PERSPECTIVES

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THE STRENGTH OF PARTNERSHIP

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Scherer Smith & Kenny LLP serves mid-sized and fast-growing entrepreneurial companies. From complex litigation to business, real estate, intellectual property and employment law, our team brings strategic thinking, pragmatism and intense dedication to our clients' success.

Holding Domain Names Hostage-Cybersquatting

We work with many new emerging companies, and, given the world we live in today, most, if not all of them, have a web presence. Sometimes, it is their only presence. The backbone of this presence is their domain name. An often overlooked, but critical piece is who owns the domain name.

Many times, rather than the business being listed as the owner, we see web designers who were hired to create the website, a business partner who was helping out, or a part-time employee who just happened to be technically savvy listed as the individual owner. Since the domain name is often the first thing secured when starting a business, it is not uncommon for it to be obtained before the legal entity is formed, and unfortunately, it is often not transferred into the Company's name afterwards.

This is fine as long as all the parties get along. However, if the relationship sours between the web designer and the company, or between the business partners, the individual holding the domain name might be tempted to use it as leverage in negotiations to get paid money they feel they are owed, for example.

It is clear, however, that doing so may expose the individual to civil liability as being "cybersquatting" under the Anti-Cybersquatting Consumer Protection Act (15.U.S.C. §1125(d). This is exactly what happened in *DSPT International, Inc. v. Lucky Nahum*, 624 F.3d 1213 (9th Cir. 2010). In DSPT, two friends, Paolo Dorigo and Lucky Nahum started a clothing company. Nahum obtained the domain name in his own name simply because he handled it and Nahum's brother designed the website. Eventually, after many years, the bulk of the company's business came from the website (and the domain name was still held in Nahum's personal name who was working full time with DSPT). Their orders were placed on-line, customers accessed their catalog on-line, salesmen sold clothes to retailers by using the website etc.

After about six years, Paolo and Lucky's friendship fell apart and Lucky moved to a competitor, claiming his was owed thousands of dollars in unpaid commissions. About one month after leaving, DSPT's website mysteriously disappeared and when customers went to the website, they saw a screen saying "All fashion related questions to be referred to Lucky Nahum" even though Nahum had no use for the website.

This destroyed DSPT's business overnight. Nahum refused to return the domain name and website to DSPT's control and DSPT then sued Nahum.

In This Issue

Denis Kenny

Spring has arrived.

We are hopeful that the revitalized business transaction climate we have been seeing with our clients so far in 2011 will continue to improve (along with brighter and longer Spring days).

Meanwhile, my main practice, employment counseling and litigation, The jury found that Nahum was liable to DSPT for $152,000 in damages as a result of him "cybersquatting" and violating the Anit-Cybersquatting Consumer Protection Act (15.U.S.C. §1125(d) ("Act"). Under the Act, there is civil liability for "cyberpiracy" where a plaintiff proves that (1) the defendant registered, trafficked in, or used a domain name; (2) the domain name is identical or confusingly similar to a protected mark owned by the plaintiff; and (3) the defendant acted "with bad faith intent to profit from that mark."

Critical to the DSPT case, it did not matter that Nahum initially registered the mark with good intentions, it only mattered that he later acted in bad faith with respect to the mark. It also did not matter that he was not trying to sell the name back or use the domain to make money himself, which are the usual ways someone is found liable under the Act. The fact that he was trying to leverage it for financial gain was enough.

We note the case because it provides two valuable lessons:

- After the legal entity is formed you should make sure that title to the domain name is placed into the company name, rather than being left in the name of the individual who initially registered it.
- If the domain name is in your name and you have a financial dispute with the company, whether it is over payment for designing the website, or a partner dispute, you should be very careful in using ownership of the domain as leverage in your negotiations as it may lead to liability under the Anti-Cybersquatting Consumer Protection Act.

Please contact Brandon Smith at bds@sfcounsel.com for more information.

- Written by Brandon Smith

HOA Repair Obligations: Who Wins?

Let's assume you sit on the board of a homeowners' association or condominium development that suffers chronic maintenance issues – ongoing termite problems, plumbing or foundation issues, etc. The board, being responsible for common area maintenance, but having little money with which to do so, carries out light repairs, but can't completely solve the problem. As a result, an HOA member sues your association for its failure to meet its maintenance obligations. Who wins this battle?

Until recently, most common interest development lawyers would reassure the board and association, saying they had little to worry about because of "judicial deference" applied to the ordinary maintenance decisions made by homeowners associations that the California Supreme Court set forth in *Lamden v. La Jolla Shores Clubdominium Homeowners Association* (1999) 21Cal.4th 249 ("Lamden"). Lamden has long stood for the proposition that HOA boards are given broad discretion over the good faith maintenance decisions they make, even decisions that do not lead to a resolution of the maintenance issue.

However, a recent case, *Affan v. Portofino Cove Homeowners Association* (2010) 189 CalApp4th 930 ("Affan") potentially places real limitations on the comfort Lamden provides. The Affan decision clearly states that though associations will continue to be protected from good faith decisions relating to common area repair and maintenance, this protection does not extend to an association that effectively ignores these issues. Affan raises uncertainty because a very thin line exists between the facts concerning a cash-strapped association that carries out low-cost, short-term repairs, and one whose efforts indicate a lack of intent to meet repair obligations.

The plaintiffs in Affan were long-suffering association homeowners whose first-floor unit was repeatedly flooded with sewage eruptions over a period of nearly six years. The factual record showed that the association largely ignored the problem and failed to repair and remediate the resulting damage and contamination within the unit. Any maintenance steps the association did take were small, incomplete, and staggered over the period preceding the suit.

remains busy. We are continuing to see a wave of litigation concerning the ongoing effects of corporate downsizing. A recurring theme in disputes coming across my desk involves laid-off employees claiming that they were singled out or included in larger reductions-in-force for discriminatory reasons (i.e. race, gender, disability, etc.). In fact, some employers continue to operate under the mistaken assumption that simply labeling a termination a "lay-off" for economic, strategic or related reasons somehow protects the employer from potential liability for wrongful termination.

We have seen a number of situations where employers have terminated employees during or after medical or pregnancy leaves without regard for the number of legal constraints that may apply to those situations. Potential legal obligations include an employee's right to be reinstated to the position he/she left before the leave and an employee's right to receive a "reasonable accommodation" of a disability, which may include a period of unpaid leave.

Needless to say, terminating someone for supposed corporate reorganization, downsizing or economic reasons does not insulate an employer from liability if the decision was tainted by the employer's consideration of the employee's protected status (e.g. race, gender, sexual orientation) or protected activity (e.g. complaining about sexual harassment).

Our employment group strives to update our clients on the latest legislation and case law to keep our clients from making knee-jerk personnel decisions impacting protected status employees. Since

The trial court, applying Lamden's standard of judicial deference, failed to find the association's maintenance decisions at fault, though it did award the Affan's their remediation costs. Both the Affans and the association appealed. The appeals court reversed the trial court, noting that the factual record was replete with inaction.

The appeals court noted that the Lamden is a "rule of deference to the reasoned decision-making of homeowner association boards concerning ordinary maintenance." It then distinguished Lamden from the Affan's association by stating "the clogged drain lines and resulting sewage eruption do not implicate any decision by the [Affan's] association, but rather reflect the association's abiding indecision and inattention to plumbing maintenance issues."

Based on the association's failure to comprehensively address repair and maintenance, the court reversed the trial court, and remanded the case to the trail court for further proceedings "in accord with views expressed in this opinion." What is a practical effect of Affan?

The Affan case generally provides that associations will be given broad deference in determining the manner and scope of the repairs and maintenance of their common areas, but such decisions cannot include a decision to "kick the can down the street" and do nothing. Associations have an affirmative obligation to carry out repairs and maintenance; provided that a board takes the time to speak to contractors and vendors, look at the options, and carry out a comprehensive plan of repair and maintenance, boards should be shielded from liability. That said, the case blurs the line of responsibility and may encourage greater amounts of litigation.

If you have any further questions or comments regarding this case or maintenance and repair matters in general, please contact Bill Scherer at wms@sfcounsel.com for more information.

- Written by Bill Scherer

Peril Alert for Binding Arbitration

Since the 2000 California Supreme Court decision in *Armendariz v Foundation Health Psychcare*, (2000) 24 Cal. 4th 83, the law in California regarding an employer's right to compel an employee to arbitrate any dispute concerning his or her employment has been relatively clear: a mandatory binding arbitration clause will only be allowed if it meets certain conditions of fairness and due process. The specific fairness and due process conditions set out in *Armendariz* include: 1) the agreement must provide for neutral arbitrator(s); 2) it must provide for more than minimal discovery; 3) it must require a written award; 4) it must provide for all the types of relief that would otherwise be available in court; and, 5) it must *not* require employees to pay either unreasonable costs or any arbitrators' fees or expenses as a condition of using the arbitration process.

The *Armendariz* conditions translate into a difficult choice for employers. To obtain the generally-accepted benefits of binding arbitration, most notably, avoiding the risk of a multi-million dollar "runaway" jury verdict in California's traditionally employee-friendly Court system, the employer must effectively fund the arbitration. These costs (which include the fees of the arbitrator) amount to tens of thousands of dollars for a 3 to 4 day arbitration which would be expected in a typical wrongful termination dispute, for example. Given the reality that more than 90 % of all cases filed are resolved at some point short of trial, some employers, especially those with limited funds, decide against the use of binding arbitration clauses in their employment agreement(s) (not to mention, those employers that have no written employment agreements or other policies addressing the issue, at all).

Meanwhile, since *Armendariz* addressed binding arbitration clauses in employment agreements, most legal experts have advised companies that *Armendariz* is properly limited to employer-employee relationships. Consequently, many Independent Contractor ("IC") Agreements include standard binding arbitration provisions lacking the *Armendariz* conditions. After all, a worker is either an employee or not. In other words, as with other vendors, companies understandably view a prospective IC as being an

we work equally with employers and employees, our practice allows us to provide our clients with a perspective that is distinctive from many firms that represent only employers or employees. This hands-on experience allows us to provide our clients with objective advice based on real-life examples of cases we have handled on both sides of employment disputes.

We hope you will find the articles in this issue of *Perspectives* valuable. We will continue to update you on employment law developments throughout 2011 and look forward to meeting your future legal services needs.

entity or an individual who may properly choose whether or not to enter into a working relationship under terms and conditions negotiated by the parties.

For these reasons, most IC agreements which require binding arbitration for the resolution of disputes typically include provisions for each side to bear their own costs and fees of the arbitration including an equal split of the arbitrator's fees. Another standard provision calls for the prevailing party to be awarded its attorney's fees and costs (which can run into the six figures).

The recent California Court of Appeal decision in *Wherry v. Award, Inc.* Case No. G042404 (CA Dist. 4 Ct. App., Div. 3, Feb. 23, 2011) changes everything--at least for the time being.

Wherry addressed the claims for unpaid commissions brought by two real estate salespersons who signed IC Agreements with a real estate brokerage company. The IC Agreements included standard vendor-type binding arbitration clauses akin to those addressed above, including equal splitting of the arbitrator's fees and a prevailing party attorney's fees/costs provision. In a startling decision, the Court found the binding arbitration clause unenforceable and elected against any attempt to "blue-pencil" or otherwise fix the defects in the clause on grounds that the clause was too pervaded with problems to be fixed.

The *Wherry* decision provides another expensive and important lesson for companies doing business in California. Not only must companies exercise extreme caution in classifying workers as independent contractors (given the very limited circumstances in which a viable independent contractor relationship will be found by the Courts, the IRS, the EDD and other government agencies) but standard IC Agreements must be closely scrutinized. Chances are that many companies will need to revise the binding arbitration provisions currently found in their IC agreements. And, as with the employer-employee relationship, companies will need to conduct a cost-benefit analysis of whether binding arbitration makes sound economic and business sense in light of the *Armendariz* conditions.

We will be closely following the Courts to see whether *Wherry* is followed or, alternatively, whether it is distinguished as, perhaps, being properly limited to its unique facts involving real estate salespersons (who happen to be licensed by the State of California and are classified as "statutory employees" for certain purposes). Either way, we strongly advise our clients to closely review all employment and IC agreement to ensure compliance with current law. We remain available to assist you in this and any other employment-matter. We will, of course, continue to keep you posted as developments unfold in our dynamic and ever-changing employment law landscape.

For more information please contact Denis Kenny at dsk@sfcounsel.com.

- Written by Denis Kenny

Limiting Solicitation of Employees in the Digital Age

In March, SS&K attorneys Gabe Levine and Rich Hill presented a Webinar entitled “Limiting Solicitation of Employees in the Digital Age – Understanding the Impact of *US v. Adobe*.” The presentation focused on the impact of the *US v. Adobe* case, including the subject agreements between the defendants, allegations made by the Department of Justice (DOJ), and stipulations reached between the DOJ and defendants that impact recruiting and hiring processes. The presentation also touched upon other laws effecting non-solicitation agreements, including California’s ban on non-competes. The webinar is available on the Web, through ExecSense: http://www.execsense.com/details.asp?id=3328

You can reach Rich Hill at rph@sfcounsel.com and Gabe Levine at gsl@sfcounsel.com.

- Written by Gabe Levine

Areas of Practice

Business; Real Estate; Intellectual Property and Employment Law; Litigation and Dispute Resolution; Nonprofit; Estates and Trusts

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