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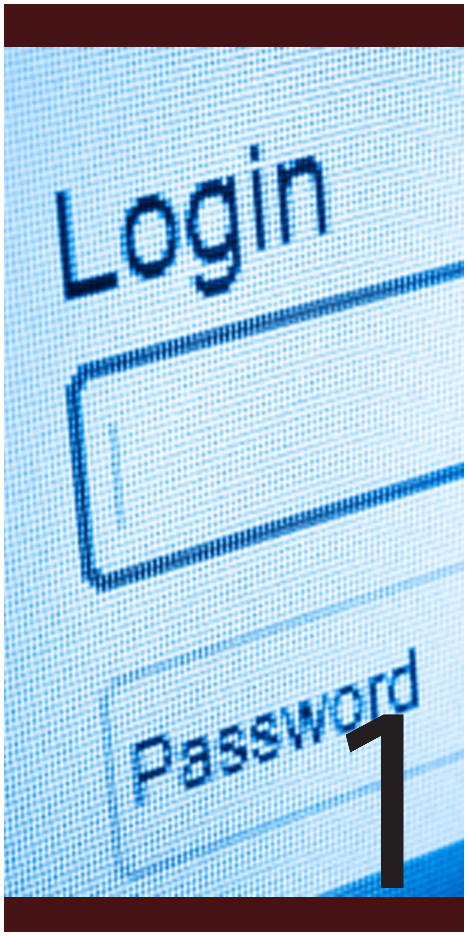

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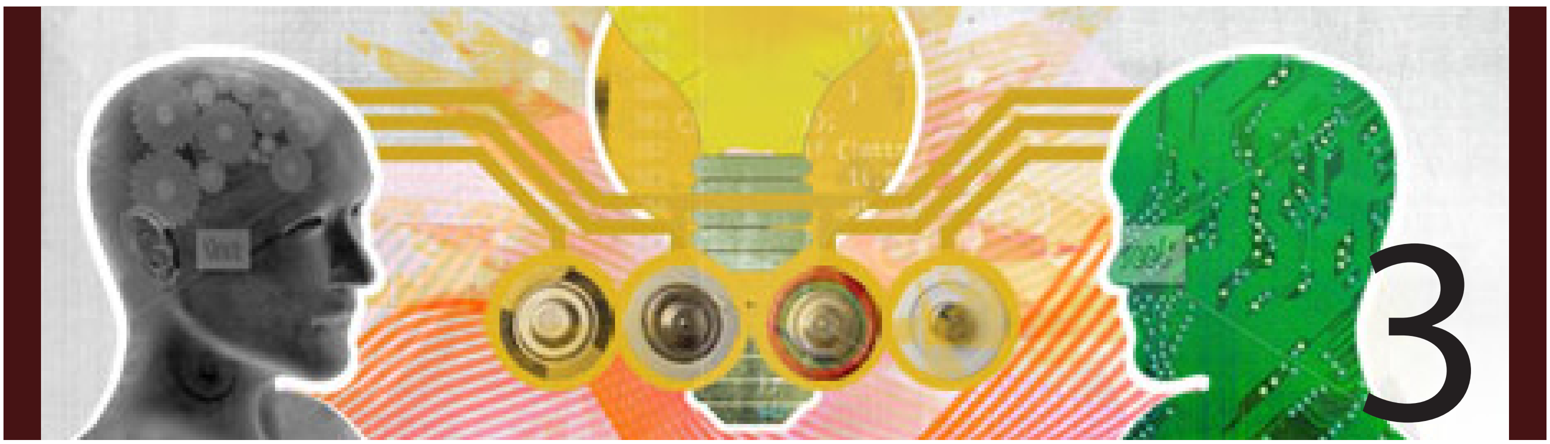

Collecting Customer Information Online: California Court Rules Song-Beverly Credit Card Act Inapplicable to Online Retailers

by Robert E. Braun and Craig A. Levine

On August 24, 2011, the California Superior Court for San Francisco County held in *Gonor v. Craigslist Inc.* that the provisions of the Song-Beverly Credit Card Act, California Civil Code § 1747 et seq. (the "Act") prohibiting retailers from collecting a consumer's personal information as a condition to completing a credit card transaction do not apply to online transactions. This was the first time a California state court has ruled on the application of the Act to online merchants, and it sheds light on many questions which were previously subject to speculation.

As previously discussed in our January 2009, March 2009 and February 2011 client alerts, the Act is intended to protect consumer privacy rights by restricting the type of information which retailers can request from consumers in connection with credit card transactions. At the same time, these restrictions make it difficult for retailers to collect information from their customers that could help them provide services and goods on a competitive basis.

Background

The Act provides in part that retailers shall NOT do any of the following:

1. Request, or require as a condition to accepting the credit card as payment in full or in part for goods or services, the cardholder to write any personal identification information upon the credit card transaction form or otherwise.

2. Request, or require as a condition to accepting the credit card as payment in full or in part for goods or services, the cardholder to provide personal identification information, which the person, firm, partnership, association, or corporation accepting the credit card writes, causes to be written, or otherwise records upon the credit card transaction form or otherwise.

3. Utilize, in any credit card transaction, a credit card form which contains preprinted spaces specifically designated for filling in any personal identification information of the cardholder. *See* Cal. Civ. Code § 1747.08(a).

Under the Act, "personal identification information" is "information concerning the cardholder, other than information set forth on the credit card, and including, but not limited to, the cardholder's address and telephone number." Id. at § 1747.08(b).

Penalties for violation

The penalties for violating the Act can be significant, and can include a civil penalty not to exceed two hundred fifty dollars ($250) for the first violation and one thousand dollars ($1,000) for each subsequent violation. The fines can be assessed and collected in a civil action, by the Attorney General, or by the district attorney or city attorney of the county or city in which the violation occurred.

Court decisions

Courts have actively interpreted what does, and what does not, constitute personal identification information. On December 19, 2008, in *Party City Corp. v. The Superior Court of San Diego County*, the California Court of Appeal held that ZIP codes did not fall within the definition of "personal identification information."

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Corporate Counsel Insights: Social Network Records as Corporate Records

by Robert E. Braun

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Where and how companies maintain their records has undergone a seismic revolution in the past several years. Firms began utilizing electronic storage facilities to retain records decades ago, and email long ago overtook physical mail as a preferred means of written communication. More recently, mobile devices and remote servers have become prevalent means of obtaining, transmitting and storing information. These changes in technology have demanded a legal response—how should enterprises address these new methods of collecting, storing and retrieving information so as to comply with legal obligations. The response, from a legal perspective, has been to treat all these sources of information as electronic records (Electronically Stored Information, or ESI), as provided in a variety of statutes, regulations and court decisions.

Technological advances are not alone in changing the landscape of ESI – companies must also consider how technological advances are used and how those can impact approaches to ESI. In particular, as interactive media have gained popularity over the last several years, social media have developed into a new and potentially confusing source of electronic records. As social media transitions

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This ruling allowed retailers to request ZIP code information prior to a credit card transaction provided that such information is not requested in connection with other personal information (i.e., name, phone number, address, etc.) and the customer is not required to give this information in order to consummate the transaction. On February 10, 2011, however, the California Supreme Court reversed *Party City* and held in *Pineda v. Williams Sonoma* that ZIP codes should be considered to be personal identification information under the Act.

These rulings dealt with physical, in-store transactions, and did not directly address the January 2009 holding of the U.S. District Court for the Central District in *Saulic v. Symantec Corp*. that the Act does not apply to online transactions due to the plain-language of the Act, and the merchant's reasonable need for personal information to prevent fraud.

Because of the gap between the state and federal court rulings, a large number of online national retail chains operating in California have been hit with lawsuits, including Craigslist.com, Ticketmaster.com, Amazon.com, PayPal.com and StubHub.com, raising questions as to whether the *Symantec* decision would be upheld in state court. The court's ruling in *Craigslist* offers good news for retailers and suggests that California state courts, like the federal district court in *Symantec*, will agree that the restrictions of the Act do not apply to online transactions. In *Craigslist*, the court held that the Act did not apply to online transactions "on its face" and turned to applicable case law, legislative intent and public policy to support its position.

Although this decision is good news for online businesses and website operators, the *Craigslist* case is a trial court decision only, and there remain a number of other cases pending in state and federal courts which leave the door open for future challenges to the distinction between "online" and "brick-and-mortar" retailers. Suffice it to say, consumer advocacy groups will be monitoring these decisions as they unfold. As importantly, while online transactions are increasingly important to merchants, it is clear that *Craigslist* applies only to online transactions, and merchants must continue to follow the restrictions imposed by the Act for face-to-face, in-store purchases.

Suggested actions

JMBM represents many retailers, and we strongly recommend that our clients implement written policies and procedures that comply with the aforementioned requirements of the Act. We would be happy to assist you if you require additional information on these recent developments, the Act or preparing policies and procedures.▪

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from a narrowly used facility among a limited number of users into a generally accepted means of communicating and storing information, companies have to determine whether that information should be treated as Electronically Stored Information, or whether it has different characteristics and requires different treatment.

The question firms now face is whether (or should) the rules regarding the maintenance of ESI apply to information on social networks, and if so, are there responses to minimize the legal liability of a social network presence.

What is social media?

Social media has a number of definitions, depending on the user and promoter. Social media has been identified as media optimized for social interaction, using highly accessible and scalable communication techniques, and one of the key elements of social media, under this definition, is the use of web-based and mobile technologies to turn communication

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Protect Your Intellectual Property — Review Your Assignment Agreements Now *by Stanley M. Gibson*

Patent and Technology trial lawyer Stan Gibson discusses the importance of choosing the right language of assignment in order to assure ownership of intellectual property that is created in the future.

A number of recent Federal Circuit decisions have highlighted the importance of assignment clauses in the transfer of intellectual property, particularly patents. These cases often distinguish between an agreement to assign in the future or the current assignment of intellectual property that may be created in the future. Although the distinction in language is minor, the outcome of who owns the intellectual property created in the future is not. Choose the wrong language of assignment and you may find that you do not own the intellectual property that is created in the future.

The recent *Federal Circuit decision in Abraxis Bioscience, Inc. v. Navinta LLC, Case No. 2009-1539* (Fed. Cir. Nov. 9, 2010), highlights the necessity of reviewing assignment clauses now to make sure future intellectual property rights are preserved and protected. In *Abraxis*, the parties went through three years of litigation and a trial on the merits, in which the district court found that the defendant infringed the patents at issue, only to have the Federal Circuit reverse on the ground that the plaintiff, Abraxis, did not have standing to pursue the infringement action because it did not own the patents at issue at the time the complaint was filed.

What went wrong for the plaintiff?

The chain of assignments of the patents at issue. In 2006, Abraxis entered into an asset purchase agreement that contained a "Further Assurances" clause, providing that the Seller would execute "any and all further . . . assignments . . . as necessary to . . . vest in Buyer [Abraxis] any of the Transferred Intellectual Property." On the day the action was filed, the Seller obtained the assignment of the patents at issue from two related entities. This assignment occurred several months after the asset and purchase agreement was executed. Eight months after the lawsuit was filed, the Seller executed a separate Intellectual Property Assignment Agreement that assigned the patents at issue to Abraxis.

> This case is yet another wake up call for the review of assignment agreements.

At the district court, the defendant challenged that Abraxis did not own the patents at issue at the time of the filing of the complaint. As all of the parties on the Abraxis side of the transaction intended Abraxis to own the patents (as evidenced by, among other things, the Further Assurances clause), the district court found that the intent of the various Seller entities was sufficient to imply a nunc pro tunc assignment based on the relationship between the corporate entities. The Federal Circuit—after three years of costly litigation on the merits—disagreed.

In reversing the district court, the Federal Circuit began by noting that "[a]lthough state law governs the interpretation of contracts generally . . . the question of whether a patent assignment clause creates an automatic assignment or merely an obligation to assign is intimately bound up with the question of standing in patent cases. We have accordingly treated it as a matter of federal law." Applying federal law, the Federal Circuit then noted that the wording of the assignment itself is dispositive and "[w]hether an assignment of patent rights in an agreement is automatic or merely a promise to assign depends on the contractual language itself." This is a critical distinction in federal law—as set out by the Federal Circuit—that can be dispositive of ownership issues.

For example, if a contract expressly conveys rights in future inventions, e.g., the language states that all rights and future rights are hereby assigned, then no further act is required once an invention comes into being and the transfer of title occurs immediately by operation of law. In contrast, language stating that the party "agrees to assign" is not effective to assign future inventions and instead is only a mere promise to assign rights in the future. This language is not an immediate transfer of the interests in the intellectual property and requires a subsequent act of assignment.

Applying this reasoning, the Federal Circuit concluded that the Further Assurances clause was a mere promise to assign in the future and could not automatically transfer the patents. Thus, the assignment to the Seller on the day the lawsuit was filed did not provide Abraxis with the patents on that day. Instead, the assignment was not effective until eight months later when the additional assignment document was executed by the Seller.

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The Federal Circuit held that Abraxis was required to have legal title to the patents on the date the lawsuit was filed and that this requirement could not be met retroactively. Accordingly, Abraxis lacked standing and the action had to be dismissed.

This case is yet another wake up call for the review of assignment agreements. Given the Federal Circuit's ruling in this case and others (including the *Stanford v. Roche*, 583 F.3d 832 (Fed. Cir. 2009) case, now pending before the United States Supreme Court), the language of promising to assign in the future should be eliminated in favor of the immediate assignment language, e.g., "hereby do assign" to avoid the problems presented by the mere promise to assign in the future language, e.g., "agree to assign." Not only should forms be changed for form assignments, but past agreements, including employment agreements, should be reviewed, modified and re-executed if necessary to avoid the costly lesson learned the hard way by Abraxis.▪

Stan Gibson, an experienced technology and IP trial lawyer, represents inventors, manufacturers, owners and others in litigation centering on complicated technology. Stan's practice is national in scope and he represents both plaintiffs and defendants and has litigated dozens of cases on behalf of his clients, taking many of them to trial. Although most cases settle, Stan's ability to take cases to trial enhances their value and drives favorable verdicts and settlements. For more information, contact Stan at 310.201.3548 or SGibson@JMBM.com

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into interactive dialogue. Another accepted definition of social media is "a group of Internet-based applications that build on the ideological and technological foundations of Web 2.0, which allows the creation and exchange of user-generated content." Still others refer to social media as "the set of Web-based broadcast technologies that enable the democratization of content, giving people the ability to emerge from consumers of content to publishers."

> The question firms now face is whether (or should) the rules regarding the maintenance of ESI apply to information on social networks, and if so, are there responses to minimize the legal liability of a social network presence.

The common thread to all these definitions is the focus on the technology used to host social media – Internet based applications which emphasize the importance of interactivity, turning the transactions of a static media environment into a interactional environment. Underlying the technology and interactivity of social media is another aspect, which focuses not on the technology, which allows multiple parties to generate content, but to the content itself, commonly referred to as consumer-generated media (CGM). Social media outlets blend technology and social interaction to blur the lines between creators and users of information, resulting in multiple sources and authorship. This aspect of social media creates new challenges for companies at the very same time that these companies are, more and more, emphasizing the value of information, the importance of collecting it, and the risk of its unintended or unauthorized disclosure.

How do businesses use social media?

Corporations recognize the value of interactive communications with their stakeholders (whether shareholders, customers, employees or others) and have incorporated social media into their core communications strategies. Unlike traditional "static" websites, which simply allow a company to present the information it generates, social media sites also include interactive features allowing communication between the sponsor and the viewers and between the viewers themselves. Companies are thus able to tap into the opinions of their stakeholders on a real-time, uncensored basis, allowing them greater access to key information. Firms are also attracted by the low cost of developing and maintaining a social network presence; compared to an advertising campaign on traditional media (print, radio and television), a presence on a social media site is strikingly inexpensive and holds the possibility of connecting directly with key constituents. Consequently, many companies have committed to social media as a way to connect with customers, employees and shareholders. A majority of Fortune 500 companies have either a Twitter or a Facebook account, and it is estimated that, today, 60% of companies are using social media in some way.

How is social network ESI the same as other information?

At the outset, there are many similarities between the ways businesses use social media and the way businesses use company-sponsored websites without the interactivity and community generated material of social media. For example, a company that establishes a Facebook page prepares its own materials, establishes terms of use (within Facebook's requirements), responds to consumer inquiries, displays information that may not be substantially different from its company-based website; it may be the functional equivalent of an informational, static website. To that end, the "rules of the road" for acquiring, protecting and using information for the Facebook

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page may not be different from the company's website. Instead, a social media site may simply be a substitute for or addition to other forms of communication and advertising.

How are social networks different from other ESI?

Businesses can also establish social media sites that are significantly different from static websites. Most obviously, social media sites, or at least the sites that take advantage of the interactivity of social media, are not "one-way," static sites; they provide a means for viewers and visitors to respond in ways that are not controlled by the sponsor. The sponsor may have limited ability to screen user comments, or to differentiate sponsored sites from independent sites.

Perhaps most significantly, by situating a presence on another entity's Internet real estate, the sponsoring company will adopt the social media company's rules, which may be at odds with the sponsor's policies. Social media websites often claim rights in any information that passes through the site, making possible for the social media website to utilize the sponsor's material. Moreover, some rules can conflict directly with the company's policies. For example, it is not uncommon for companies to have a general policy of deleting email 90 days after receipt or generation; social media networks may have policies of retaining emails for longer periods of time, or never deleting those emails. Companies that use social media messaging functions to respond to customers and inquiries need to be aware of differing policies and how those impact existing procedures.

The issue as to the discovery of social media has become particularly apparent in employment cases. Commentators have speculated that if an employee uses social media for business purposes, it may lead to an obligation of the employer to preserve the evidence; where an employer monitors social media by employees, that employer may have increased its obligation to preserve the usage as evidence.

Regulators are treating social network information as ESI

Since social media, by definition, involves the dissemination of information, it is not surprising that corporate deployment of social media raises potential compliance issues under the federal securities laws and has become the focus of regulators. Regulators, particularly securities regulators, are beginning to treat information derived from or provided on social networks as ESI and subject to the same treatment.

The Financial Industry Regulatory Authority (FINRA) recently issued guidance for broker-dealers that "Every Firm that intends to communicate, or permit its associated persons to communicate, through social media sites must first ensure that it can retain records of those communications as required by Rules 17a-3 and17a-4 under the Securities Exchange Act of 1934 and NASD Rule 3110."

What companies should do

There are a variety of steps companies should consider when incorporating social media into their business operations.

Document Retention Policies. First and foremost, since a company may be expected to preserve social media as evidence in a future proceeding, a company should rationally revise its document retention policies to reflect that possibility. A document retention policy should incorporate several key components:

- Recognize that social media is treated as any other ESI – the fact that it is maintained through a social media site or access does not change the company's obligations.
- Reflect the company's actual social media uses and needs, both by the company and its employees – utilizing another company's standard will not address the issue.
- Audit and enforce the policy; failure to enforce the policy eliminates its credibility. Moreover, all employees should periodically acknowledge the knowledge and acceptance of the policy in writing.
- Update the policy regularly to reflect technological developments and changes imposed by social networks themselves.

In addition to changes imposed by social media sponsors, consideration should be given to the multiplicity of different physical platforms – smartphones, tablets, cloud computing, etc. – that can have an impact on document retention policies.

Company Presence on Social Media. Companies that utilize social media as a means of communicating with customers, vendors, shareholders and others should treat postings with the same degree of seriousness as any other communication. This is particularly challenging because of the informal nature of social media and the belief that the benefits of using social media will be lost by utilizing the same formalities, disclaimers and other techniques used with other communications. However, that very issue argues toward a careful implementation of social media – in addition to its informal nature, social media is virtually indestructible, whether by virtue of the rules and policies of its sponsors, or the nature of the Internet, which makes complete eradication of a statement, or even its correction, difficult, if not impossible.

Monitoring Social Media. Those factors also suggest that companies actively monitor social media use by employees and establish appropriate guidelines, both with respect to company hardware and mobile or offsite systems. While monitoring social media usage may render a company more likely to be subject to obligations with respect to that media, it seems likely that a company would be held liable in any case; monitoring usage may give the company additional opportunities to avoid improper statements attributed to it.▪

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