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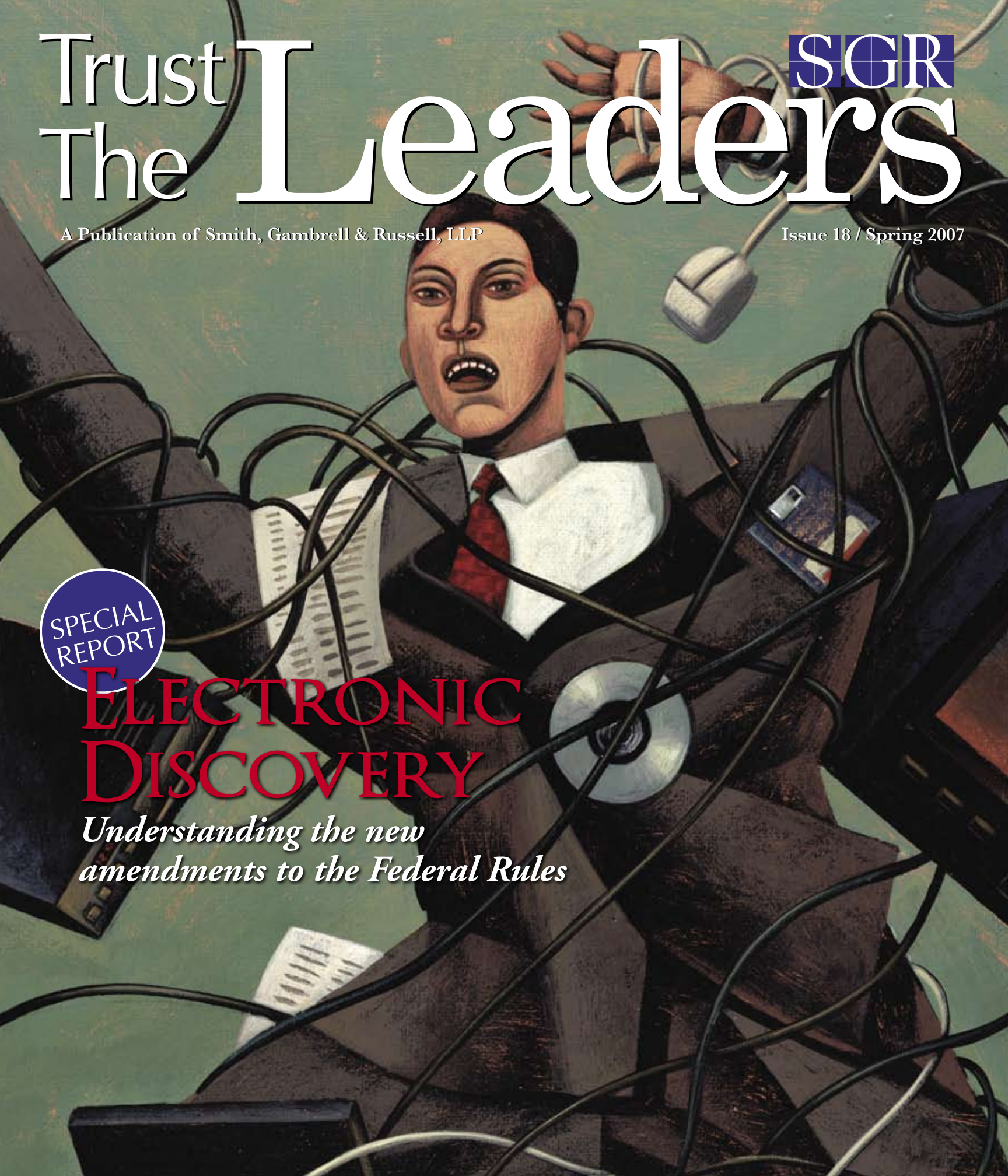
A Publication of Smith, Gambrell & Russell, LLP

Issue 18 / Spring 2007

SPECIAL
REPORT

ELECTRONIC DISCOVERY

*Understanding the new
amendments to the Federal Rules*



4th
Floor Patient Room
Locator & Directory

ICU & CCU ←

401-410 →

412-429 ←

**Legal and Regulatory
Compliance** →



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Something for Everyone

Welcome to the Spring 2007 issue of *Trust The Leaders*. After featuring a practice group – first international and then employment – in each of our last two issues, we return in this issue to our usual format of bringing you articles of interest from a variety of different substantive areas of the law. We plan to feature other practice groups in future issues.

This issue's cover story concerns recent changes to the Federal Rules of Civil Procedure that govern the way that electronically stored information, or "ESI," is to be compiled and produced in litigation. When I asked our publisher, *Atlanta Magazine*, to help us find something for our cover that would properly convey the turmoil that the rules amendments are sure to cause, they came up with the image that now adorns this issue, which could not be more appropriate. The very troubled man you see depicted on the cover could be a businessman whose company has been sued and who has just been asked by his lawyer to identify all the devices in all locations of his company where ESI is stored. Or he could be the lawyer himself, attempting to ascertain the best way to preserve and produce ESI in a case. Either way, at least until they are more fully understood and utilized, the amendments will wreak havoc among even those companies for whom litigation is a fairly routine cost of doing business. Authors Mark de St. Aubin and Devin Gordon provide an overview of what the new amendments require and what businesses can do to prepare themselves in advance for the demands of litigation in the digital age.

In other areas, John Despriet, the head of SGR's Securities Litigation Practice Group, explores the practice of options backdating, by which a company manipulates the issuance date of stock options in order to make the exercise of the options more lucrative. As the article explains, this practice has spawned dozens of criminal investigations and hundreds of internal investigations resulting in the resignation of numerous corporate officers.

Pat Connolly, who heads SGR's Health Care Practice Group, provides a useful primer summarizing the standards set by the federal government in conjunction with the Health Insurance Portability and Accountability Act, or HIPAA.

In her article on willful patent infringement, Elizabeth

Borland examines the thorny issue of how a defendant in a patent infringement action can avoid a finding of willful infringement, without relinquishing the protections of the attorney-client privilege.

Ben Brooks writes on industrial development bonds, or IDBs, and explains how a recent change in the law will make tax-exempt financing available to a greater number of manufacturing companies.

In her article on "sustainability," Jessica Lee Reece looks at how businesses of every kind are assessing and reforming the way they do business to ensure their long-term economic and environmental viability. And on a related note, this issue's Client Profile features Southwire Company, a global leader in the production of building wire and utility cable and related technologies, and a leader in the sustainability movement.

Finally, in this issue's "The Finish Line," we take a moment to meet just a few of the many individuals who make SGR not just a provider of quality legal services, but also a great place to work.

I am personally gratified by how many clients have told me that they read each issue of our magazine from cover to cover. Hopefully, that means we're doing something right! As always, please do not hesitate to contact me personally with your ideas on how we can continue to make this publication of benefit to you.



DANA RICHENS
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Fifty-two companies currently under criminal investigation. Two indictments. Multiple guilty pleas. All stemming from the practice known as “options backdating.”

Options backdating occurs when a company issues stock options on one date, but reports in its financials an earlier issue date to create a “strike” or exercise price equal to the earlier date’s lower price. As a consequence, the option is immediately profitable, or “in the money,” to the optionholder. Moreover, the company avoids having to expense the options as current compensation, thus increasing earnings in the near term. Another consequence is that the company underrepresents the real nature of an executive’s compensation, perpetuating the myth that options are performance-based incentive compensation.

The backdating problem was first highlighted by Professor Erik Lie of the University of Iowa, who published his initial study in 2004. Professor Lie concluded that the robust profitability of so many options was statistically impossible absent

some artificial influence such as backdating.¹ His study received wide publicity and even provoked lawsuits.² Subsequently, the Securities and Exchange Commission (SEC) took an interest, followed by the securities plaintiffs’ bar and many corporations.

Cracking Down

The SEC brought no backdating cases prior to 2006. The practice of options backdating, apparently widespread from 1996 through 2002, is widely believed to have been short-circuited by the enactment of Sarbanes-Oxley in 2002. Although backdating had not yet been recognized as a problem, the provisions of Sarbanes-Oxley requiring that insiders report the acquisition of securities, including options, within two days of receipt greatly hindered the ability of corporations to backdate options. Under previous regulations, corporations could wait 45 days or, in some cases, over a year to report options, thus providing ample time for backdating.

Other similar practices are being reviewed by government officials as well. “Spring loading” involves the issuance

of options immediately prior to the announcement of favorable financial news expected to have a positive impact on the underlying share price, thereby providing an immediate profit to the optionholder.³ “Bullet dodging” describes the practice of generating options shortly *after* the release of bad news that causes the stock price to take a temporary dip, which increases the probability that the option will become profitable in the short term.

With its attendant investigations, legal actions and executive fallout, the practice of options backdating is expected to have a short shelf life. But while options backdating may have a truncated life expectancy, its current impact is robust. The SEC is investigating many companies, ranging from small to Fortune 500 companies, for options irregularities.⁴

Similarly, the FBI has reported that it has 52 companies under criminal investigation. Two indictments have been issued and multiple guilty pleas have been entered in the most egregious cases.

In addition to the governmental investigations, more than 200 companies have completed, or are conducting, internal investigations – either because they want the comfort of knowing that they have not engaged in options backdating or because they have an inkling that they did and want to be proactive in addressing the problem.

The problem is indeed widespread. In a follow-up study to his earlier work, Professor Lie estimated that 29 percent of 7,774 companies he surveyed backdated option grants to executives between 1996 and 2002. That is almost 2,300 companies.⁵

Fallout

What are the consequences of options backdating? To a public corporation, the potential consequences of engaging in options backdating are manifold and can range from none whatsoever to having founders and CEOs going to prison.

In general, the U.S. Department of Justice has said it will bring criminal charges where defendants falsify corporate books and records; issue false financial statements; lie to boards of directors, auditors or the SEC; or file false reports. For example, in the case involving Brocade Communications, the SEC charged the former CEO and the former Vice President of Human Resources with criminally violating the securities laws.⁶ The facts of that case as set forth in the indictment were egregious.

Likewise, in a case involving Comverse Technology Inc., the U.S. Attorney charged the former CEO, the former CFO,



More than 200 companies have announced internal investigations, and the SEC is investigating many of them as well. The involved companies range from small to Fortune 500 companies.

and the former General Counsel with violating securities laws.⁷ In that case, corporate officers inserted backdated option grant dates into board of directors' unanimous written consents that were transmitted to the compensation committee. Options were also backdated for new employees to dates prior to the date employment actually commenced. In addition, hundreds of thousands of backdated options were issued to fictitious employees and parked in a slush fund to be awarded at the CEO's discretion. Not surprisingly, the defendants themselves earned millions of dollars from backdated options.

Another troublesome outcome for a corporation is that the SEC will bring civil fraud charges stemming from options backdating in all cases where criminal charges have been filed. But even if no criminal charges are filed, the SEC still can bring a civil fraud action in federal court. This sort of case can be brought against the corporation and its officers and directors and can result in the disgorgement of profits, stiff monetary penalties, and prohibitions against officers and directors serving any public company in those capacities in the future. As in other enforcement areas, the SEC has a penchant for pursuing through civil actions matters that involve blatant and intentional misconduct.⁸

Of course, the imposition of an officer and director bar against those who are intimately involved with the backdating process can result in a corporation losing its founder or other key management personnel. And in addition to officer and director bars imposed by government authorities, internal investigations have led to numerous officer resignations from at least 25 companies including Quest Software, KB Homes, United Health Group, Inc., McAfee, Inc., CNET Networks, Inc., and Monster Worldwide. Even Apple Computer CEO Steve Jobs was implicated by an internal investigation into

backdating, although he apparently did not receive, or otherwise benefit from, the backdated grants.

The Internal Revenue Service has also joined a number of investigations due to the tax implications of options backdating, both with respect to the individuals who received the backdated options as well as the corporations that failed to account properly for the options when they were granted.

Of course, disparity between a reported grant date and the actual grant date is not always intentional. Fortunately, the government appears to appreciate the difference between backdated options that involve the "intentional alteration of documents or faulty internal control and dating issues arising from ministerial or logistical delays."⁹ Unfortunately, the plaintiffs' bar is not so discerning.

Private Litigation

Public announcements that a company or the SEC is investigating possible backdating issues have spawned a rash of civil suits. Plaintiffs' lawyers have seized upon this issue as yet another opportunity to bring cases against corporations and their officers and directors. Such cases are brought under the guise of both class actions and shareholder derivative proceedings.

Class actions ostensibly are brought on behalf of the shareholders of the company who have been impacted by the option grants. Shareholder claims typically are grounded in some allegation of misrepresentation. However, the fact of the option grants, their strike price and their eventual profitable exercise are in most instances disclosed. Thus, in the context of options backdating, substantial doubt exists as to the viability of shareholder claims.

Shareholder derivative claims, which are more common, are brought directly against the officers and directors on



behalf of the corporation. Recovery in derivative suits inures to the benefit of the corporation. The theory here is that the company's officers and directors breached their duties to the corporation – specifically, the duties of care and loyalty – by placing their personal interests before that of the corporation, with the corporation suffering economic damages as a result.

As of press time, reported decisions construing the metes and bounds of these particular type of suits are just beginning to be issued.¹⁰ One difficulty that plaintiffs will have is that options backdating is not *per se* illegal. Backdated options that are allowed by a corporation's option plan, approved as backdated by the appropriate committee of the board of directors, and properly accounted for on the company's financial statements and fully disclosed in the company's filed reports, are not illegal. Illogical perhaps, but not illegal.

Regardless, the nondisclosure of backdating and other accounting issues raised by improperly backdated options are grist for the plaintiffs' mill. However, other than seeking disgorgement from individual option grantees of improper option profits, it is difficult to predict precisely what damage theories plaintiffs can pursue in either a class-action or derivative setting that would make their claims viable. In addition, to the extent that plaintiffs pursue their cases on an unjust enrichment theory against beneficiaries of improper options

backdating, they encounter the problem that such disgorgement is considered disgorgement of an ill-gotten gain and thus is not covered by directors and officers liability insurance policies. In addition, if a civil case is conducted parallel to an SEC enforcement action, there is the question of whether the benefiting officer or other person can be made to disgorge purported ill-gotten gains twice – once to the government and once to private plaintiffs for the benefit of the corporation. Of course, all these down-the-road theoretical difficulties that could be encountered by plaintiffs are cold comfort to a company that is sued and must endure the years of uncertainty and high defense costs that inevitably accompany such suits.

Indeed, the high costs of running internal investigations, coping with SEC investigations, and defending strike suits may have a major economic impact on companies with backdating issues. In addition to generating significant professional fees, a backdating problem can divert management and cause a corporation to lose focus.

It is not known whether the backdating "scandal" has crested. *The Wall Street Journal* has kept a backdating scorecard and, as of December 31, 2006, 135 companies had been impacted by backdating, with a majority of those companies being investigated by the government and being sued by shareholders.¹¹

Given that most responsible companies hopefully have internally reviewed their options-grant practices, it is expected that this scandal will eventually taper off. However, as there is no statute of limitations that totally bans the SEC from suing companies, it may be difficult to determine with certainty when the risk has finally passed. ■■■

Endnotes

1. Erik Lie's original study: biz.uiowa.edu/faculty/eliel/grants-ms.pdf.
2. See, e.g., *Ryan v. Gifford*, No. 2213, 2007 WL 416162 (Del. Ch. Feb. 6, 2007).
3. See *In re Tyson Foods, Inc.*, No. 1106, 2007 WL 416132 (Del. Ch. Feb. 6, 2007).
4. Remarks of SEC Enforcement Director Linda Chatman Thomsen, July 20, 2006, sec.gov/news/speech.
5. biz.uiowa.edu/faculty/eliel/grants%207-14-2006.pdf.
6. *U.S. v. Reyes*, No. 3-06-70456 (N.D. Cal., filed July 20, 2006), usdcj.gov.usao/can/press.
7. *U.S. v. Alexander*, No. 06-CV-3844 (E.D.N.Y., filed Aug. 9, 2006).
8. Remarks of SEC Enforcement Director Linda Chatman Thomsen, Oct. 30, 2006, sec.gov/news/speech.
9. Remarks of SEC Commissioner Paul S. Atkins, July 26, 2006, sec.gov/news/speech.
10. See *supra*, nn.2-3.
11. See *Perfect Payday: Options Scorecard*, *Wall St. J. Online*, Dec. 31, 2006, <http://online.wsj.com/public/resources/documents/WSJ.com-options-scorecard.pdf>.

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Guidelines for Physicians on Security and Privacy

Reviewing Steps for HIPAA Compliance



Every medical practice, regardless of its size, has to comply with the Health Insurance Portability and Accountability Act (HIPAA or the “Act”), a law that was passed by Congress in 1996. The primary focus of the law was to ensure the portability of health insurance coverage for Americans changing jobs. However, the law was also designed to protect the privacy and security of patient records and to bring some uniformity to claims processing.

The intent of this primer is to review the law’s basic mandates and to highlight the salient points relevant to health care providers (one of the three industry groups included in the Act under the definition of “covered entities”). A health care provider, defined as any person or entity that furnishes, bills for or is paid for health care in the normal course of business, needs to take the necessary steps to demonstrate HIPAA compliance. Physicians and other providers must educate themselves about three key mandates of the

HIPAA regulations: (1) electronic transactions; (2) privacy; and (3) security. For each of the three mandates, the United States Department of Health and Human Services (HHS) is responsible for the standards set.

Electronic Transactions Standards

Vendors of software packages do most of the work to make computer systems HIPAA compliant. Under the HIPAA regulations, more than 400 different formats for transmitting to payors “standard” health care data such as benefits, eligibility and payment information are being consolidated into 20 standard “HIPAA-compliant” transaction standards. For each transaction, the standard dictates a certain set of required data elements, optional data elements, format and content.

What does this mean for medical practices? Medical practices must have policies and procedures in place to ensure the submission of the necessary data elements to complete each transaction. Physicians can ask for the format with the required data elements in advance. Medical groups will need to submit all the necessary data to complete the transaction and submit it in the appropriate format. In addition, practices will have to ensure that their software vendors build language into each contract to ensure compliance with the law. This can be done with an amendment to the existing vendor contract, but the better practice may be to leverage the opportunity for a comprehensive contract review.

One point of particular caution: if your medical practice uses a proprietary or unique electronic claims system, be careful before agreeing to spend thousands of dollars in upgrades, when it may be that a new state-of-the-art system could provide advanced features at less expense.

Privacy Standards

HIPAA privacy standards dictate how organizations must deal with “protected health information” (PHI) when they share patient information for treatment, payment and administrative functions. Under the final rules, patients have expanded rights to understand and control how their health information is used. Every practice deals with the impact of HIPAA’s implementing regulations on a daily basis. Controlling access to PHI using paper-based systems and processes is next to impossible. Why? Consider the treatment of paper documents in most offices – they are passed from one person to the next, photocopied, occasionally misplaced and often left out in public view. A major purpose of the HIPAA standards is to discourage this practice and encourage instead the



computerization of all personal health information, regardless of who creates, stores or transmits it. Otherwise, it would be virtually impossible for providers to meet HIPAA’s requirements to document all releases of information, provide audit trails and be able to inform patients concerning who has accessed their medical information.

Security Standards

Security refers to a covered entity’s specific efforts to protect the integrity of the health information it holds and prevent unauthorized breaches of privacy such as might occur if data is lost or destroyed by accident, stolen or sent to the wrong person in error. Security measures can be physical (*e.g.*, locking rooms and storage facilities), administrative (*e.g.*, policies and procedures covering access to information, user IDs and passwords) or technological (*e.g.*, encryption of electronic data and use of digital signatures to authenticate users logging onto a computer system).

Faxing is a prime example of the problems with the maintenance of confidential information that HIPAA seeks to minimize. Faxes are particularly vulnerable to ending up at the wrong place or in the wrong hands. If you are a health care provider, consider how often patient information in your office is left at the fax machine or sitting on a desktop for



anyone to see. HIPAA security regulations discourage paper creation and require any faxes that are sent to be tracked carefully, especially those sent to parties outside the four walls of your practice or organization. The regulations require that you verify the identity of the party receiving the fax and provide ongoing monitoring of fax security practices.

Basic Steps for Compliance

How can you maintain HIPAA compliance? Some fundamental steps are outlined below. These steps do not demand a significant amount of your time and will assist you in optimizing risk management in the area of HIPAA compliance.

1. Learn as much as you can.

A good place to start is the American Health Information Management Associates Web site, ahima.org/hot.topics, or the Health Care Financing Administration site, hcfa.gov. Also, the Office of Civil Rights at hhs.gov/ocr has a privacy Web site to which inquiries can be e-mailed.

2. Assign responsibility.

Assign a team to manage HIPAA compliance or, if your practice is small, appoint a privacy officer. Place this individual

in a leadership position or in a position to coordinate compliance responsibilities with outside legal counsel on facets of the rules that are unclear or difficult to understand.

3. Conduct organizational assessment (“gap analysis”).

Assess your practice’s compliance posture by performing a “gap analysis” to determine where gaps may exist between your current confidentiality and security practices and what HIPAA privacy and security regulations require. The items to evaluate in accordance with HIPAA regulations include:

- Internal and external information access, disclosure and release of information procedures against the “minimum necessary” requirement;
- The need to develop or update privacy and confidentiality consents, authorization forms, and practices and materials reflecting current organizational and legal practices and requirements;
- The existence of organizational policy for patient inspection of, amendment to, and restriction of access to, personal protected health information; and
- Practices related to marketing, de-identification of health information, and access to especially sensitive PHI such as psychotherapy notes.

Conclusion

Physicians are well advised to assume some form of heightened protection for the privacy of health records. For failure to comply with HIPAA, the general penalty is \$100 for each violation up to a maximum penalty for all violations of the same kind within a calendar year not to exceed \$25,000. One of the keys for physicians is to be sure the policies and procedures developed are reasonable and that your practice can ensure compliance by physicians and staff for the benefit of patients. Take the first steps. Educate yourself and your staff and, if needed, seek reliable counsel before problems arise. ■■■

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TAKING DUE CARE

Avoiding Willful Patent Infringement

Imagine each of the following scenarios:

- You are in the process of developing a new device. Your competitor hits the market with a similar device before you do, and you obtain a sample of your competitor's device. It is marked with a patent number.
- You have filed an application for a patent on a new device, which you spent many months developing. During a prior-art search, your patent attorney discovers a patent that could possibly cover your device.
- You have just placed your newly developed device on the market and it is selling very well. One day you receive a letter that claims that your device infringes certain claims of a competitor's patents.
- You have just been served with a lawsuit, which claims that your highly successful device infringes a patent of which you had no prior knowledge.

In each case, you have learned that someone else has a patent that may cover your device. Unless you take the proper next step, you could be subject to double or even treble damages and be required to pay your opponent's attorneys' fees if your opponent prevails in patent infringement litigation against you. What is that proper next step?

What is Willful Infringement?

Under the Patent Act, a court is authorized to "increase the damages up to three times the amount found or assessed" where patent infringement has been willful.¹ The determination of whether infringement has been willful is based on the "totality of the circumstances." Willful infringement is generally found (1) where the infringer deliberately copied the patentee's ideas

or designs; (2) where, after learning of the patent, the infringer failed to investigate the scope of the patent and did not form a good-faith belief that it was invalid or not infringing; or (3) where the infringer engaged in misconduct during the ensuing patent litigation.² Under current law, where "a potential infringer has actual notice of another's patent rights, he has an affirmative duty to exercise due care to avoid infringement of the known patent rights of others."³ This duty of due care to avoid infringement must be satisfied whenever the potential infringer has actual notice of another's patent, regardless of how that notice was received or obtained.⁴



The Affirmative Duty of Due Care

How does a potential infringer satisfy its duty of due care to avoid a claim of willful infringement when it obtains knowledge of someone else's patent? Of course, the potential infringer can immediately cease the allegedly infringing activity. Immediate cessation of the offending activity is the only certain way to avoid a finding of willful infringement in future patent litigation. On the opposite extreme, the duty of due care is clearly not satisfied if the potential infringer simply ignores the patent and continues to engage in the same conduct in the hope that it will not be sued.⁵ Given these two extremes, how does the potential infringer satisfy its affirmative duty to avoid infringement if it wishes to continue making and selling the allegedly infringing device?

The duty of due care to avoid infringement must be satisfied whenever the potential infringer has actual notice of another's patent, regardless of how that notice was received or obtained.

According to the United States Court of Appeals for the Federal Circuit, which has exclusive jurisdiction of all appeals from federal district court cases arising under patent law, the potential infringer must "seek and obtain competent legal advice from counsel *before* the initiation [or continuation] of any possible infringing activity."⁶ Although the Federal Circuit has held that an infringer's failure to obtain an exculpatory opinion of counsel no longer creates an adverse inference that the opinion would have been unfavorable,⁷ the court has not expressly sanctioned any other way of meeting the duty of due care to avoid infringement. Furthermore, cases in which a defendant was able to avoid a finding of willful infringement *without* producing an exculpatory opinion are rare. Thus, as a practical matter, a potential infringer who has knowledge of a possibly conflicting patent, but wants to begin or continue his allegedly infringing activities, should obtain an exculpatory opinion of counsel before starting or resuming those activities in order to satisfy its affirmative duty of due care.

The Exculpatory Opinion

What should go into the opinion? When should it be obtained? Who should provide it? These are all questions that have been extensively addressed by the Federal Circuit and the district courts.

First, the opinion must be a competent one. An opinion is competent if it is "thorough enough, as combined with other factors, to instill a belief in the infringer that a court might reasonably hold the patent is invalid, not infringed, or unenforceable."⁸ Broad and conclusory statements with little to no support are not sufficient.⁹ Rather, the opinion must contain a detailed and well-reasoned analysis of the facts and the law. In addition, the opinion must be based on complete facts about the accused device. The potential infringer cannot withhold any information from the person providing the opinion.¹⁰

Second, the opinion should be in writing. Although the courts have occasionally found no willful infringement based on an oral opinion, oral opinions are not favored in patent infringement cases.¹¹

Third, the opinion should be promptly obtained after the potential infringer obtains notice of a potentially conflicting patent. The law requires that he obtain the opinion before beginning or resuming the allegedly infringing activities. Therefore, delaying for any substantial period can lead to a finding of willful infringement.¹²

Fourth, to be considered competent, the opinion should be provided by an experienced U.S. patent lawyer.¹³ In addition, because in-house patent counsel is not likely to be considered as objective as an outside lawyer,¹⁴ the opinion should be provided by outside counsel. Finally, as will be discussed below, the opinion should *not* be provided by trial counsel, and opinion counsel should not be involved in trial preparation or trial strategy at all.¹⁵

Use of the Opinion in Infringement Litigation

In a typical infringement case, the defendant produces the exculpatory opinion during discovery, the opinion writer and the opinion reader(s) are deposed and may testify at trial, and the factfinder determines whether the opinion provided the defendant with a sufficient basis to form a good-faith belief as to the lack of infringement, invalidity or unenforceability. If the factfinder determines that the opinion was competent, and there are no other adverse facts in evidence (such as evidence of copying or litigation misconduct by the defendant), then the defendant's infringement was not willful, and the court will not award enhanced damages.¹⁶ On the other hand,



if the factfinder finds that the opinion was not competent, the court usually determines that the infringement was willful and awards double or treble damages, as well as attorneys' fees, to the patentee.¹⁷ Thus, the exculpatory opinion is often the critical piece of evidence upon which the extent of an infringer's liability turns, and the monetary risk associated with not producing an exculpatory opinion in defense of willful infringement is substantial.

However, disclosure of the exculpatory opinion in patent litigation comes with a price: waiver of the attorney-client privilege. As a result, if a defendant elects to rely upon an opinion to defend against a claim of willful infringement, the defendant is required to produce not only the opinion, but also certain other attorney-client communications and work product.

The scope of the waiver of privilege that occurs when a defendant elects to rely upon an opinion of counsel has been the subject of numerous conflicting decisions. The Federal Circuit attempted to resolve this conflict in its decision in *In re Echostar Communications Corp.*,¹⁸ but still left many questions unanswered.

The Federal Circuit held in *Echostar* that "when an alleged infringer asserts its advice-of-counsel defense regarding willful infringement of a particular patent, it waives immunity for any document or opinion that embodies or discusses a communication to or from it concerning whether that patent is valid,

enforceable, and infringed by the accused." Such waiver encompasses "any attorney-client communications relating to the same subject matter, including communications with counsel other than in-house counsel." The court also stated in a footnote that the privilege waiver extends to attorney-client advice given throughout the entire period of alleged infringement, including attorney-client advice given after litigation has begun, as long as ongoing willful infringement is still at issue.¹⁹

The rationale behind the *Echostar* decision is to "prevent a party from using the advice he received as both a sword, by waiving privilege to favorable advice, and a shield, by asserting privilege to unfavorable advice."²⁰ An accused infringer cannot have it both ways.

The *Echostar* court also held that reliance upon advice of counsel waives certain types of work product. Such waiver "includes not only any letters, memorandum, conversation, or the like between the attorney and his or her client, but also includes, when appropriate, any documents *referencing* a communication between attorney and client." However, the scope of the waiver does not extend to attorney mental impressions and analyses that were never communicated to the client, and the court expressly held that by asserting a reliance upon advice-of-counsel defense, "the accused infringer and his or her attorney do not give their opponent unfettered discretion to rummage through all of their files and pillage all of their litigation strategies."

Since *Echostar* was decided, the district courts have struggled with the scope of the privilege waiver in willful infringement cases, particularly with regard to how the waiver applies to client communications with trial counsel. While a handful of courts have refused to extend the waiver to include trial counsel communications and work product,²¹ most courts have determined that assertion of the reliance upon advice-of-counsel defense waives not only communications between the client and its opinion counsel, but also communications between the client and its trial counsel.²² Because the Federal Circuit held that the waiver continues for as long as the infringement is continuing, even during pending litigation, it is inevitable that the *Echostar* decision will have a chilling effect on communications between accused infringers and their trial counsel during trial preparation.

In an attempt to prevent the chilling effect on litigation strategy that the required disclosure of client communications with trial counsel will have, several courts have adopted a "middle ground" approach with regard to trial counsel communications and have found that the privilege waiver



applies only to trial counsel advice and communicated work product materials that “contradict or cast doubt on the earlier opinions” of opinion counsel.²³ Other courts have adopted an approach that limits the disclosure to trial counsel “documents and communications that are most akin to that which opinion counsel normally renders – *i.e.*, documents and communications that contain opinions (formal or informal) and advice central and highly material to the ultimate questions of infringement and invalidity.”²⁴ Still other courts have found that the accused infringer is only required to produce attorney-client communications and communicated work product that relate to the subject matter contained in the opinion letter on which the accused infringer relies, as opposed to communications and work product that relate to every potential infringement defense.²⁵ As an additional protection to prevent the disclosure of litigation strategy to the patentee, some courts have allowed the accused infringer to submit to the court materials which it believes reveal trial strategy for *in camera* review before they are required to be produced to the patentee.²⁶

In any event, because it appears that certain communications between an accused infringer and its trial counsel must be disclosed when the accused infringer decides to rely upon advice of counsel to defend against a claim of willful infringement, it is very important for trial counsel and opinion counsel to be distinct from one another. In fact, if trial counsel and opinion counsel are the same person, there is a risk that trial counsel will be disqualified from serving as counsel in the case.²⁷ In addition, due to the current uncertainties regarding

the scope of the waiver as it relates to trial counsel communications, trial counsel and the client should exercise extreme caution in documenting any of their discussions relating to infringement, validity, and enforceability of an asserted patent or comments on the work of opinion counsel.

Reform on the Horizon?

As it now stands, accused infringers are faced with a catch-22: they can refuse to produce an exculpatory opinion and risk a judgment of willful infringement and enhanced damages against them, *or* they can disclose an exculpatory opinion and be forced to disclose communications with trial counsel that may reveal litigation strategy to their opponents.²⁸ There may soon be resolution to this dilemma, however.

There has been a bipartisan effort in Congress to dramatically reform U.S. patent law, and, during the 109th Congress, patent reform bills were introduced in both the House and Senate. All of the bills included major changes to the law on willful infringement.²⁹

Under all of the proposals, a patentee would be able to establish that an infringer willfully infringed a patent only if the patentee proves by clear and convincing evidence that (1) the patentee sent notice to the infringer identifying the patent, the claims infringed, and the product or process that infringes those claims; (2) the infringer intentionally copied the patented invention with knowledge that it was patented; or (3) the infringer engaged in similar infringing conduct after being found by a court to have infringed. Moreover, under each proposal, a patentee would not be permitted to plead a claim of willful infringement until *after* a court has made a determination that the patent in suit is not invalid, is enforceable and has been infringed by the infringer.³⁰

These proposed changes will do much to relieve the current problems facing accused infringers today. They would not be required, as under current law, to obtain an exculpatory opinion whenever they obtain knowledge of someone else's potentially conflicting patent, but only if the patentee sends them a detailed infringement notice *prior* to the filing of a suit. In addition, because a plaintiff would not be able even to plead willful infringement until after the plaintiff has prevailed at trial, courts likely would not require an accused infringer to produce any discovery relating to willful infringement until after trial, thus eliminating the possibility of disclosing litigation strategy to the patentee prior to trial.³¹

Because there appears to be a consensus regarding how the law of willful infringement should be changed, it is very

likely that the above changes will be adopted sometime in the future. However, this process may take significant time because other areas of patent reform under consideration are much more controversial and will likely require much debate and compromise. Thus, whether changes to the law of willful infringement occur during this Congress, or years from now, remains to be seen.

Conclusion

Under current law, obtaining an exculpatory opinion after obtaining knowledge of a potentially conflicting patent is extremely important if a potential infringer wants to begin or resume potentially infringing activities, but also avoid a finding of willful infringement. Although failure to produce an opinion in defense of a claim of willful infringement no longer creates an adverse inference against an infringer, the Federal Circuit has not, as of yet, endorsed any other means of defending against such a claim. Thus, an accused infringer acts at its peril if it opts not to obtain and disclose an exculpatory opinion. However, due to recent decisions relating to waiver of attorney-client privilege, disclosure of the exculpatory opinion comes at a significant price and may hamper the ability of trial counsel to communicate honestly and effectively with their clients in defending against infringement claims. ■■■

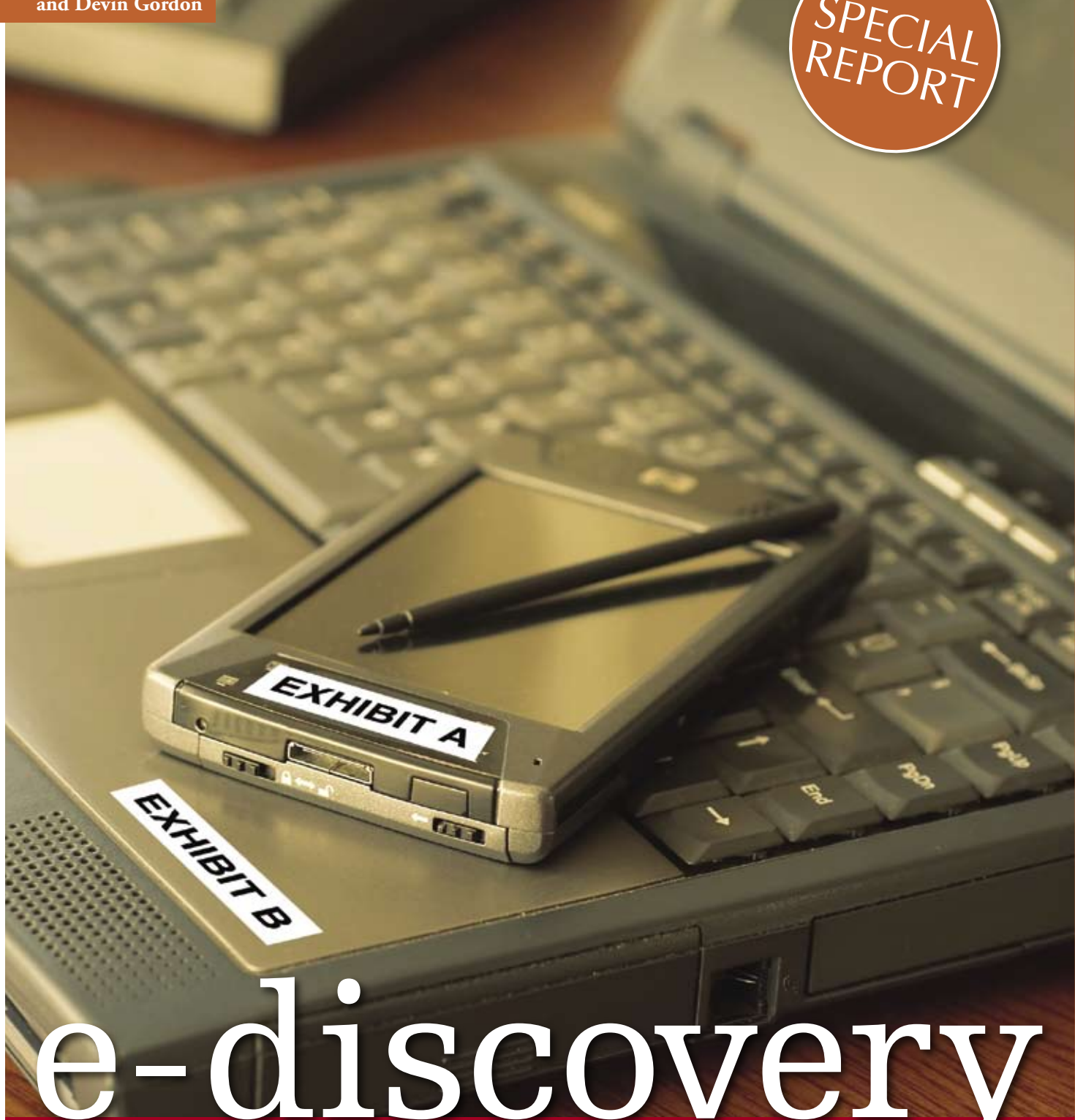
Endnotes

- 35 U.S.C. § 284.
- E.g., Bott v. Four Star Corp.*, 807 F.2d 1567 (Fed. Cir. 1986).
- Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337, 1345-46 (Fed. Cir. 2004) (quoting *L.A. Gear Inc. v. Thom McAn Shoe Co.*, 988 F.2d 1117, 1127 (Fed. Cir. 1993)).
- See Imonex Servs., Inc. v. W.H. Munzprufer Dietmar Trenner GmbH*, 408 F.3d 1374 (Fed. Cir. 2005) (finding that defendants had actual notice of patents where patentee had displayed products marked with the patents at trade shows attended by defendants, patentee had widely distributed literature identifying the products as patented, and the patentee had corresponded with defendants about the use of the patented products in defendants' products); *Stryker Corp. v. Intermedics Orthopedics, Inc.*, 96 F.3d 1409 (Fed. Cir. 1996) (finding that defendant obtained actual knowledge that triggered affirmative duty of due care when in-house attorney saw patent in the PTO's Official Gazette); *Honeywell Int'l, Inc. v. Hamilton Sundstrand Corp.*, 166 F. Supp. 2d 1008 (D. Del. 2001) (finding that infringer had actual knowledge of patent when it was cited as prior art during prosecution of infringer's own application).
- Kloster Speedsteel AB v. Crucible Inc.*, 793 F.2d 1565, 1580 n.11 (Fed. Cir. 1986) ("An alleged infringer who intentionally blinds himself to the facts and law, continues to infringe, and employs the judicial process with no solidly-based expectation of success, can hardly be surprised when infringement is found to have been willful.")
- Underwater Devices Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380, 1389 (Fed. Cir. 1983) (emphasis in original) (cited with approval in *Knorr-Bremse*, 383 F.3d at 1343).
- Prior to the *Knorr-Bremse* decision, a defendant's failure to produce an exculpatory opinion in defense of an allegation of willful infringement created an adverse inference that such opinion would have been unfavorable to the defendant. *Id.*
- Ortho Pharm. Corp. v. Smith*, 959 F.2d 936, 944 (Fed. Cir. 1992).
- Kori Corp. v. Wilco Marsh Buggies & Draglines, Inc.*, 761 F.2d 649 (Fed. Cir. 1985); *Read Corp. v. Portec, Inc.*, 970 F.2d 816, 829 (Fed. Cir. 1992) ("A written opinion may be incompetent on its face by reason of its containing merely conclusory statements without discussion of facts or obviously presenting only a superficial or off-the-cuff analysis.")
- E.g., Liquid Dynamics Corp. v. Vaughn*, 449 F.3d 1209 (Fed. Cir. 2006) (discounting non-infringement opinion because defendant failed to give complete information about infringing product to opinion counsel); *Golden Blount, Inc. v. Robert H. Peterson Co.*, 438 F.3d 1354 (Fed. Cir. 2006) (discounting oral opinion because it was superficial and had been given before attorney had reviewed prosecution history or the accused device).
- Minnesota Mining & Mfg. Co. v. Johnson & Johnson Orthopaedics, Inc.*, 976 F.2d 1559, 1580 (Fed. Cir. 1992) ("Such opinions carry less weight, for example, because they have to be proved perhaps years after the event, based only on testimony which may be affected by faded memories and the forces of contemporaneous litigation.")
- See Imonex Servs., Inc. v. W.H. Munzprufer Trenner GmbH*, 408 F.3d 1374 (Fed. Cir. 2005) (finding willful infringement where defendant's failure to obtain an opinion until after it was sued for infringement was only factor supporting willful infringement discussed in opinion).
- See McDermott v. Omid Int'l*, 723 F. Supp. 1228 (S.D. Ohio 1998) (finding that German patent attorney not competent to express opinion based on U.S. patent law); *Metabolite Labs., Inc. v. Lab. Corp.*, 370 F.3d 1354 (Fed. Cir. 2004) (finding that opinion was not competent where "Discipline Director" untrained in patent law was person who provided it).
- E.g., Minnesota Mining*, 976 F.2d at 1581.
- But see Informatica Corp. v. Business Objects Data Integration, Inc.*, 2006 WL 2038461, at *8 (N.D. Cal. July 14, 2006) ("Under the analysis in *Echostar*, it is immaterial whether [defendant's] opinion and trial counsel are from the same firm, different firms or are even the same person.")
- E.g., Read Corp. v. Portec, Inc.*, 970 F.2d 816 (Fed. Cir. 1992).
- E.g., Datascope Corp. v. SMEC, Inc.*, 879 F.2d 820 (Fed. Cir. 1989).
- 448 F.3d 1294 (Fed. Cir. 2006).
- Id.* at 1303 n.4; see also *Informatica Corp.*, 2006 WL 2038461, at *7.
- Echostar*, 448 F.3d at 1303.
- Ampex Corp. v. Eastman Kodak Co.*, 2006 WL 1995140, at *4 (D. Del. July 17, 2006).
- E.g., Beck Sys. v. Managesoft Corp.*, 2006 WL 2037356, at *5 (N.D. Ill. July 14, 2006); *Informatica Corp.*, 2006 WL 2038461, at *8; *Affinion Net Patents, Inc. v. Maritz, Inc.*, 440 F. Supp. 2d 254 (D. Del. 2006); *Outside the Box Innovations, LLC v. Travel Caddy, Inc.*, 2006 WL 2861191, at *3 (N.D. Ga. Oct. 6, 2006); *Computer Assocs. Int'l, Inc. v. Simple.com, Inc.*, 2006 WL 3050883, at *4 (E.D.N.Y. Oct. 23, 2006).
- E.g., Intex Recreation Group v. Team Worldwide Corp.*, 439 F. Supp. 2d 46, 52 (D.D.C. July 14, 2006).
- E.g., Genentech, Inc. v. Insmid Inc.*, 442 F. Supp. 2d 838, 847 (N.D. Cal. 2006).
- E.g., Autobyte, Inc. v. Dealix Corp.*, 2006 WL 2850324, at *5 (E.D. Tex. Oct. 3, 2006); *Beck Sys.*, 2006 WL 2037356, at *7.
- Convolve, Inc. v. Compaq Computer Corp.*, 2006 WL 2792687, at *3 (S.D.N.Y. Sept. 27, 2006).
- E.g., Rohm and Haas Co. v. Lonza, Inc.*, 1999 WL 718114, at *1 (E.D. Pa. Sept. 7, 1999) (disqualifying opinion counsel as trial counsel under Model Rule 3.7 because opinion counsel were likely to be trial witnesses). Furthermore, one court has disqualified a whole firm from serving as trial counsel where other lawyers in the firm were to be called as witnesses relating to an exculpatory opinion. *Crossroads Sys., Inc. v. Dot Hill Sys. Corp.*, 2006 WL 1544621, at *11 (W.D. Tex. May 31, 2006).
- Interestingly, the Federal Circuit articulated this dilemma in *Quantum Corp. v. Tandon Corp.*, 940 F.2d 642, 643-44 (Fed. Cir. 1991), in stating, "An accused infringer, therefore, should not, without the trial court's careful consideration, be forced to choose between waiving the privilege in order to protect itself from a willfulness finding, in which case it may risk prejudicing itself on the question of liability, and maintaining the privilege, in which case it may risk being found to be a willful infringer if liability is found."
- See The Patents Depend on Quality Act of 2006, H.R. 5096, 109th Congress (2006); The Patent Reform Act of 2005, H.R. 2795, 109th Congress (2005); Proposed Substitute for H.R. 2795, 109th Congress (2006); The Patent Reform Act of 2006, S. 3818, 109th Congress (2006).
- See H.R. 5096, § 6; S. 3818, § 5; H.R. 2795, § 7.
- This aspect of the proposed changes is similar to cases in which the district courts have bifurcated the issue of willfulness from liability. *E.g., Kos Pharms., Inc. v. Barr Labs., Inc.*, 218 F.R.D. 387, 394 (S.D.N.Y. 2003).

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SPECIAL
REPORT



e-discovery

THE FEDERAL RULES IN THE DIGITAL AGE



On December 1, 2006, new amendments to the Federal Rules of Civil Procedure governing the conduct of litigation in the United States federal courts took effect – the culmination of more than five years of drafting, discussion and public comment. Language inserted into six separate Federal Rules – 16, 26, 33, 34, 37 and 45 – now guides lawyers and their clients on the implications of litigating in the digital age. Primarily, the new rules address the discovery of electronically stored information, or “ESI”: e-mails, spreadsheets, word files, PowerPoint presentations, databases, accounting and cost records and countless other data compilations that may never be reduced to hard-copy format.

The old rules adequately facilitated the exchange of hard-copy information between parties litigating with one another. Why, then, the need for “new” rules? After all, the “content” of the information sought in discovery – what we have to say, explain or describe to one another about a transaction, medical procedure, employment termination or injury, as examples – has not changed drastically. *What has changed?* The relative ease with which people now communicate in the digital age, which has resulted in an exponential increase in the volume of information created and shared.

“Data” is created in almost limitless new ways. With a couple of keystrokes or the press of a few buttons, information can be sent to hundreds of different individuals in seconds, who may then store the information in multiple locations. Yesterday’s filing cabinets have been replaced by servers, backup tapes, laptops, desktop computers, voicemail, cell phones and BlackBerries, all of which, at any given time, may store data that could become relevant to a lawsuit. Add to this the ease with which massive amounts of information can be generated, and the fact that some data is incomprehensible when separated from its source, and you gain insight into the formidable challenge facing the framers of the amended rules. The newly amended Federal Rules are designed to accomplish an evenhanded, cost-efficient and timely exchange of information relevant to the dispute between the parties.

The new amendments require lawyers and their clients to understand and be prepared to facilitate the exchange of electronically stored information with proficiency and limited judicial intervention. As lawyers, we have been inundated with information regarding the obligations and challenges presented by the amended rules. This article, on the other hand,

was written for businesspeople – to help you focus upon the practical impacts the amended rules will have upon your operations and to provide guidance on (1) the importance of familiarizing yourself with the IT infrastructure of your company prior to the onset of litigation; (2) the necessity of a proactive pre-litigation policy for maintaining or destroying electronic information; (3) the need to examine and review electronically stored information early in litigation; and (4) the obligations and requirements upon the parties once litigation has been initiated.

Your company’s failure to have a game plan for meeting the requirements of the new rules could have significant adverse consequences. First, attorneys’ fees and litigation costs can be unnecessarily higher than is already the case with lawsuits over business transactions. Second, the likelihood of a positive litigation result or acceptable settlement could be seriously diminished. Finally, a proactive approach will lessen the interruption to your daily operations when litigation does arise.

Early Attention to e-Discovery Matters

The amended rules require that parties be prepared to discuss electronic discovery issues at the outset of litigation. Businesses that expect litigation as an unwanted by-product of their operations, therefore, should acquaint outside counsel with the company’s IT environment and those responsible for managing that environment before the next dispute arises. In fact, under the rules, outside litigation counsel has an affirmative obligation to become familiar with your company’s IT infrastructure and what electronically stored information exists. In order to be prepared to meet your lawyer’s request for information about your company’s ESI, consider the following tasks that will face you and your lawyer once litigation arises:

No later than 100 days after the filing of a lawsuit, clients must be prepared to discuss and make cost-driven decisions on important electronic discovery issues such as: (1) the format in

which electronic documents will be produced; (2) the manner in which electronic documents will be preserved by the parties; and (3) the assertion of privilege to protect electronically stored information.¹ These early discussions between client and lawyer are critical to your effective participation in the “meet and confer” conference required by Rule 26(f), which is followed by a report to the court on the status of electronic discovery, so that the court may incorporate issues pertaining to electronically stored information into its initial scheduling order governing discovery in the case.² This information provides the court with the ability to address outstanding electronic discovery issues upon which the parties cannot agree, and set clear expectations for the preservation, collection and production of this important body of evidence.

The need to meet and strategize well in advance of any requirement imposed by the rules is reinforced by Rule 26(a)(1)(B), which was amended to require that a party identify in its initial disclosures to the opposing party electronically stored information it may use to support its claims and defenses in the litigation.³ Concerns were initially raised about this amendment to Rule 26, as litigants argued that the new rules required the identification and review of large volumes of electronic information at the outset of litigation, before a party had adequately explored its claims and gathered pertinent supporting information. While the Rules Committee recognized the burdens placed upon the parties, they nonetheless determined that the benefits of early identification of electronic discovery issues outweigh any burden placed upon the parties.⁴ The good news is that early identification and review of electronic documents can be used as an opportunity to assess the merits of one’s case before proceeding with lengthy, drawn-out and costly litigation.

Pre-litigation involvement on the part of outside counsel will help prepare your company’s personnel and your legal team for an actual lawsuit; lessen the burden imposed upon daily operations if litigation arises; heighten efficiency in collecting, reviewing and producing documents; and ultimately result in cost savings. Litigants no longer have months after the lawsuit is filed to prepare for electronic discovery. That preparation effort should occur when a party reasonably anticipates a lawsuit being filed.

Reasonable Anticipation of Litigation

When you or your company makes a decision to file a lawsuit or believes that it is about to be sued – in other words, when litigation is reasonably anticipated – the time has come



to take additional affirmative steps with respect to the capture, preservation and production of electronically stored information, per both the amended Federal Rules and recently decided federal court cases. This includes the institution of a “litigation hold” upon potentially relevant electronic information and the involvement of outside counsel to manage the efforts to collect and produce electronically stored information.

The Litigation Hold

In performing routine electronic document cleanup and destruction procedures, or in a single keystroke by an employee, electronic information critical to a case can be lost forever. This reality underscores the importance of instituting a “litigation hold” on all relevant information when a party reasonably anticipates that litigation may occur. In times past, when litigation was reasonably anticipated, parties were

instructed by their attorneys to begin collecting all relevant hard-copy documents in a secure location in their office to prevent destruction and to prepare for production in discovery. In the era of electronic documents, things are no longer so simple or straightforward.

Electronic information can be accessed by multiple users at any given time, via interoffice computers or the Internet. Moreover, electronic information is stored in numerous, varying locations and, in many instances, can be easily transported outside of the physical boundaries of the office on electronic storage devices such as CDs, DVDs, laptop computers, jump drives, and BlackBerries. This portability, coupled with unlimited access and multiple data storage locations, makes the collection and preservation of electronic information much more complex. Nonetheless, the amended rules and the courts have held that the duty to preserve relevant information extends not only to hard-copy documents, but also to electronically stored information.⁵ This duty arises at the time that litigation is reasonably anticipated by a party,

that may result in the spoliation of information relevant to the anticipated litigation.

- Third, the company must diligently monitor the preservation and collection efforts of its employees, on an ongoing basis, to ensure that litigation-hold procedures are being adhered to by all. The body of electronic information is always changing as documents are created, edited and deleted, thereby expanding and contracting the scope of the litigation hold in place. New employees are hired, employees leave the company, new software packages are rolled out, and work continues on projects that are headed for litigation. All of these events have a profound effect upon the body of electronically stored information that should be gathered and retained, making it imperative that compliance with the litigation hold be monitored.⁷

Notably, the duty to preserve electronic information does not extend to every single byte of electronic information that

The dangers of failing to familiarize yourself with the types of electronically stored information that are created by your company, and where that information is stored, are serious, and could make or break your case. It is better to investigate now and prepare to deal with the issues created by electronic discovery *before* litigation arises.

and extends to any information, data or documents, including electronically stored information, that might be useful to your adversary in litigation.⁶ Properly instituting a litigation hold requires that the following steps be taken as soon as litigation is anticipated:

- First, a party must issue a litigation-hold notice to all employees and parties who may have relevant information, instructing them to preserve, and not to destroy, any information that may be relevant to the anticipated litigation.
- Second, the IT department must be instructed to suspend all document destruction and retention policies in effect

may be relevant. Courts have recognized the undue burden and costs associated with locating every shred of paper, e-mail or electronic document that exists for production to the opposing party in litigation.⁸ Therefore, amended Rules 26(b)(2)(B) and 45(d)(1)(D) distinguish between electronic data that is “reasonably accessible” and that which is not, requiring collection and production of only the former in litigation.⁹ Both rules state, in part, “A party need not provide discovery of electronically stored information from sources that the party identifies as not reasonably accessible because of undue burden or cost.”¹⁰ Courts have yet to weigh in on the parameters of “reasonably accessible” electronic information, but this limitation nonetheless provides some relief to companies incurring the time and

expense necessary to preserve electronic data in litigation.

Courts have developed a second limitation on the obligation to preserve electronically stored information, holding that the duty to preserve extends only to “those employees likely to have relevant information, *i.e.*, the ‘key players’ in the litigation.”¹¹ By identifying the key individuals at your company who will have relevant information regarding the anticipated litigation, the scope of the litigation hold may be drastically limited. While it is advisable to cast a wide net to ensure a comprehensive and effective litigation hold and to avoid claims of spoliation in the future, this limitation also allows companies to significantly cut costs and time spent on litigation.

The “Meet and Confer”

As discussed above, amended Rule 26(f) requires that the parties discuss, no later than 100 days into litigation, important electronic discovery issues, including, but not limited to, the format in which electronic documents will be produced, the manner in which electronic documents will be preserved by the parties, and the assertion of privilege to protect electronically stored information. The meet-and-confer conference may have a substantial impact upon the parties’ electronic discovery obligations; thus, litigants should assist counsel in understanding in advance of the conference the electronically stored information they have to produce, the cost implications of collecting and producing those electronic documents, and the resources they can dedicate to completion of this task. The importance of the decisions made at the meet-and-confer conference are easily discernible through a closer look at various consequences:

- There are significant cost implications to the production of electronic documents, both in the vendor expense necessary to prepare and package the documents for production and the professional time needed to review the documents for privileged and non-responsive materials. If the scope of the document production is broad, costs escalate significantly. By exploring ways to limit the universe of documents to be produced, costs can be controlled.
- There are technical issues that must be overcome in order to produce certain types of electronic information. Attorneys must take care not to agree to production of certain types of documents in certain formats, without conferring with the appropriate technical personnel to ensure that such production can be accomplished in a cost-effective and efficient

manner. Furthermore, parties may agree to certain production specifications, only to learn later the significant costs of a production in accordance with the agreement.

- Generally speaking, any agreements reached in the “meet and confer” will be mutual – in other words, both parties will be obligated to comply with the terms of the agreement. Therefore, parties must consider not only the electronic information they have to produce and the format in which they would like to produce it, but also the information sought from the opposing party and the manner in which that information should be preserved for purposes of the litigation. Parties can gain a distinct advantage by securing certain electronic documents in formats useful to case preparation.

Understanding Your IT Infrastructure

The amended rules contemplate that the parties will be prepared to deal with electronic document issues early in litigation. Moreover, there are added responsibilities after litigation has been initiated, so little, if any, time exists to approach these issues after a lawsuit is filed. Waiting too long could result in your company’s personnel having to sift through hundreds of thousands of pages of electronic information in a limited period of time, under court order. As a result, companies should gain and maintain a current working knowledge of the amounts, authors, recipients and storage locations of ESI to avoid this costly and time-consuming scenario.

Identify the types of storage devices utilized by your company. The first step to understanding an IT infrastructure is to identify the various types of devices used by your business to create, store and transmit electronic information. This includes not only those items in employee offices, but also the hardware utilized by the IT department to make all of these devices operate, including servers, back-up tapes and devices of similar import. In identifying the various devices used by your company, it is important to realize that the true interest is in locating ESI that may be relevant to litigation in the future. The contents of any device that stores electronic information or data will be fair game for production in discovery.

Identify specific types of electronically stored information. Next, you need to understand the types of electronically stored documents and data compilations that are created and maintained by your company daily: documents, spreadsheets, accounting records, calendars, databases, e-mails and voicemails,

to name a few. Each of these separate types of files carries with it its own unique issues regarding the relevant information it contains and the format in which it should be produced in litigation.

Although each company's electronic documents are unique, and they all come with their own issues to be resolved, one piece of advice remains constant: you must know and understand the information your electronically stored documents reveal to the opposing party before producing the same in litigation. For example, e-mails are often a prime source of relevant information in litigation today. When an e-mail is drafted, sent, forwarded, stored or deleted, certain information such as the date, time and author, sometimes referred to as "metadata," is embedded and stored with the electronic e-mail file. As a result, when an e-mail is produced in electronic form in litigation, all of this accompanying information is likewise produced, even though the information may not appear on the face of the e-mail itself. Therefore, the opposing party will be able to determine who originally drafted the e-mail, who viewed or received the e-mail, and when each person had access to such e-mail. This information, when used in litigation, can play a critical role.

Know your routine document retention and destruction policies, procedures and practices. Finally, every company should know and understand its routine document retention and destruction policies, procedures and practices. Document management has become a hot-but-ton issue in litigation in recent years, as routine electronic document retention and destruction procedures and practices have led to the destruction or spoliation of relevant evidence in numerous cases – a problem that can devastate a party's likelihood of success.

Companies generate massive amounts of electronic information. In reality, the costs of storing all such information, and retaining it indefinitely, would burden even the largest

corporations. Therefore, almost all businesses have in place policies, procedures and practices to routinely discard out-of-date, unused or unwanted electronic information. For example, with respect to e-mail correspondence, many companies will routinely delete e-mails older than 30 days that have not

been archived into an individual's e-mail files. Moreover, many individual employees institute their own practices regarding the retention or deletion of electronic files in the normal course of business. While such routine procedures are necessary and permissible prior to the anticipation of litigation, all such practices and destruction of documents must be suspended at a point when litigation is reasonably anticipated. If you are not familiar with the practices and procedures in place both companywide and on an individual basis, immediate suspension of document destruction is likely not to occur, leaving open the possibility that pertinent information will be destroyed.

Don't be caught unaware. While it may seem unnecessary or particularly time consuming to proactively familiarize yourself with the IT infrastructure of your company, the implications of not doing so make it time well spent. Failure to prepare now may result in:

- An inability to produce relevant information that may be helpful to your case;
- A failure to have the information necessary to prove your claims and defenses;
- Added costs and attorneys' fees to fight discovery battles over the production of ESI, claims of spoliation and motions for summary judgment;
- Added costs for the forensic retrieval of ESI deleted from the company's computer systems; and



- Adverse inferences, exclusions of evidence and/or sanctions by the court due to spoliation of relevant evidence.

An Ounce of Prevention is Worth a Pound of Cure

At first blush, producing electronically stored information may seem as simple as burning a CD or DVD from your desktop computer in your office to send via certified mail to opposing counsel. Be forewarned, however, that the production of ESI is much, much more. It is a process that takes significant time, resources, personnel and expertise to complete. A number of issues may arise in dealing with ESI under the procedures set forth in the amended rules, and it would not be advisable to forge ahead without the appropriate resources to fully meet your discovery obligations, minimize costs and posture yourself for a successful outcome of the case.

The dangers of failing to familiarize yourself with the types of electronically stored information that are created by your company, and where that information is stored, are serious, and could make or break your case. It is better to investigate now and prepare to deal with the issues created by electronic discovery *before* litigation arises. ■■■



Affirmative steps you can take:

- Plan ahead for dealing with electronic discovery by becoming familiar with your company's IT infrastructure, the location of ESI and document retention and destruction practices.
- With the assistance of counsel, devise a strategy at the outset of litigation for collecting, reviewing and producing ESI in a cost-effective, efficient manner.
- Be prepared to address the issues that will inevitably arise in conferring with the opposing party regarding the production of electronic documents, including the format in which electronic documents will be produced, the manner in which electronic documents will be preserved by the parties, and the scope of the parties' preservation obligations.
- Understand the cost and time implications of participating in discovery in the electronic age, and factor these considerations into decisions regarding settlement and the merits of your case.

Endnotes

1. *Report of the Civil Rules Advisory Committee*, May 27, 2005; Fed. R. Civ. P. 26(f) (revised Dec. 1, 2006).
2. Fed. R. Civ. P. 16 (revised Dec. 1, 2006).
3. Fed. R. Civ. P. 26(a)(1)(B) (revised Dec. 1, 2006).
4. *Report of the Civil Rules Advisory Committee*, May 27, 2005.
5. Fed. R. Civ. P. 26 (revised Dec. 1, 2006).
6. *Zubulake v. UBS Warburg, LLC*, 220 F.R.D. 212, 218 (S.D.N.Y. 2003); *see also Zubulake v. UBS Warburg, LLC*, 229 F.R.D. 422, 431 (S.D.N.Y. 2004).
7. *Zubulake*, 229 F.R.D. at 432-34.
8. *Zubulake*, 220 F.R.D. at 217.
9. Fed. R. Civ. P. 26(b)(2)(B) and 45(d)(1)(D) (revised Dec. 1, 2006).
10. *Id.*
11. *Zubulake*, 220 F.R.D. at 217-18.

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Boosting Manufacturing Bond Limits

Allowed Capital Expenditures Doubled for “Small Issue” Tax-Exempt Bonds

Congress recently passed legislation long-awaited by local governments and the domestic manufacturing industry. Advantageous tax-exempt financing has been available to manufacturing companies for decades, but, in recent years, the so-called “\$10 million capital expenditure limitation” has limited the pool of manufacturers eligible for this financing. Congress has now raised the limit to \$20 million beginning in 2007, which will make tax-exempt financing available to a greater number of manufacturing enterprises.

Bond Financing

When we step into the voting booth, we often encounter lengthy referendum questions about the issuance of bonds for new school buildings, roads, water and sewer facilities or new park land. These “general obligation bonds” are backed by the full faith and credit of the local government unit that issues them, and must be approved by the voters since ultimately the local government pays the bonds with our tax dollars.

Tax-exempt bonds issued for manufacturing facilities (sometimes called “small issue industrial development bonds,” or “IDBs”) are a cousin of general obligation bonds. Rather than financing public infrastructure, IDBs are meant to stimulate private economic development. While these IDBs are issued by a public body, usually a local development authority, they do not show up on the ballot because the public body has no responsibility to repay the bonds. The sale proceeds



of IDBs are typically loaned to a private company, and the loan payments made by the private company are used to pay debt service on the bonds. IDBs belong to the “revenue bond” family since they are payable only from the revenues generated, or other security provided, by the private company.

IDBs are attractive to private manufacturers because they can provide long-term capital financing at low interest rates. The interest rates on IDBs are low because interest collected by investors in IDBs is excluded from federal and sometimes state income taxation. These low rates are passed on to the manufacturer. In terms of financing structure, IDBs are flexible and can be issued with variable or fixed interest rates, liberal prepayment terms and maturities of differing lengths.

Prior Capital Expenditure Limitation

In order for the interest paid on an IDB to be tax-exempt, development authorities and borrowers must comply with a number of provisions of the Internal Revenue Code and regulations. One of the key rules limiting the availability of IDBs prior to 2007 was the so-called \$10 million capital expenditure limit.¹ This rule provided that interest on an IDB was exempt from federal income tax only if the sum of (a) the total principal amount of outstanding IDBs issued in favor of a manufacturing facility (and its related entities²) in a given jurisdiction,³ plus (b) the total capital expenditures⁴ at the facilities⁵ during the time period beginning on the date that is three years prior to the issuance of the bonds and ending on the date that is three years following the issuance of the bonds (not counting twice capital expenditures paid for out of the proceeds of the IDBs), did not exceed \$10 million.⁶ So, for example, if a manufacturing company, ABC Widget Co., was the beneficiary of a \$6 million IDB on June 1, 2006, and had made \$2 million in capital expenditures over the three years prior to June 1, 2006, ABC could not make more than \$2 million in additional capital expenditures before June 1, 2009 without breaking through the bond and capital expenditure cap and losing the benefit of the tax-exempt financing.

History of the Capital Expenditure Limitation and Need for Increase

A capital expenditure limit of \$5 million was first introduced in the tax code in 1968. Before that time, there was no limit on the principal amount of IDBs that could be issued for the benefit of a private company. In fact, in the mid-1960s, this law firm handled a \$125 million bond issue in the city of Hawesville, Ky., to finance a large aluminum

smelting plant for Southwire Company. In 1978, the capital expenditure limit was bumped up to \$10 million, and since then has not been increased or adjusted for inflation, despite the fact that today the dollar has less than half of its 1979 purchasing power.⁷

In our public finance practice prior to 2007, we often heard from small- to medium-sized manufacturers who would have liked to use IDBs, but were not able to do so because of the capital expenditure limit. Many already had in excess of \$10 million in capital expenditures over the previous three years and therefore were not eligible. Others were just too close to the limit for comfort. For example, if ABC had 2006 financing needs of \$5 million and capital expenditures over the prior three years of \$4 million, ABC could use tax-exempt bonds to finance its current needs, but then would have a cushion of only \$1 million in capital expenditures that could be made over the next three years. While there are techniques, such as equipment leasing,⁸ which can be employed by a company trying to live within the cap, these methods have a cost associated with them that creates drag and makes the tax-exempt financing less cost-effective. And the penalty for going over the limit is the loss of the tax exemption on the bonds going forward,⁹ even if the breach is inadvertent.

In spite of the old limitation, SGR closed a number of IDBs in recent years, including IDBs for operations as diverse as food processors, printers, air products manufacturers, cabinetmakers, metal formers, and automotive equipment manufacturers.

New Legislation

The recent changes made by Congress are both simple and timely. In 2004, Congress passed a measure increasing the \$10 million capital expenditure limit to a more palatable \$20 million.¹⁰ While this increase was great news to manufacturers, the provision was not set to become effective until September 30, 2009. However, on May 11, 2006, as a result of intense lobbying, Congress passed legislation moving up the effective date of the increase to January 1, 2007.¹¹

Although the new law doubles the capital expenditure limit, it keeps the maximum amount of IDBs that can be issued at \$10 million. In other words, beginning in 2007, if ABC Widget Co. has financing needs of \$12 million and has made capital expenditures of \$4 million over the last three years, ABC can finance up to \$10 million of its needs with tax-exempt bonds (the other \$2 million could be financed conventionally). The key is that ABC would still be comfortably within the \$20 million limit, with the ability to

make another \$4 million in capital expenditures over the next three years.

With more breathing room under the cap, manufacturers should have less need to hedge against uncertain capital expenditures in the future and should feel more comfortable using IDBs up to the \$10 million maximum. Since the cost of putting an IDB transaction in place is relatively high on the front end, a larger bond issue more easily justifies the costs and can result in greater net savings over time.

Refinancing IDBs

The increase in the capital expenditure limit will not apply to bonds issued to refinance outstanding IDBs.¹² If old bonds are refunded on or after January 1, 2007, the \$10 million limit will continue to apply to the refunding bonds. For example, assume ABC had \$5 million of bonds issued on its behalf on July 1, 2005. Then, on January 10, 2007, ABC issues \$5 million of bonds to refund those old bonds and \$4 million of new IDBs to finance additional manufacturing equipment for its plant. With respect to the 2005 bonds, ABC must continue to comply with the \$10 million limit. The \$4 million in capital expenditures in 2007 will count against the limit, leaving only \$1 million in capital expenditures that can be made prior to July 1, 2008. The new 2007 bonds will benefit from the new \$20 million limit. The new limit is not particularly helpful to ABC prior to July 1, 2008, since ABC's spending is constrained by the 2005 bonds.



Conclusion

While the capital expenditure limit is just one of the many rules applicable to IDBs, it had been largely responsible for the decline over time in the usefulness of these bonds. The change made by Congress is a first step in the right direction. There are other legislative efforts under way – e.g., to raise the principal amount of IDBs that can be issued to \$20 million and to liberalize rules limiting assets on which bond money can be spent (for example, to finance the production of intellectual property such as software). The tax code recognizes the importance of the domestic manufacturing industry, and these additional changes would help keep the sector strong. However, given the new composition of Congress after last fall's elections, the fate of the additional changes is uncertain. ■■■

Endnotes

1. I.R.C. §144(a)(4).
2. I.R.C. §144(a)(3).
3. Bond issues must be added together for purposes of the limit if they finance facilities which are (a) located in the same city or are located in the same county (but not in any incorporated municipality) and (b) are used by the same principal user or a related user. I.R.C. §144(a)(2).
4. A "capital expenditure" is defined broadly as any expenditure properly chargeable to a capital account, regardless of any rule that would permit the company to treat the expenditure as a current expense. *See* Treas. Reg. § 1.103-10(b)(2)(ii)(e).
5. Capital expenditures must be aggregated if they are made for two or more facilities which are (a) located in the same city or are located in the same county (but not in any incorporated municipality) and (b) are used by the same principal user or a related user. I.R.C. §144(a)(4)(B).
6. *See* I.R.C. §144(a)(4). An IDB up to \$1,000,000 can be issued without regard to the capital expenditure test. *See* I.R.C. §144(a)(1). An affirmative election must be made to issue up to \$10,000,000, and this triggers the capital expenditure limits. *See* I.R.C. §(a)(4)(A).
7. According to the Consumer Price Index Calculator provided by the U.S. Department of Labor, one dollar in 1979 is worth the equivalent of 36 cents today. U.S. Department of Labor Consumer Price Index Calculator, <http://www.bls.gov/cpi/> (visited November 14, 2006). In other words, \$10,000,000 in 1979 dollars is equal to \$3,600,000 now.
8. When properly structured, a true equipment lease is not considered a capital expenditure.
9. *See* I.R.C. §144(a)(4)(D).
10. American Jobs Creation Act of 2004, Pub. L. 108-357, § 340, 118 Stat. 1423, 1485 (2004). The change permits a user to disregard up to \$10,000,000 in addition to the \$10,000,000 of capital expenditures permitted by I.R.C. §144(a)(4)(A)(ii), effectively bumping up the limit to \$20,000,000 for bonds issued after December 31, 2006. *See id.*
11. Tax Increase Prevention & Reconciliation Act of 2005, Pub. L. 109-222, §208, 120 Stat. 345, 351 (2006).
12. *See* I.R.C. §144(a)(4)(E). While the new law purports to apply to all bonds issued after January 1, 2007, arguably including refunding bonds, there is not a clear legislative intent to override the general rule of I.R.C. §144(a)(4)(E) which provides that a refunding bond can only be issued if the prior issue would have continued to be a qualified small issue IDB notwithstanding the refunding.

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Sustainability: An Idea Whose Time Has Come

In 1987, the World Commission on Environment and Development issued the Brundtland Report, which added a new term to the environmental and business vernacular: “sustainability.” Sustainability was a concept that encouraged companies to operate in a way that demonstrates parallel care for the ecosystem and the people within. As a result, environmentalists cautioned business executives worldwide that, in order to survive, each organization needed to find ways to encourage business development that “meets the needs of the present generation without compromising the ability of future generations to meet their needs.”

Fast forward 20 years, and shareholders, employees and customers alike are pushing companies to become “greener.” Businesses including Whole Foods, General Electric and Southwire Company are promoting efforts ranging from stocking shelves with organic foods and developing products that compete in a carbon-constrained world, to forming responsive advocacy groups that guarantee their companies remain sustainable – both economically and environmentally – well into the future.

“Up until about a year ago sustainability was a difficult sell,” says Bob Donaghue, Director of Georgia’s Pollution Prevention Assistance Division (“P²AD”). “But with the war, with rising gas prices and with global competition, companies are starting to embrace it.”

Ciannat Howett, Director of Sustainability Initiatives for Emory University, agrees.

“We are starting to see more institutions and businesses realize that it makes good business sense,” says Howett. “Let’s face it – energy is increasingly expensive, so if you put in place energy-efficient tools then that will have a cost savings.”

Gone are the days when mere compliance with federal and state regulations was enough. Now, in order to stay competitive, businesses are embracing sustainability – for the

betterment of their companies, and the world. Sustainability is an idea whose time has come.

Importance of Sustainability

Although the 1987 Brundtland Report is credited with first defining the term, sustainability has been on the minds of the environmentally conscious for some time. In 1976, physicist Amory Lovins wrote an essay entitled *Energy Strategy: The Road Not Taken?*, in which he argued that the real environmental issue is how best to provide the energy’s “end use,” or service, at the least cost. He stated that because people are not going to give up their hot showers or comfortable homes, businesses needed to find methods to provide those services via an intelligent energy system at the lowest cost to the environment.

Decades later, in 2002, the World Summit on Sustainable Development articulated three overarching objectives of sustainable development: (1) to eradicate poverty; (2) to protect natural resources; and (3) to change unsustainable production and consumption patterns.

Although the trend toward sustainability is global, environmental economist Paul Hawken, author of *The Ecology of Commerce and Natural Capitalism: Creating the Next Industrial Revolution*, believes that American industry can easily modify its practices. Hawken estimates that industry in the United States tends to use as much as 100 times more material and energy than necessary to deliver consumer services. Consequently, he encourages businesses to factor in “natural capital” (renewable and nonrenewable resources used by business) when accounting for the total cost of doing business.

“Industrialism is extraordinarily inefficient,” writes Hawken. “Industry still operates by the same rules, using more resources to make fewer people more productive.”

Businesses must begin investigating their own usage because healthy living systems (such as clean air and water,

healthy soil, stable climates) are integral to the economy and, as Hawken states, “there are no man-made substitutes for essential natural services.” Simple changes – such as using super-efficient windows and lights – combined with intelligent mechanical and building design, could reduce energy consumption in American buildings by up to 90 percent, according to Hawken’s research.

“There is a yin and a yang to the idea of sustainability,” says Andrew Jones, Project Director at the Sustainability Institute. “The yin is the part concerned with saving money and reducing costs. The yang is the enlightened self-interest idea – where more and more individuals are looking what their legacy will be and what legacy the company will leave.”

Although some of the ideas seem drastic, environmental agencies are not looking to alienate business with their mission – far from it. The Rocky Mountain Institute, a nonprofit organization established in 1982, takes a business-friendly approach to sustainability. Rocky Mountain attempts to formulate workable models of sustainability, which optimize production so that natural resources are used in an efficient manner that is better, not only for the environment, but also for the bottom line.

Rocky Mountain encourages businesses to incorporate into their business model the four principles of Natural Capitalism, which are:

1. Radically increase the productivity of resources used through “fundamental changes in production, design and technology,” which results in savings in operational costs, capital and time.
2. Shift industrial processes to biologically inspired production with closed loops, no waste and no toxicity.
3. Shift the business model away from the making and selling of “things” to providing the service that the “thing” delivers.
4. Reinvest in natural and human capital.

Skeptics argue that business executives will not be able to convince their investors that improved environmental or social performance equates with financial success. However, a 2002 PricewaterhouseCoopers survey revealed that, in many cases, the motivating factor for introducing sustainability practices into a company’s business model is public perception. In fact, approximately 90 percent of the corporations

that reported adopting some sustainable practices indicated they did so primarily for reputation enhancement. And for those individuals concerned about making the hard sell to the boardroom, activist and author Bob Willard teaches concerned readers how to sell the idea as a viable business model, not as a lofty philanthropic ideal, in his book *The NEXT Sustainability Wave: Building Boardroom Buy-In*.

The Natural Step, headquartered in Oregon, is a scientifically based organization that works from a business perspective. According to its Web site, The Natural Step “enables corporations to intelligently, and profitably, integrate environmental considerations into strategic decisions and daily operations.” (ortns.org). Developed in 1989 by Swedish oncologist Dr. Karl-Henrik Robèrt, The Natural Step’s framework is based on four principles:

1. In order for a society to be sustainable, nature’s functions and diversity are not systematically subject to increasing concentrations of substances extracted from the earth’s crust.



2. In order for a society to be sustainable, nature's functions and diversity are not systematically subject to increasing concentrations of substances produced by society.
3. In order for society to be sustainable, nature's functions and diversity are not systematically impoverished by physical displacement, over-harvesting or other forms of ecosystem manipulation.
4. In a sustainable society, people are not subject to conditions that systematically undermine their capacity to meet their needs.

Susan Sokol Blosser, owner and president of Sokol Blosser Winery, serves on the board of directors of The Natural Step and has incorporated many of The Natural Step's principles into her business – from organic farming in her fields to using post-consumer waste packaging. Much to her surprise, her efforts have created a significant draw to consumers, as “there are a lot of people who feel the pull of what we need to do with the environment.”

Sokol Blosser says that two of her sustainability efforts, while driven by a need to help the environment, have resulted in a major cost savings. Rather than throwing away plastic shrink wrap, the winery recycles the wrap and saves money on waste disposal. And when faced with a need to build a new barrel cellar, the winery placed it underground, resulting in less wine loss due to evaporation and eliminating air-conditioning costs.

“We can no longer do business as usual,” says Sokol Blosser. “If we always look at what it would cost, [sustainability] is not always cheaper; but we can't be penny-wise and pound foolish; we can no longer look only to the bottom line.”

Although some sustainability practices can be costly at the front end, former Vice President of the United States and chairman of Generation Investment Management Al Gore wrote that the “interests of shareholders, over time, will be best served by companies that maximize their financial performance by strategically managing their economic, social, environmental and ethical performance.”

“It is a fact that the companies which are able to have less of an impact on the natural environment are more likely to thrive in a world with limited resources,” says Andrew Jones, who explains that the Sustainability Institute offers a plethora of case studies when explaining its philosophies to businesses. “There is a way to do it that makes business sense, where you don't have to give away the farm.”

In addition to private organizations, states are forming agencies. P²AD was formed in Georgia in 1993 to promote sustainability. Although it was originally formed as an environmental organization, it quickly morphed into an economic development agency, offering financial and tax incentives to compliant businesses, says Director Donaghue.

“Sustainability has three legs: the environment, the people and the profits,” says Donaghue. “Our goal is to have sustainability become a way of life – to increase awareness to get to zero waste in Georgia.” A profitable goal, considering that a Georgia Department of Community Affairs study found that approximately \$250 million a year of recoverable, recyclable materials are simply dumped into the state's landfills as waste. Thus, with such a dramatic impact to the bottom line, and decades after the buzzword came into existence, businesses are starting to listen.

Benefiting the Bottom Line and the Community

In 1994, Ray Anderson, the founder and CEO of Interface, Inc., took a radical position: he wanted to usher in the next industrial revolution and his Georgia-based carpet company would start it by becoming the first fully sustainable industrial enterprise. To achieve his goal, Anderson announced changes such as requiring that the company's offices would only use power from renewable sources and that all carpeting waste would be recycled.

Interface is not alone. IKEA, the Swedish home furnishing retailer, began moving toward sustainability in the early 1990s when it adopted an Environmental Action Plan, which included such measures as requiring fluorescent lighting for all stores and choosing transportation companies that meet European Union standards on emissions and noise. Nike,



Inc. began rewriting its environmental policy in 1997 to reflect the company's focus on sustainability. As part of the program, Nike implemented initiatives such as reducing the use of petrochemical-based solvents and using 100 percent post-consumer recycled material in the manufacturing of all shoe boxes.

"Business is not in business to put itself out of business," says Stanley Tate, Executive Vice President and Chief Environmental Officer for Southwire Company, the Georgia-based company that is the leading copper-wire manufacturer in North America. "Conservation is a good thing. There are things that you can do with sustainable manufacturing that, just because you are trying to be as environmentally friendly as you can be, do not mean you are also a higher-cost producer."

Following the likes of The Coca-Cola Company, Tate says that Southwire has put together an advisory group to evaluate case studies from other companies to measure the company's environmental impact and to formulate sustainability guidelines that will guide the greening process of Southwire. No stranger to environmentally conscious manufacturing operations, Southwire's Machinery Division received the Excellence Award in 1996 from P²AD for its outstanding achievement in pollution prevention.

"Heavy industries are always going to have some sort of environmental problems," Tate says. "But you can mitigate those problems by being out there, looking at the problem from the perspective of outsiders, and operating as efficiently as you can."

Many sustainability initiatives in the human resources area alone can have a dramatic impact on employee loyalty and retention rates for companies.

"Johnson & Johnson has seen reduced absenteeism and reduced workplace injury because they have incorporated health and wellness programs into their business plans," says Emory's Howett. "Marginalized do-gooder concepts are really coming mainstream and it all translates into dollars and cents savings for the business or institution."

Emory University is in the process of implementing a strategic plan that will take the institution through the year 2015 and that will integrate sustainability from a day-in/day-out perspective, says Howett. Emory's efforts include ensuring that local organic foods are available on campus, weaning commuters off single-occupancy vehicles and greenspace protection for the waters and forests on university land.

"The goal is to make Emory a model in the South, and in the world, for sustainability," says Howett. "It's a powerful



example to show how a major institution, virtually a small city itself, can be the model of stewardship."

Looking Into the Future

Although there are costs associated with achieving sustainability, Daniel Botkin, a professor of biology at the University of California at Santa Barbara, states that there are sustainable solutions to energy problems that will not bankrupt businesses.

"Few human societies have ever restrained their use of resources if they had the technology to overexploit them," says Botkin in an interview with *The New York Times*. "If Americans want trophy houses and big cars, you have to talk to them about energy policy. There are sustainable solutions."

The basic premise remains: to stay competitive, and to ensure dividends remain at a level comfortable with shareholders, companies need to modernize their business practices and find more economical and sustainable ways to provide their services. In sum, companies need to embrace sustainability to survive, both literally and figuratively.

In the end, Paul Hawken likens the solution to the Golden Rule:

"Leave the world better than you found it; take no more than you need; try not to harm the environment; make amends if you do." ■■■



More than 30 guests gathered on December 20 at The Buckhead Club in Atlanta to commemorate the establishment of the Alexander W. Smith Professorship at the University of Georgia School of Law. The professorship, which was endowed by the John and Mary Franklin Foundation and SGR, honors **Alex W. Smith**, the now-retired former senior partner at SGR and the grandson of the late Alexander Smith, who founded the first of SGR's predecessor law firms in 1893.



Shown above: Frank Malone of the Franklin Foundation; Rebecca H. White, Dean of the UGA School of Law; Alex Smith; and SGR Managing Partner Steve Forte.

SGR construction lawyers **Henry Balkcom**, **Dana Grantham** and **Devin Gordon** co-authored the annual survey of construction law in Georgia for the recently published Mercer Law Review's *Annual Survey of Georgia Law, June 1, 2005-May 31, 2006*, 58 Mercer L. Rev., No. 1 (Fall 2006).

Steve O'Day, who heads SGR's environmental practice group, has been awarded the 2006 James S. Dockery Jr. Southern Environmental Leadership Award by the Southern Environmental Law Center. Steve is on SELC's board of trustees and has served as its senior litigation counsel. See "The Finish Line," Issue 17 (Winter 2006).

SGR attorneys recently have counseled clients on a number of high-profile deals, including:

- **Jonathan Minnen**, **David Burge** and **Phillip Hoover** provided legal advice to Sam's Real Estate Holdings of Georgia on its acquisition of 47 metro Atlanta and north Georgia Shell gas stations from Motiva Enterprises.
- **Jay Schwartz**, **David Santi**, **Ann Murray**, **Phillip Hoover**, **Tom Hong**, **Julie Sebastian** and **Jessica Anderson** closed a deal for Gerdau Ameristeel involving the acquisition of a controlling interest in a newly formed joint venture with Pacific Coast Steel, Inc. and Bay Area Reinforcing. The new venture will be called Pacific Coast Steel. Gerdau Ameristeel is the second largest mini-mill steel producer in North America. Pacific Coast Steel and Bay Area Reinforcing together are one of the country's largest reinforcing-steel contractors.
- **Don Mitchell** assisted CIT Aerospace, a division of CIT Group Inc., in the lease of an Airbus A319LR to Australia-based Skytraders. Skytraders conducts flights using modified turboprop aircraft in support of the Australian Government Antarctic Division's scientific missions to Antarctica. The A319LR, which has skis attached to its landing gear, will be the first commercial-transport-category aircraft to fly to Antarctica to an ice-runway landing. In a different matter, Don also helped CIT document the lease of two new twin-aisle Airbus A330 aircraft to Qantas, Australia's largest domestic and international airline.
- Several SGR attorneys represented Radiotherapy Clinics of Georgia ("RCOG") and Dr. Frank Critz, its founder and Medical Director, in the sale of RCOG to Physician Oncology Services, L.P., a member of the portfolio of companies and partnerships backed by Oak Hill Capital Partners. RCOG is the largest single provider of radiation therapy care in Georgia and is led by a team of 13 Board-certified radiation oncologists and a staff of more than 180 people. SGR's team included **John Ethridge**, **Michelle Edwards**, **Emily Sacco Avant**, **Jessica Anderson** and **Julie Sebastian** (overall acquisition); **David Santi** and **Scott Harty** (tax and partnership); **Hillyer Young** (ERISA and employee benefits); and **Eric Hanson** (intellectual property). Dr. Critz will continue as the Medical Director at RCOG and will be an owner of Physician Oncology Services.

Wired for Success

Georgia's Own Southwire Company

Headquartered in Carrollton, Ga., Southwire Company is North America's leading producer of building wire and utility cable and a technology leader in the wire and cable industry worldwide, supplying approximately 135 of the nation's top power companies as well as leading electrical contractors and retail outlets. Southwire presently has approximately 4,100 employees (some 2,200 of whom are based in Georgia) with 18 manufacturing plants and service centers in North America. In 2005, Southwire was ranked among the top five best places to work in metro Atlanta by *The Atlanta Business Chronicle*. This year, the company is a finalist for the title of "Manufacturer of the Year," to be awarded by the Georgia Departments of Economic Development and of Technical and Adult Education.

However, when Roy Richards, Sr. decided to expand his power-line construction business in 1950 he had just one person in mind: his 85-year-old grandmother.

Family Ties

Fresh out of the U.S. Army after World War II, Richards resumed operation of a construction company he had founded in the late 1930s, which erected poles and ran wire for utilities, principally for the Rural Electrification Administration, in the South. But Richards soon found that electricity had not reached many homes in rural Georgia – including his grandmother's. Richards sought assistance from aluminum-wire manufacturers to extend the power lines, but learned that there were post-war shortages in wire, making it impossible to run the current to many rural areas. His solution? To form his own company, ensuring himself a steady supply of aluminum wire and cable. It was a daunting task; while traditional aluminum-wire manufacturers were operating plants they had bought for a nominal sum from the government after the war, Richards had to build his business from the ground up.

But, on March 23, 1950, utilizing only 12 employees and second-hand machinery (some of it 100 years old), South-

wire Company officially began producing aluminum wire. Within two years, the company had doubled its plant size and shipped five million pounds of wire. Richards soon realized that the then-current method of producing aluminum wire (drawing it from lengths of aluminum rod welded end to end) was outdated, and resulted in inferior aluminum wire with both mechanical and electrical problems. Richards borrowed an Italian chicken-wire processing technique of continuously casting and rolling rod to produce electrical-quality aluminum rod, which could be used "as is" or stranded into cable.



A Southwire employee inspects wire in a winder in this photo from the early 1960s.



An employee moves aluminum rod, which is drawn into wire at Southwire's Utility Products Plant in Carrollton, Ga.

The process was a success, and, several years later, Richards applied the technique to the continuous casting of rod made of copper. Today, Southwire estimates that at least one third of the aluminum conductor in the United States is produced by Southwire, or by others using Southwire technology; and that half of the copper rod for electrical wire and cable is produced using the patented Southwire Continuous Rod (SCR) method.

Since its founding in the early 1950s, Southwire has grown by leaps and bounds. In 1967, Southwire opened a total of six manufacturing plants, an aluminum smelter and a copper refinery; in 1987, the company opened a building wire and utility cable plant in West Jordan, Utah; and, in 1989, it purchased a utility cable and building wire plant in Starkville, Miss. In 1992, Southwire Company opened its D.B. Cofer Technology Center, named for the company's first chief engineer, to provide scientists and engineers state-of-the-art facilities for research and product testing. In 1998, the company expanded into Mexico, opening Southwire Americana De Mexico, a building wire plant. Rounding out the century, Southwire pioneered work in the development of superconducting power cables – cables that can carry three to five times the load of traditional cables, using sophisticated technology to cool ceramic conductor to several hundred degrees below zero with liquid nitrogen.

Richards led Southwire until his death in 1985, at which time his son, Roy Richards, Jr., came on as co-president (together with Roy's brother Jim, who subsequently left the company to pursue other opportunities). In 2003, Roy turned the day-to-day operating reins over to Stuart Thorn, who currently serves as President and Chief Executive Officer, while Roy remains Chairman of the Board.

SGR attorneys have represented Southwire Company for more than 50 years in connection with a wide variety of corporate and litigation matters, forming a strong partnership between the two organizations. SGR lawyers have counseled Southwire executives on issues ranging from antitrust, environmental, intellectual property (Southwire holds more than 240 patents in 40 countries), financing and acquisitions, to construction, employment, contracts and all the legal issues that a major industrial manufacturer must encounter.

Connecting with the Community and the Environment

One of Southwire's corporate visions is to improve the quality of life for its suppliers, customers, communities and employees. As such, Southwire has for many years supported grassroots programs. One such program is "12 for Life," in which the company reaches out to at-risk youth on the verge of dropping out of school. Southwire, in partnership with the Carroll County school system, offers such students real jobs, making real products and earning real wages. The catch? They must stay enrolled in school.

Southwire also founded "Project G.I.F.T." (Giving Inspiration for Tomorrow), a program by which employees give their time to community beautification projects, Special Olympics events, raising donations for Toys for Tots, and relief efforts following such events as Hurricane Katrina and the recent tornadoes in Alabama.

Southwire is also known for its environmental stewardship. In 1996, the company received the State of Georgia's Governor's Award for Pollution Prevention. The company sponsors a "Growing Green" program that, among other initiatives, challenges employees to examine their daily routines and eliminate causes of pollution throughout the company and within the community. Additionally, Southwire has cut its own waste and emissions by millions of pounds and its water use by more than a third. And it plans to continue on the "green path" of renewability. *For more information on Southwire's sustainability initiatives, see the preceding article in this issue.* ■■■

Getting to Know Us

When you think of Smith, Gambrell & Russell, LLP, perhaps you think first of the attorneys who practice law here. But we simply would not be able to provide the quality legal services for which we are known without the invaluable contributions made by the more than 200 members of SGR's staff.

Apart from their valued work at SGR, many of our staff members actively pursue outside hobbies and civic and charitable work. Among them:



Stormydreams, by Maxine Tate

and in her late 20s she met an artist who convinced her it was just a small leap from that pencil to creating in oils. When her husband died in 2002, Maxine converted the downstairs of her home into a working studio and found a new love – watercolors – although she has not abandoned her works in oils.

- **Karen Mouzon** is another longtime SGR employee, having been an administrative assistant at the firm since 1987. Karen is active in animal rescue. “From the moment I was able to process memory cells, I have fond memories of my great-grandmother, grandmother and parents feeding dogs, cats, birds and squirrels,” Karen recalls, explaining the genesis of her passion for animals. For all of her adult life, Karen has fed, housed and cared for stray or sick dogs and cats, and has become known as “the Dog Lady” in her neighborhood. “The joy I find in rescuing animals is indescribable – they are devoted to you for life,” explains Karen, whose dream is to establish a dog shelter.

- **Maxine Tate** is a 13-year employee of SGR's word processing and document production departments. Born and raised in Brooklyn, N.Y., Maxine has been creating art in some form since she was a very young girl. “My first love was a No. 2 pencil,” Maxine recalls,

- **Rebecca Blankenship** has been a paralegal in SGR's Immigration Practice for more than six years, and has more than 20 years of paralegal experience overall. Like Karen, Rebecca is passionate about animal rescue and protection. Her best friend for more than 15 years was an Old English Sheepdog named Comrade Pup, which led to her involvement in the Southeast Old English Sheepdog rescue group, where volunteers donate time and money to feed rescued dogs while they are in foster care and then drive them to their new homes. “I have driven all over the Southeast – Georgia, Alabama and Florida – delivering some really beautiful huge dogs to people who will love them,” Rebecca recounts. Rebecca has also worked with Animal Rescue New Orleans and other rescue groups working in New Orleans after Hurricane Katrina.



Rebecca Blankenship, shown with her niece Samantha and two rescue dogs.

- **Kathy Thomas** has been an administrative assistant at SGR for nine years. Four years ago, Kathy started making small pieces of jewelry – bracelets mostly – as gifts for her friends, when one such friend convinced Kathy to display some of her work in SGR's annual staff Thanksgiving craft show. “I received more encouragement after that, and my small hobby began to run amok,” Kathy explains. Her works incorporate semi-precious gemstones ranging from agates to zircon, usually with sterling silver beads and spacers mixed in. Glass, wood and crystal beads also find their way into her work. Kathy likes the instant gratification that comes from making her jewelry. “And of course, I do like seeing my friends and co-workers wearing jewelry that came from my imagination and workshop,” Kathy says.

We are proud to count Maxine, Karen, Rebecca and Kathy as members of the SGR family.

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