Counsel Certified (ICC) Designation

If you are an in-house lawyer seeking to become proficient in the essential skills identified as critical to an in-house legal career, the In-house Counsel Certified (ICC) designation is precisely what you need. To be eligible for the designation, you'll need to participate in the ACC In-house Counsel Certification Program, which includes live instruction, hands-on experience, and a final assessment. Those who successfully complete the program will earn the ICC credential. Attend one of these upcoming programs:

- **Amsterdam, Netherlands**, September 10-13, 2019
- **Berkeley Heights, New Jersey**, November 4-7, 2019

For more information visit *acc.com/certification*.

Upcoming Events

September 11
Pro Bono Senior Estate Planning Clinic
9am-2pm

September 13
Legends of the Board Room with MSBA
7:30am to 12:30pm

September 17
Lunch with Shawe Rosenthal at Alexander Brown Restaurant
12pm-1:30pm

October 3
Webinar with Womble Bond Dickinson
probably at lunchtime

October 7
Joint MSBA/ACC Program with City Solicitor Andre Davis
DLA Piper
8:30am-10am

October 10
Fall Social with Nelson Mullins at Guinness Brewery
5pm-8pm

October 23
Lunch with Womble Bond Dickinson
12pm-1:30 pm

October 27-30
ACC Annual Meeting
Phoenix, Arizona

November
Lunch with Saul Ewing

December
Lunch with Anderson Kill

Surprise Your Next Vendor with a Security Pop Quiz

By Helena Ledic, CSC

Just for a moment, think back to your high school days, and the one sentence you dreaded hearing the teacher say at the start of class. For most of us, it had nothing to do with an assignment, another tedious lecture, or test results that were about to be handed out. Instead, it was something like this:

"Please pull out a sheet of paper and pen, it's time for a pop quiz."

While hearing that command may have caused the class's collective stomach to drop, it certainly kept everyone on their toes. But this idea of a pop quiz can also be used in today's world of selecting a vendor for your company. Rather than require potential candidates to complete a long-form questionnaire or RFP in advance, why not schedule a call and give them a Security Pop Quiz, forcing them to be on their toes?

This approach can save you the time and effort it typically takes to evaluate a new vendor, which can begin with a period of information-gathering and can include RFPs and security audits. Get to the point more efficiently by gathering your team together, and be ready to ask the questions that are important to your organization.

This way, in an hour or less, your organization can determine whether the vendor will meet your organization's minimum security standards. The following are some of the questions you can ask during your call to get a sense of the vendor's security standards:

Does the vendor encrypt data both in transit and at rest?

In late 2018, a major health insurer suffered a data breach when a laptop containing over 40,000 SSNs, DOBs, and other sensitive health information was stolen from an employee's vehicle. The actual hard drive was not encrypted, even though the laptop was password-protected and had other security features.

The lesson? Not all devices are encrypted at every level, so be sure to ask the vendor if all corporate laptops, tablets, and mobile devices will be encrypted. While mistakes happen, it is imperative to make sure the vendors you work with aren't susceptible to security incidents, which could turn into breaches, simply because they failed to encrypt data at all times.

Does the entire company use Multi-Factor Authentication (MFA)? If so, do they remove SMS as an alternative?

This is a must, because with the prevalence of socially engineered phishing, it's critical for all vendor employees to have MFA in order to access company networks.

Does the vendor offer Single Sign-On (SSO) for their SaaS solution?

They should, because in most cases, it's better for employees to have SSO, which reduces the chances for using similar personal and professional passwords and allows your IT team to terminate access to SaaS solutions quickly.

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How complex are employee passwords and do they have systems in place to prevent breached passwords from being used?

At a bare minimum, a password should contain a minimum of eight characters and three of the four character types: uppercase, lowercase, numbers, and special characters. There should be a solution that prevents employees from using passwords containing their name, company name, DOB, etc.

Does the vendor have a full-time data security officer?

Many newer companies may have employees working in dual roles. However, having a data security officer who also serves a sales, leadership, or other non-IT/compliance role, can often blur the lines of what responsibilities belong to whom, which can wind up being problematic for you.

Have you had any security incidents within the last five years?

If some of the biggest companies on the planet can fall victim to an incident, then virtually every company is also vulnerable (if they haven't already had a security incident of some sort). If the vendor says they have not had a security incident, push further. Can it be that no one in their organization has ever lost a phone or laptop?

How do you track and/or report security incidents?

Your proposed vendor should be systematically tracking security incidents in some type of log and classifying the level of threat. If they are not tracking even relatively minor incidents, such as lost employee phones, could it be that they have not given sufficient thought to an incident response plan for a more significant issue, such as a breach?

Are development, production, and test environments separated from each other or are they co-mingled?

If these different environments are comingled, performance and service-level agreements may be impacted and the user experience may be affected. Setting up a wall between these environments also minimizes the risk of customer data being comingled with development and test data.

If you have multiple servers in various locations, how are the different systems patched and how long does it take to push a patch across the enterprise?

The vendor should have written policies and procedures for pushing both critical and non-critical patches across the organization. You should be able to review these policies in order to help make your decision.

What is your privacy policy?

Can the vendor give you a fast, definitive answer as to whether or not their privacy policy is in line with your own privacy policy, and if it complies with current laws in the appropriate jurisdictions? Even if they can, be sure to make sure you actually read their privacy policy.

Only you and your organization can determine if unfavorable answers are acceptable, no matter the size of the vendor or contract. A "No" answer to one or two questions might be acceptable, however, multiple insufficient responses could cause you to determine that a vendor's security standards do not meet your own. This may be especially true if said vendor holds critical customer data, such as PMI, PII, or sensitive payment information.

If there are any other standard questions you ask of prospective vendors, please feel free to share them with me at Helena.ledic@cscglobal.com. In closing, thanks to John Bates, formerly General Counsel and Chief Information Security Officer at Clarity Insights for inspiring this article.

Boards of Directors in the Bullseye: #MeToo and the Fiduciary Duty

By Elizabeth Torphy-Donzella, Shawe Rosenthal, LLP

Allegations of sexual harassment perpetrated by top officials are not new, nor are lawsuits or threats of lawsuits based on those allegations. Wise companies take such matters seriously and, if they conclude that the allegations have merit, take action not just to resolve the matter with the complaining party but to root out the problem so it does not reoccur.

The #MeToo movement has, however, revealed that when the offender is a "master of the universe" – a powerful, revenue generating, man (usually) or woman (occasionally) with undeniable talent in his/her field – corporations and their boards too often have "taken care of the problem" of the moment with confidential settlements and then continued with business as usual. For example, Harvey Weinstein's behavior seems to have been deemed a "cost of doing business" because his employment contract (approved by his company's board), included a graduated scale of penalties for each legal claim his conduct generated and a requirement that he pay the costs associated with these legal matters.[1]

In the wake of #MeToo, the responsibility of corporate boards of directors for oversight of employment matters is being rethought. Traditionally loath to get too involved in corporate personnel matters, questions are now being raised about whether board actions or inactions concerning workplace harassment constitute breaches of fiduciary duty. Such questions have been raised at places like National Public Radio (a not-for-profit entity whose reporters often do exposés on misconduct by corporate or government officials). Over a roughly three-year period, NPR's Senior Vice President of News was alleged to have engaged in inappropriate conduct with female employees and young women who sought his guidance as a mentor. These matters were the subject of discussions

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[1] Weinstein's contract may be found at https://issuu.com/deadline2/docs/weinstein-_redacted-wm/4

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with him by legal and HR informally, but not discipline. The NPR Board learned of his behavior shortly before his conduct at NPR and, years earlier, at the New York Times, was publicized in the press. He was suspended, tendered his resignation, and the NPR Board engaged a firm to conduct a legal review.[2] The legal report set forth instances of conduct by this Senior VP and other high-level News Division males that suggested that a culture of predatory behavior by the executive and others was tolerated for years to the dismay of female employees. After receiving the legal report, the board met with NPR staff and advised them that they intended to become more involved in personnel matters, but employees reportedly remain skeptical.[3]

How corporate boards have addressed harassment claims against top executives also has started generating lawsuits alleging that the boards breached their fiduciary duties in either tolerating or being willfully blind to obvious executive misconduct to the detriment of their companies (and their shareholders). A recent example is Lululemon, which along with its former CEO is facing a shareholder derivative suit alleging that the company's board did nothing to address sexual harassment and bullying by the former CEO, creating a "toxic culture" that damaged the company's financial position.[4] The lawsuit also attacks the $5 million dollar severance package given to the exiting CEO as another breach of fiduciary duty.[5]

Given this changed "landscape" boards of directors must accept that personnel matters are within the realm of their "their business." In that regard, some of the actions boards should take include:

- If the board does not have a personnel committee, one should be established. Those who sit on the committee should be knowledgeable about human resource practices and employment law.
- Boards are well advised not to simply accept the "report outs" from management that a personnel matter has been investigated and resolved when that matter involves allegations of serious misconduct, particularly by key executives. Boards must ask questions and may in some cases need to retain independent investigators that report directly to the board or its personnel committee.
- Boards must demand to be informed about proposed payments made to resolve any significant complaints (to complainants and to accused executives who exit). The proposed terms of such resolutions must be examined to make sure that they are appropriate (and that the resolution does not neglect the root cause of any problems).
- Finally, boards should not assume that the corporation has adequate policies and procedures in place to prevent and remedy harassment and other legally significant complaints. Interviewing human resources personnel about procedures, reviewing company policies, and examining whether there are robust avenues for complaints to be raised are important aspects of this new "due diligence."

For many boards, digging into the "nitty gritty" of personnel matters is unfamiliar. However, the fiduciary duty of the board of directors now demands this,

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[2] The report prepared by Morgan Lewis may be found at https://www.npr.org/documents/2018/feb/npr-independent-harassment-report.pdf

[3] See NPR Board Faces Tough Questions Over Sexual Harassment Handling at https://www.npr.org/sections/thetwo-way/2018/02/22/588093337/npr-board-faces-tough-questions-over-sexual-harassment-handling

[4] The case was filed in the Delaware Chancery Court. https://courtconnect.courts.delaware.gov/public/ck_public_qry_cpty.cp_personcase_details_idx

[5] The settlement payment that is being challenged may be found in Lululemon's February 2018 SEC filing. https://www.sec.gov/Archives/edgar/data/1397187/000139718718000005/lulu-20180202xex101.htm

The Uncertain Future of Patent Eligibility

By Barry J. Herman and Will Hubbard, Womble Bond Dickinson

For many companies in many industries, patents are an important tool for driving innovation. At the same time, patents limit competition, so that companies must also be wary of their competitors' patent portfolios. The result is that for many companies it is important to understand whether inventions are entitled to patent protection. The Supreme Court has long held that certain types of discoveries are ineligible for patents: laws of nature, natural phenomena, and abstract ideas. These discoveries are "part of the storehouse of knowledge of all men ... free to all men and reserved exclusively to none."[1] However, determining the scope of these judicially-created categories has proven difficult, generating substantial conflict amongst litigants. At the urging

[1] *Funk Brothers Seed Co. v. Kalo Inoculant Co.*, 333 U.S. 127, 130 (1948).

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of aggrieved innovators, Congress has recently taken an interest in patent eligibility, proposing new legislation and holding hearings on the issue. At the same time, the Supreme Court is weighing new petitions for certiorari on issues of patent eligibility. Unfortunately, these divergent legal currents leave innovators caught between the rock of the Supreme Court's unclear jurisprudence and the hard place of evolving congressional reform.

This legal morass stems in large part from the Supreme Court's decisions on patent eligibility, particularly a series of opinions issued in the past ten years. In the first case, *Bilski v. Kappos*, the Court rejected the Federal Circuit's efforts to develop a potentially clearer alternative to determining patent eligibility than the Supreme Court's categorical exclusions.[2] In reaffirming the importance of the three categories, however, the Court noted that "applications" of ineligible subject matter may in some cases receive patent protection. In the next three cases, the Court grappled with this meaning of "application." The Court quickly recognized that "all inventions at some level embody, use, reflect, rest upon, or apply laws of nature, natural phenomena, or abstract ideas."[3] An invention therefore is not ineligible for patent protection simply because it involves some excluded subject matter. The issue is whether an invention involves enough eligible material to warrant patent protection. The Court ultimately developed a two-step framework for determining whether an invention passes this eligibility threshold, most clearly enunciated in *Alice Corp. Pty. v. CLS Bank International*.[4] The first stage evaluates whether an invention is "directed to" material falling in one of the three ineligible categories.[5] If so, the second stage examines "whether the additional elements [in the patent] transform the nature of the claim into a patent-eligible application."[6] In particular, the Court noted that an abstract idea could not be rendered patent eligible through the use of "well-understood, routine, conventional activities previously known to the industry."[7]

The effects of the Supreme Court's decisions have reverberated through the lower courts. Accused infringers quickly began filing motions to dismiss and motions for summary judgment arguing that patents were invalid because they claimed ineligible subject matter, particularly in cases related to software, internet services, and medical diagnostics and treatment. Because these motions were based on the two-step framework from *Alice*, they soon became known as "*Alice* motions." These motions were largely successful, particularly at the dismissal stage, with some estimates of success rates by patent challengers exceeding 50%. Favorable, early resolution was particularly attractive to accused infringers, sparking an increase in the number of *Alice* motions filed. At the same time, the U.S. Patent and Trademark Office (USPTO) began reviewing patent applications with increased scrutiny regarding eligibility.

Nevertheless, some companies and commentators decried the impact of *Alice*, arguing that the decision discouraged innovation in certain fields. Recently, these complaints have gained congressional traction. On May 22, 2019, a bipartisan group of senators and congressmen, including the Chair of the Senate Judiciary Subcommittee on Intellectual Property and the Chairman of the House Judiciary Subcommittee on Intellectual Property and the Courts, proposed amendments to the Patent Act designed to rewrite the law of patent eligibility. Specifically, the proposed revision would eliminate the prohibition on patenting abstract ideas, laws of nature, or natural phenomena and abrogate "all cases establishing or interpreting those exceptions to eligibility."[8] Instead, patent eligibility would depend on whether a discovery provides "specific and practical utility in any field of technology through human intervention."[9] Additionally, the proposed legislation would explicitly be "construed in favor of eligibility."

The Senate Judiciary Subcommittee on Intellectual Property held hearings on June 4, 5, and 11 regarding the draft amendment, receiving testimony from forty-five witnesses whose assessments of the new eligibility standard ranged widely. Some lauded the new law as reestablishing patent protection for important innovations and providing greater legal clarity. For example, Manny Schecter, the Chief Patent Counsel for IBM, asserted that "the current patent eligibility standards do not provide the certainty needed to enable modern business to operate effectively." Schecter predicted the draft bill would "reduce uncertainty of patent rights, diminish collateral damage to high quality patents, and improve the integrity of the patent system." Likewise, David Kappos, the former Director of the USPTO, described current patent-eligibility jurisprudence as "a mess" and expressed concern that without reform American innovation would fall behind in key areas. Kappos endorsed the new legislation as "an effective, simple, creative solution." Others who testified were less optimistic about the draft bill. For instance, David W. Jones, the Executive Director of the High Tech Inventors Alliance, stated that the proposed changes "would impede, rather than encourage, innovation."

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[2] 561 U.S. 593, 649 (2010) (rejecting the Federal Circuit's machine-or-transformation test).

[3] *Mayo Collaborative Servs. v. Prometheus Labs., Inc.*, 566 U.S. 66, 71 (2012).

[4] 573 U.S. 208 (2014).

[5] *Id.* at 217.

[6] *Id.* (international quotation marks omitted).

[7] *Id.* at 225 (internal quotation marks and alternations omitted).

[8] Thom Tillis, Sens. Tillis and Coons and Reps. Collins, Johnson, and Stivers Release Draft Bill Text to Reform Section 101 of the Patent Act (2019), https://www.tillis.senate.gov/2019/5/sens-tillis-and-coons-and-reps-collins-johnson-and-stivers-release-draft-bill-text-to-reform-section-101-of-the-patent-act.

[9] *Id.*

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Jeffrey K. Francer of the Association for Accessible Medicines, a trade association for manufacturers and distributers of generic drugs, stated that the new legislation would lead to higher drug prices. Various law professors testified that expanding patent eligibility could lead to an across-the-board increase in patent litigation.

Presently, the status of congressional efforts to reform the law of patent eligibility is uncertain. The Senate Judiciary Subcommittee on Intellectual Property ended the June hearings by promising to further revise the bill in light of the three days of testimony. The debate may also be impacted by new decisions by the Supreme Court, which is currently considering at least two petitions for certiorari on issues of patent eligibility. Even if the statutory amendment passes, substantial hurdles remain to providing the certainty and clarity in patent eligibility that the supporters of the statutory revision hope to achieve. For example, the meanings of key terms in the proposed legislation, such as "human intervention" and "applied discovery," are to some extent unclear. In fact, the extent to which Congress can expand patent eligibility is itself undecided. The U.S. Constitution grants Congress the power to enact patent laws that "promote the Progress of ... useful Arts" by granting exclusive rights to "Inventors" for their "Discoveries," and the Supreme Court has not squarely addressed whether this language limits the power of Congress to expand patent eligibility.[10] The result is that litigation regarding issues of patent eligibility is likely to continue, whether under the Supreme Court's categorical jurisprudence or the new legislative approach. In the meantime, litigants should continue to file and fight Alice motions and to draft their patent applications mindful of the Supreme Court's three exclusions. Even with the recent flurry of congressional activity, it is certainly too soon to bank on reform dramatically expanding patent eligibility.

About the authors:

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Partner, Womble Bond Dickinson

Barry Herman is a Chambers-ranked IP litigator who tries cases in district courts throughout the country, at the USPTO, and at the ITC. A chemical engineer by training, Barry litigates patent disputes in the chemical, mechanical and electrical arts, and has significant experience with trademark and antitrust litigation. Outside of the courtroom, he assists clients with due diligence, opinions and strategic procurement of new technologies. He is Managing Partner of Womble Bond Dickinson's Baltimore office. Barry can be reached at barry.herman@wbd-us.com.

Will Hubbard
Senior Counsel, Womble Bond Dickinson

A mathematician by training, Will Hubbard represents clients in complex patent cases involving diverse technologies ranging from cell phones to explosives to dental technology. Will also advises clients on issues closely related to technology, such as those arising under contract and antitrust law. He also serves as a Professor of Law at the University of Baltimore Law School. Will can be reached at will.hubbard@wbd-us.com.

[10] *Cf. Bilski*, 561 U.S. at 632 (Stevens, J., concurring) (arguing that business methods are ineligible for patent protection because they are not part of the "useful Arts).

Top Ten Benefit and Compensation Issues in Employment & Separation Agreements

By Paolo M. Pasicolan, Miles & Stockbridge P.C.

When a company negotiates either an employment agreement or separation agreement with an employee, the employee benefits offered are typically a large piece of the total package. However, the terms of these types of agreements are subject to various federal and state laws that can be difficult to navigate and coordinate. Examples include Section 409A of the Internal Revenue Code (the "Code") and continuation health coverage under the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA). As such, careful drafting is required by employers in order to prevent adverse tax consequences to all parties. Below are 10 employee benefits and compensation issues that should not be overlooked by employers when drafting employment and separation agreements.

1. Salary Continuation and Code Section 409A

Oftentimes, separation agreements will provide for severance payments in the form of salary continuation for a period of time following the employee's termination date. Generally, a payment made in a later taxable year than the taxable year in which the employee has a legally binding right to it is considered "deferred compensation." Deferred compensation is subject to Code Section 409A. However, depending on the payment structure, severance payments may be exempt from Section 409A as "separation pay." The separation pay exemption applies if:

- Severance is payable upon an involuntary separation from service,
- The amount does not exceed two times (2x) the lesser of the employee's annualized compensation for the year prior to the year of termination or the Code Section 401(a)(17) limit ($280,000 for 2019) for the year of termination, and

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- Severance is required to be paid no later than the last day of the second taxable year following the year of the employee's termination.

Failure to comply with Code Section 409A results in immediate taxation on the full amount of the deferred compensation to the employee, an additional twenty percent (20%) penalty tax, plus a separate premium interest tax. Employers will also be impacted by a Section 409A violation because of the failure to report and withhold taxes on the severance payment for the correct taxable year. However, even if the desired severance pay structure does not meet the separation pay exemption, there are other exemptions under Section 409A that can be considered as well, even if the desired severance payment structure does not comply with the separation pay exemption. Employers should work with benefits counsel to carefully draft agreements involving deferred compensation.

2. Release Timing and Code Section 409A

A separation agreement can also violate Code Section 409A if timing of the severance payment is wholly dependent upon the timing of the employee's execution of the agreement. This includes release consideration and revocation periods that flow from the timing of the employee signing the agreement. Code Section 409A prohibits employees from electing the timing of payment, which could potentially change the taxable year in which the severance is received. While this can be problematic in all instances where the severance payment is dependent upon the timing of the employee's execution of the agreement, it is even more problematic for separation agreements that are offered at the end of the calendar year when any delay in execution could impact the taxable year in which the severance payment is received by the employee.

Similar issues may arise if severance negotiations extend into a different taxable year. For example, a severance agreement is offered to a CEO on December 15, 2019 and provides a 45-day consideration period with payment 10 days after the CEO's execution of the agreement. Here, the CEO could sign the agreement immediately and receive payment in 2019 or wait until the end of the consideration period to sign and receive payment in 2020. Choosing a date certain to provide payment that is not contingent upon the timing of the employee's signature can minimize potential Code Section 409A issues. Therefore, a possible solution in the example provided would be drafting the agreement so payments will be made 60 days after the CEO's termination date, if the agreement is signed and not revoked.

3. Changes to Employment Agreements and Code Section 409A

Once the employee and the employer enter into an employment agreement specifying a time and form of deferred compensation that is compliant with Code Section 409A, any subsequent changes to the time and form of payment must comply with special rules concerning changes in payment under Code Section 409A. These rules provide that:

- The election to change the payment may not take effect until at least 12 months after the date the election was made.
- The new payment date is at least 5 years later than the date the payment otherwise would have been made.
- The election must be made at least 12 months before the date the payment otherwise would have been made (for payments that were originally scheduled to be paid on a specific payment date or fixed schedule).

For example, a CEO is entitled to a $100,000 retention bonus to be paid to him on June 1, 2020 if he is still employed on December 31, 2019. If the company and the CEO want to amend the agreement in 2019 to pay him the retention bonus one year later than originally scheduled, on June 1, 2021, this would violate Code Section 409A. Any amendment delaying the payment date is required to be effective before June 1, 2019 and the payment cannot be made to CEO until June 1, 2025. Again, these provisions were added to the Code in order to dissuade executives from choosing, and Companies from changing, which taxable year they will receive deferred compensation.

4. Compensation & Constructive Receipt Issues

Employment agreements also have the potential to create adverse tax consequences under Code Section 83 and the constructive receipt doctrine. Generally, a taxpayer who has an unrestricted right to receive income is deemed to have constructive receipt of income even though the employee has not actually accepted the income. For example, if a sales person earns a $100,000 commission on June 1, 2019, he is deemed to receive the income in 2019 even if he tells his employer not to pay him the commission until June 2020.

5. Taxability of Non-Cash Benefits

While non-cash benefits can enhance the value of an employment agreement, employers should be aware of whether the fair market value of these benefits is taxable as income to the employee. Generally, gross income means all income from whatever source derived. Therefore, in order for a non-cash benefit to be excluded from an employee's income, there must be an explicit tax provision providing for exclusion. For example, reimbursement for the cost of moving expenses for a newly hired employee was previously nontaxable as a qualified moving expense reimbursement fringe benefit under Code Section 132. The recent Tax Cuts and Jobs Act suspended this specific fringe benefit for tax years 2018 to 2025. Therefore, any payment for moving expenses must now be considered income to the employee, even though up until recently it was not.

6. Drafting COBRA Language

When drafting separation agreements, employers typically include a paragraph addressing COBRA benefits. However, COBRA benefits are only available to employees who elected health coverage through the employer during employment. Therefore, any reference to COBRA benefits should be removed or omitted when a severance package is offered to an employee who does not participate in the employer's group health plan. In addition, if an employer would like to subsidize COBRA benefits for the severed

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employee, the employer should be specific as to whether it is subsidizing for only the employer portion of the premium or both the employee and employer premium amounts. Lastly, the separation agreement should clearly address whether the COBRA subsidy will be paid in the form of a reimbursement after the premium is paid by the severed employee or the employer will continue to pay the premiums directly.

7. Paying for COBRA Coverage

If a company has a practice or policy of paying for all or a portion of employees' COBRA payments upon separation from employment, it should be cognizant of the makeup of the workforce it is providing such benefits to. For example, payments of COBRA premiums are generally not taxable under Code Section 106. However, Code Section 105(h) requires that health benefits provided to employees under self-insured medical plans do not discriminate in favor of "highly compensated individuals." The term "highly compensated individuals" is defined in the statute as an individual who is:

- One of the top 5 highest paid officers;
- A shareholder who owns more than 10 percent in the value of the stock of the employer; or
- Among the highest paid 25% of all employees.

For example, a company with a self-insured medical plan that only pays COBRA premiums to its C-suite executives, and not rank and file employees, is likely to violate the nondiscrimination requirement of Code 105(h). Failure to comply with Code Section 105(h) results in these highly compensated individuals being taxed on the medical benefits received by them.

8. Employment Through Bonus Payment Date

Some employers offer discretionary bonus payments annually to their employees. Generally, bonus payments are made in the first quarter of the calendar year following the performance year in which the employee was evaluated for bonus eligibility. Employers will sometimes require employment through the payment date in order to receive a bonus. Therefore, employees terminated from employment before the bonus payment date will not receive a bonus. State laws differ on whether a bonus has been "earned" so as to constitute wages that must be paid to a terminated employee.

In Maryland, for example, employee bonus policies that expressly condition the payment of bonuses on an arbitrary requirement, such as continued employment, can be challenged. This may result in a bonus payout to an employee who terminates early. Moreover, the manner in which the bonus program is communicated to employees can alter the analysis of whether a bonus is considered earned. This includes whether handbooks or offer letters contain discretionary or entitlement language when describing bonus policies. Careful drafting is needed when describing bonus payments in employment agreements or offer letters to minimize ambiguity. Similarly, when an employee is terminated, employers should determine whether a bonus is required to be paid out when processing the final paycheck or when valuing a severance package as a whole.

9. 401(k) Deferrals and Severance Pay

Many employers continue to process an employee's severance pay through their payroll administrator or department, especially if the severance is paid in the form of salary continuation. While employment tax and social security withholdings remain the same for employed or terminated employees, salary deferrals into an employee's 401(k) plan cannot be continued as severance pay because severance pay does not meet the definition of "compensation" under Code Section 415. This is a common mistake, especially when payments are not coded or processed as severance pay in a company's payroll system. This type of mistake, if made, must be fixed in order to keep the tax qualified status of the company 401(k) plan. The fix may involve filing the correction with the IRS. Another common mistake that can cause qualification issues with a company's 401(k) plan is when a terminated employee continues to be paid through payroll for a period of time after termination, also referred to as "garden leave." This is because the IRS does not utilize an employee's designated termination date for 401(k) purposes, but rather the employee's "separation from service." If the employee is not performing services for the company, whether or not still on the payroll, the garden leave payments may still be considered severance pay and not compensation under 401(k) plan contribution and distribution rules.

10. Equity Awards

Equity awards are often included in employment and separation agreements as part of an employee's compensation package. Equity awards are governed under the terms of a separate equity plan and cannot be changed by the terms of a separation or employment agreement. For example, if an employee is vested in company stock, he is entitled to the stock even if the company terminates him and provides in his separation agreement he will be receiving cash in lieu of company stock.

In sum, there are many taxation and benefits issues that can arise with employment and separation agreements that should not be overlooked by employers. Careful drafting is needed to avoid adverse tax consequences for employees and employers.

This article was prepared with the assistance of Mary Claire S. Blythe, a former associate at the firm. It was originally published in the Spring 2019 newsletter of the Maryland State Bar Association Section of Labor & Employment Law.

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A Funny Thing Happened on The Way to the Forum (You Meant to Select)

By Joseph B. Wolf, Goodell DeVries LLP

Because franchises are often located in multiple states, forum selection clauses provide a franchisor with significant advantages in the event of a dispute with a franchisee and are a key component of any franchise agreement. Forum selection clauses generally require that all disputes arising from the agreement be litigated in a particular jurisdiction, most often the state where the franchisor's principal place of business is located.[11] Forum selection clauses bring predictability to how franchise agreements will be construed and allow franchisors to make sometimes difficult business decisions with confidence that those decisions will not be disturbed or overturned in litigation. Also, by requiring all litigation to take place in their home state, franchisors obtain a "home court advantage" in the form of familiarity with the legal landscape and the practices of the local courts. Finally, forum selection clauses allow franchisors to consolidate all legal services with a single law firm in their home jurisdiction, thereby limiting their legal costs.

But funny things can happen to forum selection clauses depending on the particular language of the clause, where a suit is filed, and whether the clause appears in an arbitration provision.

Not All Forum Selection Clauses Are Created Equal

Courts have identified three types of forum selection clauses: mandatory, permissive and hybrid. The type of clause used will be crucial if the provision is challenged by the franchisee in court.

Mandatory clauses are those that dictate that litigation ***must*** be brought in a particular forum to the exclusion of all other forums. ("Any dispute arising under, relating to, or in connection with this agreement shall be subject to the exclusive jurisdiction and venue of the state and/or federal courts in the state of Pennsylvania.") A forum selection clause will still be considered mandatory even if it allows suits to be filed in more than one jurisdiction as long as all other jurisdictions are plainly excluded. *See United Consumers Club, Inc. v. Prime Time Mktg. Mgmt., Inc.*, No. 207-CV-358JVB, 2008 WL 2572028, at *2–3 (N.D. Ind. June 25, 2008) (holding that clause requiring suit to be filed in "any state or federal court of general jurisdiction in Cook County, Illinois or in Lake County, Indiana" was mandatory).

Mandatory provisions will generally be enforced by courts absent a clear showing that enforcement would be "unreasonable or unjust, that the clause was invalid for such reasons as fraud or overreaching," or that enforcement "would contravene a strong public policy of the forum in which suit is brought." *Baker v. Adidas Am., Inc.*, 335 F. App'x 356, 360 (4th Cir. 2009) (quoting *The Bremen v. Zapata Off-Shore Co.*, 407 U.S. 1, 15, 92 S.Ct. 1907, 32 L.Ed. 513 (1972)).

A permissive clause authorizes, but does not mandate, jurisdiction and venue in a particular forum. ("Franchisee agrees that the state and federal courts of the Commonwealth of Massachusetts will have jurisdiction to resolve all disputes arising from this agreement.") Federal Courts will not necessarily enforce a permissive forum selection clause if it is challenged and will instead apply the usual 28 U.S.C. §1404 forum non-conveniens analysis if the choice of forum is challenged. *See, e.g., Universal Stabilization Techs., Inc. v. Advanced Bionutrition Corp.*, No. 17CV87-GPC(MDD), 2017 WL 1838955, at *8 (S.D. Cal. May 8, 2017).

A hybrid clause generally does not require that suit be brought in a particular jurisdiction. Rather, it provides that a party ***may*** bring suit in a particular jurisdiction but that once it does so, its adversary is prohibited from transferring the case to another jurisdiction. *See Lues v. Ginn–La W. End, Ltd.*, No. 3:08-cv-1217, 2010 WL 5671779 (M.D. Fla. Mar. 31, 2010) aff'd, 631 F.3d 1242 (11th Cir. 2011) (citations and internal quotation marks omitted). Hybrid clauses will generally be enforced once suit is filed in a jurisdiction permitted by the forum selection clause, thereby preventing the defendant from transferring the case absent a showing of unreasonableness. Because of the presence of both permissive and mandatory language in a single clause, hybrid clauses can give rise to more complicated questions and unpredictable results. For example, in *Cluck-U, Corp. v. Cluck-U Chicken, Inc.*, No. PWG-15-3439, 2016 WL 9526438 (D. Md. May 27, 2016), the court disregarded the mandatory component of the hybrid clause where the opposing party filed suit first in a jurisdiction as was allowed under the permissive component of the hybrid clause.

In *Cluck-U*, the franchise agreement between the franchisor and the franchisee and its guarantor contained a permissive forum selection clause as follows:

> The parties hereby consent to jurisdiction and venue in the Circuit or District Court of Prince George's County, Maryland (depending on the amount in controversy) for any dispute relating to the fees charged under this Agreement. If by law the parties' choice of venue and jurisdiction is unenforceable or if full relief cannot be obtained except in another jurisdiction, either party, provided the party pursues all required mediation procedures, may file suit where jurisdiction may be found.

The Guaranty included the following permissive provision:

> The Guarantors consent to being sued on this Guaranty in the state or federal courts of the State of Maryland and consent to the jurisdiction of such courts in any such action.

Id. at *3. The Guaranty also provided as follows:

> If any such action is brought by Franchisor [i.e., Cluck-U] against the Guarantors in the U.S. District Court for the District of Maryland, Southern Division ... the Guarantors waive any right they may have to obtain a change of venue to any other federal court.

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Id. When the parties' business relationship faltered, the franchisee filed suit in the Middle District of Florida as was permitted under the permissive language in the forum selection clauses in both the franchise agreement and guaranty. The franchisor's motion to dismiss or transfer the case from the Middle District of Florida to Maryland was denied because the suit had not been improperly filed under the permissive language of the relevant forum selection clauses. The franchisor then filed suit in the District of Maryland as the agreements permitted it to do, and the franchisee and guarantor moved to dismiss or to transfer the Maryland case to the Middle District of Florida based upon the first-to-file rule.

The court acknowledged that language of the forum selection clauses, which it identified as hybrid clauses, prohibited the franchisee and guarantor from challenging the forum if the case was brought in the District of Maryland. Nevertheless, because the filing of the first action in Florida by the franchisee and guarantor was consistent with the language of the forum selection clauses, the weight given to the franchisor's filing of the second action in Maryland was minimized. Accordingly, after evaluating the remaining forum nonconveniens factors, the court exercised its discretion, chose not to enforce the mandatory language in the forum selection clause and transferred the Maryland case to Florida. *Id.* at *5.

Because permissive clauses may not be enforced when challenged, and hybrid clauses can lead to unpredictable results, franchisors who choose to include a forum selection clause in their agreements should strongly consider using a mandatory clause. Doing so significantly limits the chances that franchisees can steal home field advantage by filing suit in the forum of their choice.

Court Clarity is Key to Avoiding Ambiguity

If a franchisor has a preference as to whether claims arising from the agreement are to be brought in state or federal court, the forum selection clauses should be drafted in a way that makes that preference clear. There is a split among the courts as to whether a clause that limits jurisdiction by using the language "in the courts of the state of" is ambiguous thereby allowing suits to be filed in both state and federal court of the state included in the forum selection clause.

In *Ideal Protein of Am., Inc. v. Allife Consulting, Inc.*, No. 8:19-CV-654-T-33CPT, 2019 WL 1650021, at *1 (M.D. Fla. Apr. 17, 2019), the clause "the exclusive jurisdiction of the courts of the State of Florida" was found to be ambiguous resulting in the denial of a motion to remand when the action was filed in the United States District Court for the Middle District of Florida. The court, relying on Eleventh Circuit precedent, rejected the defendant's argument that "courts of the state of Florida" referred only to state courts.

Conversely, both the Third and Fourth Circuits have construed "courts of the state of" to limit jurisdiction to the state courts. *See New Jersey v. Merrill Lynch & Co.*, 640 F.3d 545, 548-49 (3d Cir.2011) (holding that by using the phrase "of a state" rather than "in a state," the forum selection clause limited jurisdiction exclusively to the specified state court) (citing *FindWhere Holdings, Inc. v. Sys. Env't Optimization, LLC*, 626 F.3d 752, 755 (4th Cir.2010) (holding that "'of [a state]" limits jurisdiction ... to the state courts of the named state.'")).

Because franchisors generally use the same agreements across multiple jurisdictions and are virtually always the drafters of the franchise agreements against which any ambiguity will be resolved, care should be taken to draft the forum selection clause to clearly identify the court, state or federal, in which the franchisor prefers to litigate.

State Statutes May Protect Franchisees from Forum Selection Clauses

Depending on the jurisdiction, if a franchisee wins the race to the courthouse and files suit in its home state first, even a mandatory forum selection clause maybe unenforceable. In some jurisdictions, there are statutes in place to protect franchisees that specifically void forum selection clauses. These states include, among others, California (Cal. Bus. & Prof. Code § 20040.5 – "A provision in a franchise agreement restricting venue to a forum outside this state is void with respect to any claim arising under or relating to a franchise agreement involving a franchise business operating within this state."), Ohio (Ohio Business Opportunity Law, Revised Code §1334.06 - rendering any venue or choice of law provision that deprives a purchaser who is an Ohio resident of the benefit of the Act void and unenforceable) and Rhode Island (Rhode Island Franchise Investment Act, §19–28.1–14, rendering unenforceable any provision in a franchise agreement that restricted jurisdiction or venue to a forum outside Rhode Island).

In New Jersey, courts have held that forum selection clauses in franchise agreements are presumed to have been imposed on a franchisee on the basis of the franchisor's superior bargaining position and are invalid. The presumption may be overcome by evidence of specific negotiations over the forum selection clause and of the franchisee receiving specific concessions in exchange for including the clause in the agreement. *See Kubis & Perszyk Assocs., Inc. v. Sun Microsystems, Inc.*, 146 N.J. 176, 195, 680 A.2d 618, 627–28 (1996).

Because state law can void or limit a forum selection clause, franchisors should not assume that their choice of forum will be respected in all situations.

Forum Selection Provisions in Arbitration Clauses

There may be some good news even if a franchisee files suit in a state with franchisee-friendly statutes. Your mandatory forum selection clause may be enforceable even in states that limit or void forum selection clauses if the forum selection clause appears in an arbitration

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provision. Federal Circuit Courts, following Supreme Court precedent, have held that 9 U.S.C. §2, the Federal Arbitration Act (FAA), preempts state laws limiting arbitrations unless those state laws apply to all contracts. Thus, where states pass laws voiding forum selection clauses in franchise agreements in order provide special protection to franchisees, the protection will likely not extend to arbitration provisions and franchisees will be compelled to arbitrate in the forum identified in the franchise agreement. *See, e.g., Bradley v. Harris Research, Inc.*, 275 F.3d 884, 892 (9th Cir. 2001) (citing *Doctor's Assocs., Inc. v. Casarotto*, 517 U.S. 681, 116 S. Ct. 1652, 134 L. Ed. 2d 902 (1996)); *KKW Enters., Inc. v. Gloria Jean's Gourmet Coffees Franchising Corp.*, 184 F.3d 42 (1st Cir.1999); *Doctor's Assocs., Inc. v. Hamilton*, 150 F.3d 157, 163 (2d Cir.1998); *OPE Int'l LP v. Chet Morrison Contractors, Inc.*, 258 F.3d 443, 447 (5th Cir.2001).

Forum Selection Clauses May Not Survive Termination of the Franchise Agreement

The question of whether the forum selection clause survives termination of the franchise agreement may depend on the breadth of the clause, the specific language in the clause, and whether the clause is included in a survival provision.

In *AAMCO Transmissions, Inc. v. Romano*, 42 F. Supp. 3d 700 (E.D. Pa. 2014), there was a broad forum selection clause which applied to "any proceedings which arise out of or are connected in any way with this Agreement or its performance." Id. at 705. The court held that forum selection clause survived termination even though the termination provision of the contract expressly provided for the survival of certain enumerated provisions but did not include the forum selection clause.

In *Payne v. N. Tool & Equip. Co.*, No. 2:13-CV-109 JD, 2013 WL 6019299, at *3 (N.D. Ind. Nov. 12, 2013), the court acknowledged the general rule that, unless the contract itself states otherwise, forum selection clauses survive termination and held that a provision which stated that the plaintiff "irrevocably consents to the jurisdiction of the courts of Minnesota," and "irrevocably waives any objection based on any alleged impropriety of venue or personal jurisdiction of such courts" indicted the parties' intent that the clause would survive termination.

In *TSI USA, LLC v. Uber Techs., Inc.*, No. 3:16-CV-2177-L, 2017 WL 106835, at *6 (N.D. Tex. Jan. 11, 2017), aff'd, No. 3:16-CV-2177-L, 2017 WL 3209399 (N.D. Tex. June 19, 2017), the court construed the following forum selection clause:

> This Agreement shall be governed by and construed in accordance with the laws of the State of California without regard to its choice or conflict of laws provisions. [TSI] hereby consents to the exclusive jurisdiction and venue in the state and federal courts sitting in San Francisco County, California.

Id. at *6. The court held that, unlike the provision in *AAMCO Transmissions, supra*, the clause was not broad enough to survive termination of the agreement especially in light of the fact that it was not listed in the survival clause.

To ensure that a forum selection clause can be enforced in the event that the franchise agreement is terminated, franchisors should ensure that the clause is written broadly and clearly, and that it is included in any part of the franchise agreement or termination agreement that lists the provisions of the franchise agreement that survive termination.

Because a franchisor often maintains franchises in multiple jurisdictions, a clearly and strongly worded forum selection clause in the franchise agreement is imperative to ensure predictable results and the comforts of home in the event of a dispute.

Mr. Wolf is counsel to Goodell, DeVries. His practice is concentrated in the areas of commercial litigation, including franchise litigation, employment litigation and insurance coverage litigation. He has tried cases in New York and Maryland courts and argued appeals in New York and Maryland courts and in the Fourth Circuit.

Mid-Year Employment Law Update

By Donny English and Jed Charner, Jackson Lewis P.C.

Employers in Maryland have been kept busy with several significant new laws, as well as decisions from the federal courts.[11] Here is a sample of what employers need to know.

New Maryland Laws

Disclosing Sexual Harassment in the Workplace Act

The Act imposes the following restrictions on Maryland employers regarding employee sexual harassment complaints:

(1) Except as prohibited by federal law, any provision in an employment policy or contract that waives an employee's right to assert claims of sexual harassment or retaliation for reporting sexual harassment is null and void—this part of the law prohibits agreements requiring arbitration of sexual harassment claims;

(2) Employers may not retaliate against an employee who refuses to enter into an agreement to waive potential sexual harassment claims;

(3) An employer who enforces or attempts to enforce an agreement that violates the Act will be liable for the employee's reasonable attorney's fees and costs.

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[12] The Maryland Court of Appeals has not issued any notable employment law opinions thus far in 2019.

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In addition, the Act, which went into effect on October 1, 2018, requires employers with at least 50 employees to submit a survey to the Maryland Commission on Civil Rights (MCCR). The survey must contain:

(1) The number of settlements of employee allegations of sexual harassment made by the employer;

(2) The number of times the employer paid a settlement to resolve a sexual harassment allegation against the same employee over the past 10 years of employment; and

(3) The number of settlements made of an allegation of sexual harassment that included a confidentiality provision.

The survey must be submitted on or before July 1, 2020, and again two years later (on or before July 1, 2022).

The Act likely will be challenged, particularly in light of a recent New York federal court striking down New York's similar law. In *Latif v. Morgan Stanley & Co. LLC, et al.*, No. 1:18-cv-11528 (S.D.N.Y. June 26, 2019), the employer moved to compel arbitration after an employee filed a sexual harassment lawsuit. The employee opposed arbitration, relying on the New York state law prohibiting agreements that require arbitration of sexual harassment claims. The District Court granted the employer's motion to compel arbitration, holding that the New York statute was inconsistent with and preempted by the Federal Arbitration Act (FAA) because the law prohibiting arbitration in sexual harassment cases clearly contradicted the purpose and historical interpretations of the FAA.

While the language of the Maryland statute differs slightly than New York's statute, the principles relied upon by the federal district court likely apply in Maryland: the FAA favors arbitration of disputes and preempts state laws forbidding anti-arbitration agreements.

Maryland Minimum Wage Increase

Effective January 1, 2020, minimum wages in Maryland will increase and will continue to increase annually for the next several years. Minimum wages will increase as follows:

Businesses with at least 15 employees

Date	Minimum Wage
January 1, 2020	$11.00
January 1, 2021	$11.75
January 1, 2022	$12.50
January 1, 2023	$13.25
January 1, 2024	$14.00
January 1, 2025	$15.00

Businesses with less than 15 employees

Date	Minimum Wage
January 1, 2020	$11.00
January 1, 2021	$11.60
January 1, 2022	$12.20
January 1, 2023	$12.80
January 1, 2024	$13.40
January 1, 2025	$14.00
January 1, 2026	$14.60
July 1, 2026	$15.00

General Contractor Liability for Unpaid Wages Act

Under this law, general contractors (GCs) are jointly and severally liable for the failure of any subcontractors on the GC's project to comply with Maryland's existing wage and hour laws. GCs must ensure that all of their subcontractors pay their employees in accordance with Maryland law. In addition, under this Act, which became effective on October 1, 2018, an employee may sue the employer and the GC on the job for up to three times the wages owed to the employee, plus attorneys' fees and costs. This applies to any job involving "construction services," broadly defined to include any work involving "building, reconstructing, improving, enlarging, painting, altering, and repairing" of property. Under the law, subcontractors must indemnify a GC for "any wages, damages, interest, penalties, or attorneys' fees owed as a result of the subcontractor's violation."

Noncompete and Conflict of Interest Clauses Act

Effective October 1, 2019, the Act prohibits use of noncompete agreements for low-wage employees who either earn up to $15 an hour, or up to $31,2000 a year. The law prohibits noncompete agreements restricting such employees from entering into employment with a new employer or to become self-employed in the same or similar business area. It also prohibits an employer from preventing a covered low-wage employee from moonlighting during employment for a competitor. Although the law is unclear as to whether it applies to non-solicitation covenants, it expressly excepts from coverage any "employment contract[s] or similar document[s] or agreement[s] with respect to the taking or use of a client list or other proprietary client-related information." Finally, the law does not provide an employee with a right to sue his employer for violations of the law.

Baltimore City: Lactation Accommodations in the Workplace Ordinance

Effective April 15, 2019, A new Baltimore City ordinance requires employers of at least two full-time employees in Baltimore City to provide a reasonable amount of break time and a location for employees to express breast milk while at work. The lactation location should be shielded from view and intrusion by others, and it must be no more than 500 feet and two adjacent floors from the farthest employee work areas. The area must be safe, clean, and free of toxic or hazardous chemicals and have a door that can be locked from the outside. The lactation location may be used for other purposes, so long as the primary function takes precedence over all others.

Employer also must provide a reasonable amount of time for a lactation break. If possible, the required break time must run concurrently with any paid rest or break time already required by law (such as for retail employees or minor employees) or provided to the employee. Any additional break time necessary may be unpaid. Employers also must retain records of all requests for lactation accommodations for three years from the date of each request.

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In addition, employers must develop a written lactation accommodations policy that:

(1) States that employees have a legal right to request lactation accommodation;

(2) Sets forth a process for requesting a lactation accommodation, requiring the employer to respond within five business days and to interactively engage with the employee to determine when break periods, and where the lactation location will be;

(3) States that whenever the employer doesn't provide lactation breaks or a compliant location, the employer must provide a written explanation to employee;

(4) Informs employees that they have the right to file a complaint with the Baltimore City Community Relations Commission regarding alleged violations of the ordinance; and

(5) Prohibits retaliation for exercising lactation accommodation rights.

U.S. Supreme Court Cases

Class Action Arbitration Clauses Must Be Clear: *Lamps Plus, Inc. v. Varela*, No. 17-988 (U.S. Apr. 24, 2019)

In a 5-4 decision, the Supreme Court held that an arbitration agreement must clearly state that the parties agree to resolve class claims through arbitration in order to be enforceable.

In *Lamps Plus*, the employer's arbitration agreement required the parties to arbitrate "in lieu of any and all lawsuits or other civil legal proceedings." But the arbitration agreement was silent on whether arbitration was required specifically for class action claims. After an employee filed a putative class action lawsuit, the employer moved to compel the employee to arbitrate only his individual claim. The district court agreed that the employee was required to arbitrate; however, he could arbitrate on a class-wide basis. The Ninth Circuit affirmed.

The Supreme Court reversed and held that an arbitration agreement that was ambiguous about class action matters does not provide the necessary "contractual basis" for compelling class arbitration. The Court stressed that class arbitration is "markedly different" than individual arbitration. Because there is a "foundational principle that arbitration is a matter of consent," an arbitration agreement that is ambiguous about class action claims doesn't establish the consent needed to compel class arbitration.

Takeaway: Class action claims must be identified specifically in an arbitration agreement to be enforceable. Employers that want to arbitrate class action claims should review their arbitration agreements with employment counsel to ensure compliance with Lamps Plus.

Failure to Exhaust Administrative Remedies Defense Must Be Timely Raised: *Fort Bend County, Texas v. Davis*, 139 S. Ct. 1843 (U.S. June 3, 2019)

The Supreme Court ruled that federal law requires an employee complaining about discrimination to exhaust administrative remedies by filing a charge with the Equal Employment Opportunity Commission (EEOC) as a precondition to filing suit in federal court.

Prior to *Fort Bend County*, federal courts have dismissed lawsuits for failure to exhaust administrative remedies under both Fed. R. Civ. Proc. 12(b)(1), for lack of subject-matter jurisdiction, and Fed. R. Civ. Proc. 12(b)(6), for failure to state a claim. In *Fort Bend County*, the Supreme Court held that dismissal on the grounds of a lack of subject-matter jurisdiction is improper for unexhausted claims because the requirement to file a charge with the EEOC prior to the filing of a lawsuit is merely procedural and not jurisdictional. Rather, the Court held that the proper basis for dismissal of an unexhausted claim is for failure to state a claim. Importantly, the Court also held that an employer must timely raise an argument that an employee failed to file an administrative EEOC charge.

Takeaway: An employer should move promptly to dismiss pursuant to Fed. R. Civ. Proc. 12(b)(6) any claim brought by a plaintiff that was not properly raised before the EEOC. Even if a plaintiff has filed a charge with the EEOC, employers should review carefully whether all of the claims raised in the lawsuit were properly raised in the EEOC charge. Finally, unlike on a motion challenging subject-matter jurisdiction, the court is generally not permitted to review evidence outside of the pleadings on a motion to dismiss for failure to state a claim. Therefore, employers should consult with employment counsel about possible exceptions to that general rule or whether a motion for summary judgment would be more appropriate.

Fourth Circuit Cases

Regular and Reliable Attendance is an Essential Function of Most Jobs: Hannah P. v. Coats, 916 F.3d 327 (4th Cir. 2019)

The Fourth Circuit reaffirmed that regular and reliable attendance is an essential function of most jobs. The Court held that an agency did not violate the Rehabilitation Act (the federal sector statute equivalent to the Americans with Disabilities Act) by taking adverse action against an employee because of her attendance issues—even though her poor attendance was caused by her mental illness disability.

Shortly after the employee was hired for a five-year term by a federal agency, she was diagnosed with depression. The employee's attendance issues persisted despite management's attempts to help the employee improve her attendance, including developing an attendance plan and referring her to the employee assistance program. Her employment was terminated at the expiration of the five-year term and she was not selected for a permanent position.

The Fourth Circuit held that the agency provided the employee with a reasonable accommodation by engaging with her to develop an attendance plan and unilaterally referring her to the employee assistance program. The Court held the employer "has the ultimate discretion to choose between effective accommodations." Furthermore, the agency did not violate the Rehabilitation Act by failing to select

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the employee for a permanent position because of her attendance issues. The Court explained, "[I]n addition to possessing the skills necessary to perform the job in question, an employee must be willing and able to demonstrate these skills by coming to work on a regular basis."

Takeaway: The Fourth Circuit reiterated its position that regular, reliable attendance is an essential function of most jobs. Application of reasonable accommodation laws to attendance issues must be analyzed on a case-by-case basis.

Stray Comments by Management May Demonstrate Pretext for Discrimination: *Westmoreland v. TWC Administration LLC*, 924 F.3d 718 (4th Cir. 2019)

By a 2-1 majority, the Fourth Circuit held that there was sufficient evidence for a jury to find an employer liable for age discrimination under the Age Discrimination in Employment Act (ADEA) when a 61-year-old supervisor with over 30 years of service was fired for instructing a subordinate to change a date on a form.

Initially, after discovering the alteration on the form, the plaintiff's supervisor told her "not to worry about it," and that it would only result in a "slap on the wrist." Subsequently, however, the employer characterized the incident as making a "false statement" on a company document and then proceeded with termination of her employment. One of the managers told the plaintiff to "just go home and take care of those grandbabies." The plaintiff was replaced by a 37-year-old subordinate. A jury awarded the plaintiff $334,500 in damages. On appeal, the Fourth Circuit agreed that the plaintiff proved that her violation of the company's policy was not serious enough to warrant termination and was pretext for age discrimination.

Takeaway: Comments made by management before, during, and after the disciplinary/termination process can be evidence of discrimination. Employers should consult with employment counsel throughout the process.

Alleged Modification After the Fact of Basis for Termination Can Be Evidence of Pretext in Discrimination Cases to Prevent Summary Judgment: *Haynes v. Waste Connections, Inc.*, 922 F.3d 219 (4th Cir. 2019)

The Fourth Circuit reversed summary judgment in favor of an employer in a race discrimination and retaliation case, holding the employee demonstrated a genuine dispute of fact whether he was fired because of his race.

The plaintiff, a waste collection truck driver, reported to work one evening, but then left work before driving his route. The plaintiff alleged that, prior to leaving, he told his supervisor that he was sick. The company, WCI, disputed that the plaintiff left because he was sick and terminated the employee for abandoning his job. During the course of the lawsuit, WCI claimed that the plaintiff had also committed other violations that led to his termination. The trial court granted summary judgment to the employer.

The Fourth Circuit reversed summary judgment. The Court held that the plaintiff offered evidence of a similarly situated comparator who committed serious violations, but was not fired. The Fourth Circuit rejected WCI's argument that the plaintiff had not demonstrated he was performing his job satisfactorily, an element of a *prima facie* discrimination claim. The Court held the plaintiff was not required "to show that he was a perfect or model employee;" rather, he needed only to show he was qualified and meeting WCI's legitimate expectations. The plaintiff demonstrated this with evidence of positive performance reviews and bonuses given before his termination.

Finally, the Fourth Circuit wrote that there was evidence of WCI adding to its stated reason for termination after the fact—WCI allegedly added the employee's poor attitude as a factor. The Court also stated that the company policy on job abandonment defines it as three days with no call or no show, but the plaintiff had allegedly called and texted within one day. Ultimately, the Fourth Circuit found there was some evidence of inconsistencies with WCI's purported reasons for firing the employee, such that the matter should at least survive summary judgment.

Takeaway: To successfully obtain summary judgment, employers need to be extraordinarily cautious in how terminations for good cause are documented. Consulting with employment counsel is always recommended. Even where employees are lawfully terminated, ambiguity in the documentation could prevent dismissal of even frivolous claims.

Employers Required to Accommodate Individuals with Allergies: *Basis: J.D. v. Colonial Williamsburg Foundation*, No. 18-1725 (4th Cir. May 31, 2019)

J.D., an 11 year-old boy with a gluten allergy, attempted to bring a homemade, gluten-free meal into a restaurant. The restaurant refused to let him do so and offered instead to prepare him a gluten-free meal. The restaurant's decision, in part, was based on a Virginia state health code statute prohibiting food prepared in an uninspected private home from being offered at a restaurant. J.D. declined and chose to eat outside of the restaurant apart from his classmates because he did not trust the restaurant to safely prepare the meal to his specific health needs. J.D. filed suit, alleging violations of the Americans with Disability Act (ADA), the Rehabilitation Act, and the Virginians with Disabilities Act.

Title III of the ADA prohibits discrimination "on the basis of disability in the full and equal enjoyment of the goods, services, facilities, privileges, advantages, or accommodations of any place of public accommodation." 42 U.S.C. § 12182(a).

The District Court granted summary judgment to the restaurant, finding that J.D.'s request to bring his homemade meal inside the restaurant was not a "necessary" accommodation, because the gluten-free meal offered by the restaurant would have provided J.D. with "full and equal enjoyment" of the restaurant.

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The Fourth Circuit reversed because there were questions of fact on:

(1) Whether the requested modification was necessary for J.D.;

(2) Whether J.D.'s request to eat his homemade meal in the restaurant was reasonable; and

(3) Whether that request would fundamentally alter the nature of the public accommodation.

J.D. offered evidence that he previously had become sick when eating purportedly gluten-free food at restaurants, either from cross-contamination or from human error in following protocols.

Takeaway: Employers of all types are increasingly confronted with accommodation requests related to allergies. Like all accommodation requests, accommodation requests related to allergies should be considered on a case-by-case basis. Keep in mind that federal public accommodation requirements preempt state/local laws and employer policies.

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