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Fall 2012

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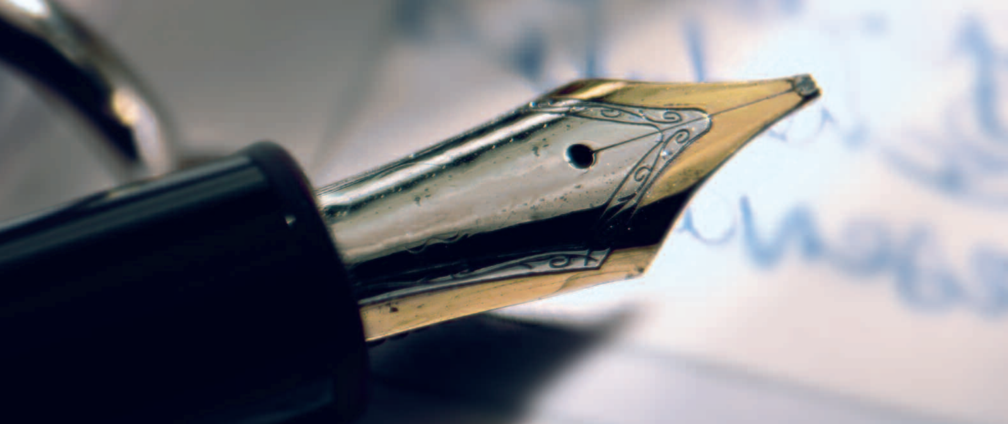
# Legal Update



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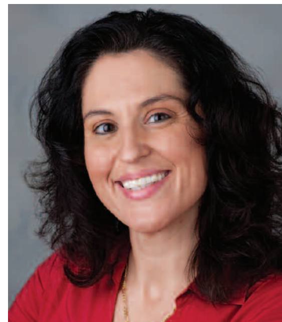
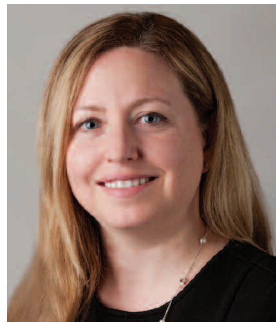
# Employee Benefits

## Forum selection challenged by recent litigation and Department of Labor efforts



Sandra R. Mihok



Elizabeth S. Goldberg

Employee benefit plans frequently include forum selection clauses. Such clauses mandate the location where a plan participant or beneficiary must file plan-related litigation. For example, a plan document might require that plan participants file all benefit claims in the federal district court where the sponsoring employer is headquartered, even if the participant lives or works elsewhere. In the absence of such a clause, the

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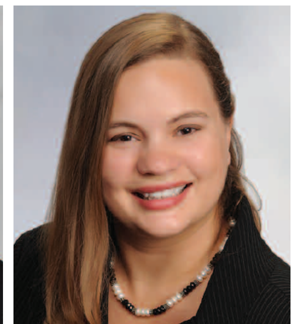
# Immigration

## Sponsoring employees for immigrant visas: A crucial tool for retaining talented foreign national employees

James E. Morrison



Kathryn M. Moore

Even in today's economy, trying to hire and retain the best employees can still be a challenge. This challenge increases when the employee is a foreign national and requires immigration sponsorship in order to be employed. At the same time, however, foreign nationals are a strong percentage

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# Employee Benefits

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Employee Retirement Income Security Act (ERISA) provides plaintiffs great discretion in selecting a litigation arena and permits suit in any forum where the "plan is administered, where the breach took place, or where the defendant resides or may be found." Forum selection clauses are, therefore, a valuable tool for uniform and effective plan administration, because they limit a plaintiff's otherwise boundless venue choices and permit the plan to preselect the venue that best protects its interests, including its interest in uniform plan adjudication.

At present the law does not forbid plans from including such clauses. However, recent litigation and Department of Labor efforts may change this, rendering forum selection clauses in ERISA plans unlawful or unenforceable. Given this danger, plan sponsors and administrators should be aware of this potential change in the law, which could strip plans of their right to preselect the forum that is most beneficial to the plan.

"However, recent litigation and Department of Labor efforts may change this, rendering forum selection clauses in ERISA plans unlawful or unenforceable."

Historically, there has been little judicial review of the propriety of forum selection clauses, and plans have appropriately included them. However, challenges to such clauses are increasing, and a number of recent district court decisions have opined on the legality of such clauses in ERISA plans. Most recently, these cases include: *Trustees of the Washington State Plumbing and Pipefitting Industry Pension Plan et al. v. Tremont Partners, Inc.*, 2012 WL 3537792 (S.D.N.Y. 2012); *Scaglione v. Pepsi-Cola Metropolitan Bottling Co. Inc.*, --- F.Supp.2d ---, 2012 WL 3095342 (N.D. Ohio 2012); *Conte v. Ascension Health*, 2011 WL 4506623, (E.D. Mich. 2011); *Smith v. AEGON USA, LLC*, 770 F.Supp.2d. 809 (W.D. Va. 2011); *Drapeau v. Airpax Holdings, Inc., Severance Plan*, 2011 WL 3477082 (W.D. Ky. 2011); *Sharp v. Wellmark, Inc.*, 2010 WL 4291644 (D. Kan. 2010); *Testa v. Becker*, 2010 WL 1644883 (C.D. Cal. 2010); *Williams v. CIGNA Corp.*, 2010 WL 5147257 (E.D. Tex. 2010); *Rodriguez v. PepsiCo Long Term Disability Plan*, 716 F.Supp.2d 855 (N.D. Cal. 2010); and *Mezyk v. U.S. Bank Pension Plan*, 2009 WL 3853878 (S.D. Ill. 2009). Although most of these cases have upheld the applicable forum selection provision, a few courts have struck down such clauses as contrary to ERISA.

At the same time, the Department of Labor's (DOL) Office of the Solicitor, the federal agency that regulates and enforces the fiduciary provisions of ERISA, has begun filing *amicus curie* briefs urging the opposite conclusion and staking out a position against forum selection clauses in ERISA plans. The DOL first filed such a brief in 2009 in *Nicolas v. MCI Health and Welfare Plan*, a case before the Court of Appeals for the Fifth Circuit. *Nicolas* arose after an employee filed an ERISA benefits claim and the district court refused to apply a forum selection clause to dismiss the claim. Although the case settled during the appeal, the DOL filed an *amicus curie* brief in support of the employee outlining its position against forum selection clauses in ERISA plans. In 2012, the DOL again filed an *amicus curie* brief against ERISA forum selection clauses in a case before the Court of Appeals for the Tenth Circuit. The case, *Mozingo v. Trend Personnel Services*, also involved a claim for benefits under an employee-sponsored life insurance policy, which the district court dismissed citing the plan's forum selection clause.

In both *amicus curie* briefs, the DOL's position has been that forum selection clauses are contrary to ERISA's statutory provisions and underlying policies. The DOL argues that Congress purposely enacted a broad venue provision in order to ensure that ERISA participants and beneficiaries could file claims without procedural or jurisdictional obstacles, and that ERISA forbids plans from adopting forum selection clauses because they are contrary to that statutory language and underlying policy.

The DOL also argues that the freedom of contract principals that support forum selection clauses in other contexts should not apply to ERISA plans because they are not typically the product of equal bargaining power. Finally, the DOL urges that even if enforceable, forum selection clauses should only warrant venue transfer rather than wholesale dismissal of the litigation.

At present, no Federal Appellate court has ruled on the legality of forum selection clauses in ERISA plans. A decision by the Tenth Circuit in *Mozingo* would therefore have great impact on this issue. Oral argument in the case is scheduled for September 2012, and a decision should follow. Plan sponsors and administrators should keep an eye out for any such decision, as well as any future efforts by the DOL to change the law in this area. Any decision striking down an ERISA forum selection clause could greatly limit the ability of plans to select the litigation forum that is most convenient for the plan and foreclose a valuable tool for effective and efficient plan administration.

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# Immigration

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of the number of highly skilled U.S. workers—particularly in math and science fields—and an increasing number of companies are looking for ways to attract and keep these talented employees.

In theory, the solution is easy: One of the best ways to protect an investment in a foreign national employee is to sponsor that employee for permanent resident status, commonly known as "green card" status. For many foreign nationals, the opportunity to live permanently in the U.S. is of immeasurable value, and for many, there are no available paths to U.S. citizenship other than through an offer of permanent employment. Unfortunately, the process can be lengthy and complex, but by understanding the employment-based immigrant visa framework and utilizing the assistance of an experienced immigration attorney, U.S. employers can develop permanent immigration sponsorship as an excellent tool for attracting and retaining the most talented foreign nationals.

## The Employment-Based Immigrant Visa Process:

Employment-based immigrant visas are made available on a limited basis each fiscal year—since 1990, the total number of these visas has been capped at 140,000. Of that 140,000, visas are allocated by country of origin and by preference category. Country of origin allocation rules dictate that, generally, no more than 7 percent of all available immigrant visas (including employment-based visas and other types of immigrant visas) be given to foreign nationals of any one particular country, regardless of population or the size of the applicant pool. This means that foreign nationals from small countries are entitled to the same maximum number of available immigrant visas as foreign nationals from the world's largest countries.

Preference categories are essentially created to prioritize certain groups of foreign nationals; in the employment-based context, preference categories are prioritized based on the value they will contribute to the U.S. economy. First preference candidates include multinational executives and managers as well as individuals of "extraordinary ability" and individuals who are "outstanding scientists or researchers;" second preference candidates are individuals with "exceptional abilities" or individuals with advanced degrees; and third preference candidates consists of "professionals" who possess at least a baccalaureate degree or who are considered to be "skilled workers." Each of the first three preference categories is limited to slightly less than a third of the total number of available employment-based immigrant visas.

## The Labor Certification (PERM) Process

The majority of candidates for an immigrant visa fall into the second and third preference categories, which primarily consist of individuals with U.S. advanced degrees or U.S. baccalaureate degrees (or the foreign equivalent degree). Many of these candidates are required to go through a three-step application process to obtain permanent resident status. The three-step process includes: (1) a labor certification application, or "PERM" application, that is filed by the employer with the U.S. Department of Labor (DOL); (2) an immigrant petition filed by the employer with U.S. Citizenship and Immigration Services (USCIS); and (3) the actual application for permanent resident status that is filed by the employee with USCIS.

Of these three steps, the PERM application is considered to be the most complex. Employers are required to file an application with the DOL, attesting that there are no qualified U.S. workers able and willing to take the job that the employer wishes to permanently offer to the foreign national. The PERM application process requires employers to first obtain a "prevailing wage" set by the DOL as the minimum salary that the foreign national must be paid upon approval of the application for permanent resident status. Next, the employer conducts recruitment for the offered position to ensure that no U.S. workers are indeed qualified and willing to take the position. If no such workers are found, then the employer may file the PERM application, which must be certified by the DOL. PERM applications may be subjected to an audit by the DOL to ensure fairness to U.S. workers.

Once the PERM application is certified, the employer then files a petition with USCIS, requesting to sponsor the foreign national for an immigrant visa based on the employer's offer of permanent employment to the foreign national. USCIS will evaluate the petition to make sure the job offer is legitimate and that the foreign national meets all of the employer's qualifications. After the petition is approved, the employee is eligible to file for permanent resident status as soon as an immigrant visa becomes available to him or her. The availability of an immigrant visa will depend on the preference category and on the country category in which the foreign national is placed. It is important for employers to note that while some foreign nationals may be eligible for a visa immediately, other foreign nationals, particularly foreign nationals with only a baccalaureate degree and foreign nationals from populous countries such as India or China, will be subject to a lengthy wait. In these cases, the foreign national is frequently eligible to continue in nonimmigrant employment status for as long as he or she must wait for an immigrant visa to become available.

## Important Notes:

Any employer considering the immigrant visa process should keep in mind the following:

- Many nonimmigrant visas are limited in duration, so it is crucial to strategize the value of an employee's permanent contributions to the company earlier than many employers might be normally prepared to do. Most H-1B nonimmigrant employees will need to have a PERM process underway by the beginning of their fourth year of H-1B status in order to remain in the U.S. long term.
- Employers must pay all expenses related to the first step in the employment-based immigrant visa process—this includes the cost of running recruitment for the foreign national's position and relevant business expenses, including attorney's fees. Foreign nationals are allowed to pay for the costs associated with the second and third stages of the process.
- Sponsoring a foreign national for permanent resident status is often one of the greatest benefits that an employer can offer and can serve as a strong and effective tool for competitively recruiting the best employees.

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# Energy and Bankruptcy

## Renewable energy—How to survive the storm clouds?

Until recently, the renewable energy industry in the United States has enjoyed steady economic growth, particularly in the solar and wind sectors. This growth, initially facilitated by increased interest due to higher fossil fuel costs, was assisted by federal and state incentives, such as tax credits, direct grants and loan guarantees. While some argue that more government investment and incentives are necessary to help these industries compete and maintain a foothold in anticipation of future demand, both federal and state assistance appears to be waning. Immediate examples are the recent, December 31, 2011, expiration of the federal ethanol tax credit and the elimination of many state subsidies. Additionally, competition from heavily subsidized foreign markets is especially problematic for domestic solar manufacturers.

Some indication of the economic pressures can be found in the number of renewable energy companies that filed bankruptcies in 2011. Specifically, while the total number of new bankruptcies decreased in 2011, the renewable energy industry appears to have bucked that trend. The most high profile filing was the September 2011 filing by Solyndra, LLC, a solar thin-panel module and panel manufacturer. The Solyndra filing was a straight liquidation under Chapter 7 of the U.S. Bankruptcy Code and was filed days after the California company closed its doors and ceased operations. The Solyndra bankruptcy continues to receive national attention, including ongoing Congressional hearings, due to the federal government's guarantee of debt totaling $527 million. The national scrutiny will, undoubtedly, have a chilling effect with respect to many new or renewed government programs. Additional 2011 energy bankruptcies included Stirling Energy Systems; Inc., Beacon Power Corp.; Evergreen Solar, Inc.; Cardinal Fastener & Specialty Co.; Bionol Clearfield, LLC; Southwest Georgia Ethanol, LLC; and SpectraWatt, Inc.

In light of the above-mentioned economic pressures, we can reasonably expect the current trend of financial difficulty to persist, especially for companies that have

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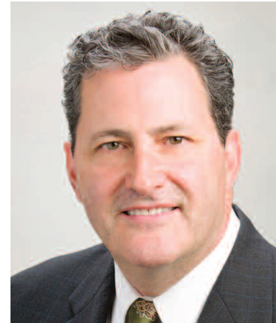
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relied upon government investment and incentives for survival. It would be naive to think that success or failure of any such company will be purely merit-based. The possibility exists that some very promising companies and new technologies could be lost as a result of inadequate financial planning and support. To the extent they have not already done so, domestic renewable energy companies must realistically assess their current financial situation and prepare for the prospects of diminished assistance from government programs and increased foreign competition.

Ideally, a company performing such an assessment should review both its operational and financial issues so that it is in a position to realistically discuss its situation with creditors and investors. An operational assessment involves reviewing the company's operations for efficiencies (or lack thereof). Additionally, the operational assessment should involve a review of contracts for potential savings. All contracts should be reviewed, including real property leases, labor and employment agreements and agreements with vendors. While an operational assessment can be done internally, impatient or nervous lenders and investors will likely be skeptical of an internal assessment and more likely to negotiate with the benefit of a third-party review. Accordingly, if the lenders and investors are already nervous, bringing in a third party to review operations may save time and provide a comfort level.

Assuming the company passes operational review, the company's finances, including budgeting and forecasting processes, should also be validated by a third party in order to give the company's projections credibility with creditors and investors. To the extent refinancing or additional equity is necessary, various scenarios of financial projections can be prepared to demonstrate mixes of debt and equity, debt forgiveness or debt deferment, based on realistic time lines. The financial assessment may reveal that survival is unlikely, but could do so in time to plan for an orderly sale to a better-positioned competitor or successor entity.

Restructurings are company specific and come in many forms. If only a few lenders or investors are involved, any required financial tweaks or restructuring may be possible by consent and without the involvement of a court. To the extent multiple creditors are involved, a consensual restructuring may not be possible, as an out-of-court restructuring generally requires 100 percent agreement from affected creditors and equity holders. A single detractor in the form of a major lender will prevent the process from ever getting off the ground. A reluctant trade creditor or equity holder could result in protracted litigation.

Alternatives to a 100 percent consensus include Chapter 11 reorganization. If necessary, and especially when there are uncooperative creditors, Chapter 11 can be a useful tool, if preceded with planning, by providing financially stressed companies with "breathing room" and an opportunity for a "fresh start." One company that seems to have effectively used the tool of Chapter

11 is Southwest Georgia Ethanol, referenced above. Southwest Georgia Ethanol filed for protection under Chapter 11 on February 2, 2011. Contemporaneously with the filing, it submitted a number of so-called "first day motions" to the court. In a properly planned Chapter 11 restructuring, first day motions can be instrumental in maintaining the status quo with respect to cash flow, employee retention, utilities, insurance and other daily operational concerns.

A reorganizing company can formulate and propose its plan during the Chapter 11 case and seek approval of its plan through the statutory confirmation process. In the example above, Southwest Georgia Ethanol filed a proposed Plan of Reorganization on August 26, 2011. Its final Plan of Reorganization was confirmed (approved) by the court on December 9, 2011, allowing the reorganized company to emerge from the process on December 31, 2011.

If, prior to commencing a Chapter 11 reorganization, the company can obtain the consent of more than half of its creditors, representing more than two-thirds of outstanding debt amount, the company can bind the dissenters in either a "prepackaged" or "prearranged" Chapter 11 plan. In such a proceeding, the restructuring plan is prenegotiated with major constituents and can be filed shortly after entry into Chapter 11, often with, or immediately after, the first day motions. With major constituents on board, the reorganizing company can have some confidence that its reorganization plan will be confirmed by the court. Even absent consent by a majority of creditors, Chapter 11 offers a method, called "cram down," that can permit a reorganizing company's plan to be approved without the requisite consents.

Another potential benefit of a Chapter 11 reorganization is the possibility of conducting an orderly sale of assets "free and clear" of claims, liens and other encumbrances. Under state law, purchasers of going concerns or portions of a business's assets can find themselves subject to creditor claims and/or claims for successor liability. Under federal law, a statutory mechanism exists to sell assets "free and clear" of such claims. This type of asset sale is called a "363 sale," referring to the enabling section of federal law, 11 U.S.C. § 363. A 363 sale can be an attractive way to sell a distressed company free and clear of liabilities, thereby preserving the existence of the company and the jobs of its employees. While not examples from the renewable energy industry, the recent reorganizations of General Motors and Chrysler are examples of the potential power of a 363 sale. Purchasing assets free and clear of liabilities via a 363 sale can be particularly attractive to companies looking to expand, as such a sale can be conducted with respect to individual assets, an entire division or even an entire company as a going concern.

Are there storm clouds on the horizon for your company? If so, the key to survival is to realistically assess your company's operational and financial position and, if necessary, reorganize and restructure so that you are better prepared to weather the storm.

The lawyers in Eckert Seaman's Energy and Restructuring practices regularly advise energy clients and assist them in the restructuring process by providing advice, guidance and assessment and assisting in third-party negotiations, and, when necessary, in executing strategies through restructuring proceedings.

# Energy

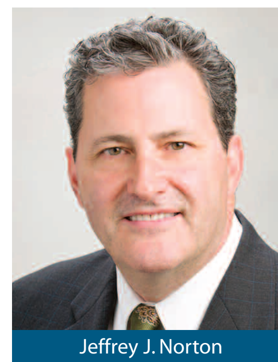
## Major developments in the oil and gas law with court decision regarding Act 13 of 2012

Along with the rise in gas drilling and production in Pennsylvania came growing scrutiny of the existing oil and gas laws' ability to effectively regulate the industry. As a result, intense negotiations among legislators, regulators, industry stakeholders and environmental groups ensued, ultimately leading to the General Assembly's enactment of the Unconventional Gas Well Impact Fee Act (Act 13) which was signed into law on February 14, 2012.

Not surprisingly, the comprehensive changes provided for in the legislation were not universally welcomed. Most of the Act's provisions were to take effect on April 16, 2012. A group of townships on March 29, 2012, filed suit in the Commonwealth Court challenging the constitutionality of Act 13.

Then, in response to an Application for Special Relief, Senior Judge Quigley of the Commonwealth Court issued an order that preliminarily enjoined the effective date of Section 3309 for a period of 120 days. The Court held that "municipalities must have an adequate opportunity to pass zoning laws that comply with Act 13 without the fear or risk that development of oil and gas operations under Act 13 will be inconsistent with later validly passed local zoning ordinances." Therefore, the Court concluded, "pre-existing ordinances must remain in effect until or unless challenged pursuant to Act 13 and are found to be invalid."

Due to ambiguity regarding the intent and scope of the order, the PUC petitioned the Supreme Court for clarification. On July 26,


Jeffrey J. Norton

2012, the Commonwealth Court handed a major victory to Pennsylvania townships and others opposing Act 13 of 2012. The Court, by a 4-3 decision, declared unconstitutional a core provision of Act 13—the uniformity requirement in 58 Pa. C.S. § 3304 that all zoning ordinances regulating

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# Energy

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oil and gas operations shall allow for the reasonable development of oil and gas resources, i.e., must authorize oil and gas operations as a permitted use in all zoning districts. The Court majority concluded that this provision violated substantive due process and equal protection rights under federal and state law. The Court, by a 7-0 decision, also invalidated a separate provision, § 3215(b)(4), that authorized the Department of Environmental Protection to waive setback requirements as to well sites.

Underlying the majority's decision was the conclusion that § 3304 improperly destroyed comprehensive zoning efforts and plans by permitting incompatible zoning uses within a zoning district. Section 3304, it concluded, "requires zoning amendments that must be normally justified on the basis that they are in accord with the comprehensive plan" to instead "promote oil and gas operations that are incompatible with the uses by people who have made investment decisions regarding businesses and homes on the assurance that the zoning district would be developed in accordance with comprehensive plan and would only allow compatible uses."

As to the "setback waiver" requirement in § 3215(b)(4), all judges agreed that the provision failed to provide DEP with sufficient standards to determine when it could issue a waiver. This failure, the Court held, violated the "delegation doctrine," which generally requires that the legislature, not an administrative agency, set the basic policy rules and standards.

Having ruled in plaintiffs' favor on these two issues, the Commonwealth Court explicitly found that Sections 3302 and 3303 remain in full force and effect. This means that municipalities are preempted from regulating oil and gas operations regulated under Chapter 32 (relating to development, including well location restrictions) and under the environmental acts 53 Pa. C.S. §§ 3302, 3303. To avoid conflicts with these preempted areas, municipalities should review and amend their zoning ordinances to eliminate provisions related to these "off-limit' areas.

Following the decision, the Commonwealth Parties quickly appealed the Commonwealth Court Order directly to the Pennsylvania Supreme Court.

Future developments concerning this litigation will be closely watched due to the far-reaching effects of Act 13, as oil and gas zoning ordinances exist in about 125 municipalities. Prior to Act 13, municipalities had authority to regulate oil and gas operations, but they did not have the authority to regulate the manner of operation. Ultimately, Act 13 was designed to strengthen environmental standards, authorize local governments to adopt an impact fee and move the state toward energy independence.

While § 3304 is on hold, progress can now be made with respect to Sections 3302 and 3303 of Act 13. On August 22, 2012, the PUC announced that it was beginning to process Requests for Review of municipal zoning ordinances to the extent that such requests address Chapter 32, §§ 3302 and 3303 and the Municipalities Planning Code. As of September 12, 2012, the PUC issued at least six Advisory Opinions on certain local ordinances. The nonbinding opinions provide guidance but do not preclude any future adjudication by the PUC or the courts to challenge the ordinance. For example, the PUC opined that the City of Pittsburgh Gas and Oil Development Ordinance was not compliant with Chapter 32 of Act 13. The City of Pittsburgh ordinance attempted to (1) enact its own environmental regulations; (2) regulate the same purposes of Chapter 32; and (3) assume power to retroactively override DEP permits. The North Towanda Township (Bradford County) ordinance was not compliant because it (1) specified that setback requirements are only applicable to unconventional gas wells rather than oil and gas wells in general as set forth in § 3215 and (2) completely prohibits water impoundment areas within FEMA designated floodways rather than the permissive approach set forth in § 3215(f). Although in certain circumstances, the PUC made some suggestions to clarify specific language, the PUC essentially stated that the oil ordinances were compliant for Athens Township (Bradford County), Graham Township (Clearfield County) and Fayette County.

In addition, the determination, collection and disbursement of impact fees under Chapter 23 of the Act are still in effect. Impact fees apply to unconventional wells and are designed to combat the local impacts of drilling while also benefiting several state agencies for a variety of purposes. The fees have been imposed on every producer and apply to all unconventional gas wells, regardless of when they were spud. The law provides for the imposition of an unconventional well fee by county or municipality. The Unconventional Gas Well Fund will be administered by the PUC. According to the PUC, fees on over 4,400 wells will produce approximately $205.9 million, and the state has received all but $8.3 million as of September 10, 2012. Initial allocations will be given to various recipients, including conservation districts and state agencies, with 60 percent of the remaining funds allocated to counties and municipalities for specific purposes and 40 percent deposited into the Marcellus Legacy Fund to benefit a number of state agencies and statewide programs.

The Pennsylvania Supreme Court has granted expedited consideration of the Act 13 appeal and have scheduled argument for October 17, 2012, in Pittsburgh. Ultimately, the comprehensive overhaul of oil and gas laws in the Commonwealth requires significant adjustments for all stakeholders, including the municipalities and the industry. With the pending appeal of Act 13, continued uncertainty surrounding Act 13 raises questions about what steps should be taken. Nevertheless, it is highly recommended that stakeholders move toward conformity with the portions of the Act that were upheld.

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# Employee Benefits

## Beyond I Do: The Defense of Marriage Act, same-sex marriage and employee benefits

Despite the fact that an increasing number of states have recognized domestic partnership rights and same-sex marriage, the federal Defense of Marriage Act (DOMA) limits the extent to which any same-sex couple, including those married under state law, can enjoy the employee benefits provided through their partner's employer. Under DOMA, for purposes of all federal laws, the word marriage can only mean a legal union between one man and one woman, and the word spouse must be a person of the opposite sex. As a result, even if a person is a same-sex spouse under state law, he or she is not a spouse under federal law, including under the statutes that regulate health, welfare and pension benefits.

This does not mean that DOMA prohibits employers from providing benefits to the same-sex partners of their employees. DOMA only mandates that when used in federal law, spouse must mean an opposite sex spouse, so that an employer cannot provide to a same-sex spouse any federal benefit reserved for a "spouse." This includes the following benefits, which are reserved for "spouses:" spousal survivor annuities; favorable minimum distribution rules; IRA rollover provisions; hardship withdrawal provisions; HIPAA special enrollment rights; and COBRA continuation of coverage.

Significantly, DOMA also restricts certain federal tax benefits. For example, although spouses do not have to pay taxes on any health insurance provided through their spouse's employer (and can participate in arrangements that cover medical expenses on a pretax basis), same-sex spouses enrolled in the employer's medical coverage cannot enjoy that tax relief.

DOMA therefore places great limitations on the ability of employers to confer benefits on the same-sex partners of their employees and can significantly complicate plan administration. However, DOMA's days may be limited. On February 23, 2011, the Obama Administration announced that the Department of Justice would no longer defend Section 3 of DOMA, the provision that limits the federal definition of spouse and marriage. In response, the Speaker of the House John Boehner announced that the United State House of Representatives would defend DOMA in court. On July 20, 2012, the Office of Personnel Management issued a proposed rule to cover children of same-sex domestic partners under federal health insurance, further signaling the administration's disfavor of DOMA.

In the judicial arena, there has been a recent flurry of judicial decisions striking down DOMA as a violation of the equal protection clause of the Constitution. Although these cases challenge different applications of DOMA, they generally trigger the same constitutional analysis. Specifically, the courts first examine whether homosexuals are a protected minority such that DOMA's treatment of individuals on the basis of sexual orientation must be subject to greater judicial scrutiny than deferential review, and if so, whether that scrutiny should be intermediate or heightened. The courts then apply the appropriate level of scrutiny to the congressional justifications for DOMA (identified as including responsible procreation, nurturing traditional opposite sex marriage, defending traditional notions of morality and preserving government resources). If the court concludes that these purported justifications do not hold up under the applicable level of scrutiny, the court strikes down DOMA as a violation of equal protection rights.

The first such decision, *Golinski v. United States Office of Personnel Management*, issued on February 22, 2012, by a federal court in California, involved a federal employee who was married to her same-sex spouse under California law, but was unable to enroll her in the health insurance she received through her federal employment because of DOMA. The court applied heightened scrutiny to find Section 3 of DOMA unconstitutional. On May 24, 2012, a second federal court in California agreed in a case titled *Dragovich v. United States Department of Treasury*. On May 31, 2012, the Court of Appeals for the First Circuit followed suit. The case, *Gill v. Office of Personnel Management*, had been filed by same-sex couples and the state of Massachusetts and challenged the application of DOMA to a number of laws, including employee benefit laws. Although the court rejected heightened constitutional scrutiny, it agreed that the historic mistreatment of homosexuals and the traditional right of states to regulate marriage warranted more than deferential review, and under such intermediate scrutiny, struck down Section 3 of DOMA. On July 31, 2012, in a case titled *Pedersen v. Office of Personnel Management et. al.*, a district court in Connecticut reviewed numerous DOMA claims, including an ERISA challenge, and also applied intermediate scrutiny to conclude that DOMA is unconstitutional. In June, a New York district court reached a similar conclusion in *Windsor v. United States*, which involves federal estate taxes.

These decisions will not immediately impact most employee benefit plans, as they have largely been stayed. But they are setting the stage for the Supreme Court to resolve the constitutionality of DOMA. This summer, the Department of Justice, the House of Representatives and private litigants petitioned the Supreme Court to review at least three of the above DOMA decisions. As of the writing of this article, the Supreme Court has yet to agree to review DOMA. However, it is highly likely the court will, and interest in these cases is high. For example, more than 100 interest groups and well over 100 members of Congress have filed or joined friends-of-the-court briefs in these case, and at least 15 states have filed briefs urging the Supreme Court to rule on DOMA. At the same time, at least 10 other challenges to DOMA are pending in federal district courts.

A Supreme Court decision in any of these cases will not only capture public interest, but also greatly affect how employers handle the employee benefits of same-sex partners and spouses. Employers and plan administrators should, therefore, keep an eye out for these cases and their significant impact on employee benefits law.

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# Intellectual Property

## Functionality as a bar to registration
## Recent cases before the United States Patent and Trademark Office Trademark Trial and Appeal Board

During 2011 and continuing into 2012, the utilitarian functionality doctrine was applied to deny trademark registration to various product configurations in a number of cases before the United States Patent and Trademark Office, Trademark Trial and Appeal Board (the Board). In these cases, the Board carefully analyzed the specific factual circumstances of each product design and/or configuration in question through the lens of the four *Morton-Norwich* Factors (discussed below). Nevertheless, the first factor, the existence of a utility patent that disclosed, in whole or in part, the utilitarian advantages of the product design or configuration, overwhelmingly swayed the denial of the trademark registration, based on the grounds of functionality. Furthermore, the cases make clear that the product design or configuration need not be claimed in the utility patent nor meet all the specification in the utility patent, it just needs to be "a significant portion of the invention disclosed in the patent." *In re Charles N. Van Valkenburgh*, 97 USPQ2d 1757, 1760 (TTAB 2011).

The current statutory basis for refusals based on the functionality of the mark arises from the Lanham Act, Section 2(e)(5) (15 U.S.C. § 1052), which states:

No trademark by which the goods of the applicant may be distinguished from the goods of others shall be refused registration on the principal register on account of its nature unless it. . . . (e) Consists of a mark which, . . . (5) comprises any matter that, as a whole, is functional.[1]

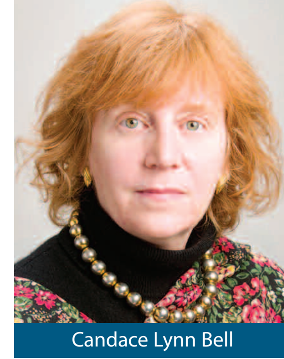
The *Wal-Mart* decision helped clarify what is functional in its holding that product design and/or configuration could never be inherently distinctive, although product packaging could be. *Wal-Mart Stores, Inc. v. Samara Bros., Inc.* 529 U.S. 205, 54 USPQ2d 1065 (2000). The 2001 *TrafFix* case, however, set the current standard for what is functional. *TrafFix Devices, Inc. v. Marketing Displays, Inc.* 532 U.S. 23 (2001) Under *TrafFix*, no trade dress could function as a mark if it was *de jure* functional, in other words, that as a matter of law, the trade dress cannot function as an indicator of source because it is essential to the use or purpose of the article. *TrafFix Devices, Inc. v. Marketing Displays, Inc.* 532 U.S. 23 (2001) Although the *TrafFix* decision was not a registration decision, the question of *de jure* functionality was quickly adopted in the registration context. What is interesting is that the Board still grounds its decisions whether or not a product design or configuration is de jure functional on an analysis of the four factor test set out in *In re Morton-Norwich Prods., Inc.* 671 F.2d 1332, 213 USPQ 9, (CCPA 1982).[2] Yet, as the cases show, if there is an underlying disclosing patent, the issue seems to be decided based on the first factor alone, the disclosure in a utility patent, which appears to follow more closely the holding in *TrafFix*. If there is no patent, then the other factors will assume greater importance.

In 2011, the Board issued two precedential decisions on the issue of functionality: *In re Charles N. Van Valkenburgh*, 97 USPQ2d 1757 (TTAB 2011) and *Kistner Concrete Products, Inc. v. Contech Arch Technologies, Inc.* 97 USPQ2d 1912 (TTAB 2011)

In the first case, the Applicant sought to register the design of his "PIT BULL" motorcycle stand. Applicant had a prior utility patent for the motorcycle stand. The Board held, "the fact that the proposed mark comprises less than the entirety of the invention claimed in the patent is not dispositive. *(Quote and cite omitted)* The proposed mark adopts a significant portion of the invention disclosed in the patent; it is not merely an ornamental, incidental or arbitrary aspect of the motorcycle stand." *In re Charles N. Van Valkenburgh*, 97 USPQ2d 1757, 1760 (TTAB 2011)

In the second case, Applicant sought to maintain its registration for an arch shape for a precast concrete bridge unit for constructing a bridge or a culvert. Applicant's and its predecessors-in-interest had prior utility patents for the unit. The Board held ". . . the patents are sufficient to establish, prima facie, that the registered design as a whole is functional." *Kistner Concrete Products, Inc. v. Contech Arch Technologies, Inc.* 97 USPQ2d 1912, 1924 (TTAB 2011)

In both cases, although each decision walked through the remaining *Morton-Norwich* factors, it appears the question of registerability of the respective marks was determined based on the finding that the Applicants' prior utility patents disclosed the design/mark.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So far in 2012, there has been one new case on the issue: *In re Adams Mfg. Corp.*, Serial No. 85025503, August 7, 2012. In this case, Applicant sought to register the concentric circular design of the goods, plastic suction cups, not for medical purposes. The Board once held that the utility patent owned by Applicant disclosed the utilitarian advantages of the design. *In re Adams Mfg. Corp.*, Serial No. 85025503, August 7, 2012, pp 10-11. Registration was denied.

For applicants seeking to extend the exclusionary advantages granted to them as a result of a prior utility patent by asserting subsequent trade dress rights in aspects of the product design or in the product configuration covered by or claimed in the utility patent, the response of the Board is consistent, the product design and/or configuration is ineligible for trademark/trade dress protection.[3]

[1] It should be noted that prior to the October 30, 1998 amendment to the Lanham Act adding Section 2(e)(5), the issue of functionality was analyzed under the criteria of failure to function as a mark capable of distinguishing one seller's goods from another.

[2] The four *Morton-Norwich* factors are: 1) Whether a utility patent exists that discloses the utilitarian advantages of the design sought to be registered; 2) Whether applicant's advertising touts the utilitarian advantages of the design; 3) Whether alternative designs are available that serve the same utilitarian purpose; and 4) Whether the design results from a comparatively simple or inexpensive method of manufacture.

[3] Note that the answer is not so clear-cut when it comes to package design or configuration where the issue of registerability also turns on the question of distinctiveness.

# Latin America and Immigration

## Significant changes in E visa processing in Mexico

On July 1, 2012, the United States Department of State implemented sweeping changes in the processing procedures of E Treaty Trader and Investor visa applications in Mexico. Treaty Trader visas (E-1) and Treaty Investor visas (E-2) are available for foreign nationals of a country with which the United States has ratified a treaty of friendship, commerce and navigation, or similar treaty. This non-immigrant visa category is, in part, aimed at attracting foreign direct investment in the U.S. through applicants who seek to conduct substantial trade, principally between the U.S. and their respective treaty country (E-1); or invest a substantial amount of capital in a U.S. entity that is majority owned by a national of their respective treaty country (E-2).

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As part of the new procedures, the review of all E visa applications now occurs only at three locations: (1) U.S. Embassy in Mexico City; (2) U.S. Consulate General in Monterrey; and (3) U.S. Consulate General in Tijuana. The format for presenting the E visas has also been modified to require that all applications be assembled in a standardized manner. These changes are in stark contrast to the previous E visa procedures in Mexico, which did not require a standardized format and allowed applicants to process at a more expansive list of Consulates, such as Guadalajara, Merida and Nuevo Laredo. As such, Mexican Consulates often lacked uniformity regarding what supporting documents need to be included in an application. Consequently, an E visa application approved at one Mexican Consulate may or may not have required the same supporting documents as one approved at another Mexican Consulate.

The new stringent application format clearly sets forth all of the documents that must be included in the E visa application, which the Department of State envisions will result in a more efficient process and comprehensive review of all applications. The changes also include features intended to streamline the processing of E visa renewal applications. E visa renewal applicants no longer need to appear in person to an Applicant Service Centers (ASC) if they have provided, after 2008, a 10-print fingerprint scan to a U.S. consular post in Mexico. Instead a representative may drop off the E visa renewal application packet to the ASC on the date of the applicant's scheduled appointment. The ASC will then schedule an interview appointment in either Mexico City, Monterrey or Tijuana no earlier than 15 days after the date of the ASC appointment. In addition, E visa renewal applicants may not need to appear in person for an interview if certain conditions for an interview waiver are met and granted.

Nevertheless, E visa applicants may find the new process to be more burdensome, because documents they may not have needed to include in past applications are now required. For instance, where providing a general sampling of invoices previously sufficed, now all E-1 visa applications must include copies of each invoice and each customs clearance form for the last year of business, which potentially number in the thousands. Further, E visa applicants who before were able to process at a Consulate that had close proximity to family and/or their intended place of work in the U.S. now may need to consider the time and cost of travelling to Monterrey, Mexico City or Tijuana.

Readers should note that the E visa processing changes in Mexico are not reflective of E procedures for Latin America as a region. First, there are Latin American nations with which the U.S. does not have an E-treaty in place such as Nicaragua, Peru, Guatemala, El Salvador and Brazil, meaning E visas are not available to foreign nationals of these countries. Moreover, foreign nationals from Panama and Ecuador are only eligible for E-2 and not E-1 visas. Further, unlike Mexico, E treaty countries such as Colombia and Bolivia do not provide a standard list of documents that must be included with E visa applications.

Therefore, if a prospective E visa applicant is a Mexican national, then the new procedural standards must be carefully considered before applying. If the prospective E visa applicant is a national of another Latin American E treaty country, then the processing guidance provided by the Department of State's U.S. Embassy in the foreign national's respective country should be followed.

# Firm News

Eckert Seamans is pleased to welcome the following attorneys who recently joined the firm.

## Members

**Matthew P. Donelson** (Wilmington) focuses his practice on general civil litigation, with particular emphasis on toxic torts, insurance law and asbestos litigation. He has litigated a wide variety of toxic tort and premises liability matters before federal and state court as well as administrative agencies and arbitration panels. Prior to entering private practice, Donelson served as an Assistant Prosecutor for the Salem County Prosecutor's Office in New Jersey from 2000–2002.

**Joel M. Doner** (Wilmington) focuses his practice on general civil litigation, with particular emphasis on mass torts, insurance law and asbestos litigation. He has significant experience in litigating complex tort matters involving serious injuries and wrongful death. Doner has represented product manufacturers, land owners and contractors in asbestos-related matters in Delaware, Pennsylvania and New Jersey. In addition, he has represented commercial land owners and businesses in the defense of claims for injuries that occurred on their properties.

**Jennifer Choe Groves** (Washington, DC) has joined as Vice Chair of the firm's Intellectual Property Group for Enforcement and Entertainment. Her practice is focused on trademark and copyright matters, international trade policy, IP rights protection and enforcement, as well as anti-counterfeiting and anti-piracy work. Prior to joining private practice, Groves spent five years with the White House Office of the U.S. Trade Representative as Senior Director of Intellectual Property and Innovation and as Chair of the Special 301 Committee.

**Thomas J. Infurna** (White Plains) practices in commercial real estate finance and asset-based finance, focusing on permanent and construction financing, mezzanine, bridge and term loans, mortgage loan sales and purchases, distressed debt portfolios, loan restructurings, workouts and foreclosures. He represents a variety of financial institutions including commercial, investment and savings banks, conduit lenders, life insurance and capital companies, pension fund advisors and real estate investors and developers in a wide range of transactions.

**Mark L. Reardon** (Wilmington) focuses his practice on a broad range of matters in civil litigation in state and federal courts in Delaware and Pennsylvania. He represents companies, owners, individuals, non-profit organizations and insurers in matters ranging from product liability, personal injury, construction and environmental disputes, and toxic tort, including all aspects of asbestos litigation. Additionally, Reardon has experience in representing and advising nonprofits in governance matters.

**Colleen D. Shields** (Wilmington) focuses her practice on professional liability defense matters and is frequently selected by insurers, self-insured institutions, nonprofit organizations and individual professionals, including colleagues in the Delaware Bar, to handle matters involving complicated liability issues and catastrophic damages. Shields has extensive experience in defending medical negligence claims, as well as claims against nonmedical professionals, product liability and premises liability matters and has represented insurers in coverage disputes involving allegations of bad faith.

**Gregory A. Weingart** (Pittsburgh) returns to the firm after spending over two years at FFC Capital Corporation as VP and General Counsel. He has extensive experience in all areas of corporate law, particularly mergers and acquisitions and corporate finance, having represented buyers and sellers in transactions of a wide variety of structures and sizes for more than 25 years. He represents clients involved in complex domestic and international transactions, as well as restructurings, financings and public and private offerings of equity and debt securities.

**Lauren F. Wyler** (White Plains) focuses her practice on commercial real estate transactions and real estate finance with emphasis on representing financial institutions on mortgage originations, conduit deals and construction loans. She also advises clients on the acquisition, sale and leasing of commercial properties. Prior to returning to private practice, Wyler was senior counsel to a global financial institution where she worked on large syndicated loan transactions and corporate spin-offs.

## Special Counsel

**Grace H. Lee** (Boston) concentrates her practice in the areas of bonds, financing, labor and employment and white collar criminal defense. Prior to joining Eckert Seamans, Lee served as First Deputy Treasurer and General Counsel for Massachusetts State Treasury.

**Laurence S. Rickles** (White Plains) focuses his practice on intellectual property matters including clearance, prosecution, litigation, training, due diligence, licensing, copy approval and counseling on trademark, copyright, domain name and social media matters. Prior to joining the firm, Rickles served as an in-house trademark attorney for Johnson & Johnson, with primary responsibility for its worldwide portfolio of pharmaceutical trademarks.

## Associates

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Washington, DC: **Kyle L. Epting, Justin L. Faulb** and **Kathryn M. Moore**
White Plains: **Sarabeth Gaver, Andrea M. Roberts** and **Thomas M. Sweeney, Jr.**
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