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Legal Alert

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Inside this Issue:

Visit Our Facebook Page

For those of you have not already discovered it, please visit and become a "fan" of the firm's Facebook page:

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The firm's Facebook page augments our award-winning website (www.hawaiilawyer.com), and is another place where clients and friends can discover the latest in what's happening at the firm.

We'll continue to post digital versions of our quarterly Legal Alert with stories and reports to keep our readers ahead of developments in the law, as well as breaking legal updates and items from the firm's six law blogs with items written by Robert Thomas, Mark Murakami, Tred Eyerly, Rebecca Copeland, and now David McCauley and Anna Oshiro, in their respective areas of focus (see blogs below). On the lighter side, you can keep up with the goings-on at our firm including pictures from firm events, service projects, and other community happenings such as the dinner honoring Christine Kubota's election as Chair of the Honolulu Japanese Chamber of Commerce.

Recent posts: David McCauley noting that "Plenty of H-1B Visas Still Available," Mark Murakami discussing a new federal appeals court decision on when a longshoreman's claim is considered to be timely filed, and kudos to the firm's "Best Lawyers" and "Super Lawyers" designates. Lawyers are selected for inclusion on the lists by their peers in confidential surveys, and this year, we've had a record number of lawyers making these lists – eight are Super Lawyers, and six are Best Lawyers for 2012. Other topics covered include recent changes to Hawaii's tax laws, an article about government ethics, and the announcement of a new ABA book on eminent domain law with chapters authored by three Damon Key attorneys. We are also using the Facebook page to make announcements to highlight the public service of Damon Key lawyers. For example, Rebecca Copeland and Christi-Anne Kudo Chock were recently elected as officers of the Hawaii State Bar Association's Appellate Law Section (President and Secretary).

Using Facebook, we've aggregated all our publications in one place, in a user friendly format that is easily accessed from any computer or mobile device. Over 750 million users participate in Facebook, with over half visiting daily. If you are one of them, please pay a visit and join the growing list of our Facebook friends. To subscribe to the RSS feed, see the link on the bottom left of the Facebook page.

Facebook has mobile applications for the iPhone, Droid, and Blackberry platforms, making it even easier to follow and contact us. Scan the QR code with your smartphone to directly access our Facebook page.

Blogs

David McCauley and **Anna Oshiro** have joined the ranks of Damon Key law bloggers. David recently launched his blog about immigration and naturalization law, **Hawaii-immigrationlawyer.com**. David is one of the top immigration lawyers in Hawaii, and a frequent speaker at national conferences, so follow along with his blog to listen in. Anna will be leading our Construction Law Group's blogging efforts (along with **Christi-Anne Kudo Chock**), by publishing **HawaiiConstructionLaw.com**. This blog focuses on all things construction related, such as Hawaii and national construction law updates, insurance issues, sureties, arbitration, and discussions regarding hot topics in the industry, including rail, housing construction and other continuing concerns.

The Benefits and Perils of Social Media Policies

By Christopher Pan

As Damon Key's growing stable of bloggers and our newly launched Facebook page (see page 1) demonstrate, smart businesses know that it is important to be engaged with clients, customers and potential customers through social media. Facebook, Twitter and LinkedIn can be great marketing, branding and networking tools for businesses and professionals. However, the broad and instantaneous reach of social media can also present challenges to businesses if they are unable to draw a clear line for appropriate conduct by their employees on social media.

With more interactions between individuals and businesses moving online, now is an important time for businesses to consider expanding their corporate policies to cover the social media interactions of their employees. A recent study of 300 hiring managers and recruiters by Reppler, a Silicon Valley network monitoring service, showed that 91% of those surveyed used social networking sites to screen potential employees. A quick Google search will turn up numerous stories of individuals who have been "Facebook fired" for posting inappropriate comments on Facebook or other social media sites. Most businesses already have policies in their Employee Handbooks that detail expectations and guidelines for the use of the telephone, email or internet by their employees while at work. A well-written social media policy will keep companies up to date with the ever-evolving practices of modern business. By establishing specific guidelines for appropriate conduct by its employees, a social media policy can help a business protect its brand and create and maintain a positive social media presence. Remember, a business and an indiscreet or potentially disgruntled employee may share the same social media audience of current clients, potential clients, and past, current, and future employees.

If you decide to implement a social media policy, beware of running afoul of the protections afforded employees under the National Labor Relations Act. The National Labor Relations Board (NLRB) recently issued a report analyzing the lawfulness of certain employers' social media policies and what constitutes impermissible discipline for social media posts. The NLRB reviewed a number of social media policies and found them to be overbroad, in that they could be interpreted to be prohibiting or restricting employees from "protected concerted activity." Protected concerted activities are actions taken by employees for their mutual aid or protection regarding their terms and conditions of employment. The NLRB clearly prefers narrowly-tailored social media policies or policies that contain disclaiming language that excludes protected concerted activity from the scope of the policy.

In its report, the NLRB also reviewed a number of recent cases that involved various employees, both union and non-union, who were disciplined for inappropriate or offensive posts or complaints about their employers on Facebook, Twitter or YouTube. The NLRB became involved when the discharged employees alleged that their rights to engage in protected concerted activities were violated when they were disciplined for their social media behavior. In some cases, the NLRB determined that the employees were engaged in protected concerted activities, and in others, the NLRB determined that the employees were merely "griping," which is not a protected activity. We encourage you to evaluate whether adopting a social media policy is relevant for your business at this time. Please note that the NLRB's report on social media applies to all employers, both union and non-union.

If you have any questions about drafting a social media policy or about the implications of disciplining an employee for offensive behavior or posts on social media, please call Chris at 531-8031 ext 614, email him at cp@hawaiilawyer.com, or scan the code with your smartphone.

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Protecting Your Business' Intellectual Capital

By Gregory W. Kugle

There are many ways to protect ideas and products from being used or stolen; patents, copyrights and trademarks can be registered and enforced. But what can a business do when its proprietary information, such as trade secrets or customer lists, are known by its employees? Can that information be protected so that your former employee cannot compete with your business? Fortunately, there are steps a business can take to minimize the likelihood that former employees can use its proprietary information against it, and steps to take to minimize the harm in the event the former employee does.

Many businesses require their employees to sign "restrictive covenants" or non-compete agreements, prohibiting an employee from going to work for a competitor. These agreements may also prevent the disclosure of confidential information and the solicitation of clients or customers. Such agreements have long been enforceable in Hawaii. In the seminal case *Technicolor v. Traeger*, the Hawaii Supreme Court recognized that if the restriction was reasonable, it could be enforced. Whether a particular restrictive covenant is reasonable will depend upon factors such as its geographic scope, its duration, and the breadth of the restriction placed upon the particular activity. The Courts have recognized that businesses have a protectable interest in such things as specialized training, trade secrets, confidential information or specialized customer relationships. An unreasonable restrictive covenant may impose restrictions that are greater than necessary to protect the employer's interests, or impose undue hardship on the former employee, or that cause injury to the public.

Thus, where a former employee goes into competition with a business in violation of a non-compete, non-solicitation or confidentiality agreement, the business may obtain an injunction from a court. The injunction may prohibit the employee from working, or from contacting customers, or from using or disclosing information. Such agreements frequently provide for payment of attorneys' fees and costs to the prevailing party. Any employee or former employee who successfully defends such a case can also be awarded his or her attorneys' fees and costs.

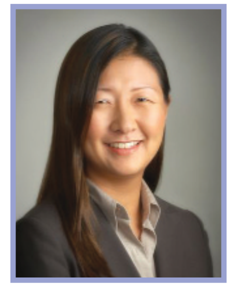
Even absent contractual protections like restrictive covenants in employment agreements, an employer has rights to protect its proprietary information from use by its competitors. Hawaii's trade secret law protects information that derives independent economic value from not being generally known or readily ascertainable and that is subject to reasonable efforts to maintain its secrecy. Customer lists are frequently recognized as protected trade secrets. Injunctive relief, royalties, damages and even punitive damages can be available in the case of actual or threatened misappropriation of trade secrets. The misappropriation of trade secrets may also violate Hawaii's unfair competition law.

Nor is a business limited to seeking relief against its former employee. Where the employee goes to work for a competitor, injunctive and monetary remedies can be sought from it as well. Short-cutting market research and sales efforts by hiring employees with access to a competitor's customer list is an invitation to be sued.

Employers should take steps to protect their proprietary information. Requiring pre-employment or even post-hire restrictive covenants, confidentiality and non-compete agreements can protect this valuable asset. Limit access to confidential information to essential employees. Establish policies concerning possession and use of company information, including electronically-stored information. Finally, when it appears an employee or competitor has used your trade secrets, take action to protect your information and minimize the harm.

For more information or questions regarding this article, please call Greg at 531-8031 ext 603, email him at gwk@hawaiilawyer.com, or scan the code with your smartphone.

Distribution of Copyrighted Works and the Scope of the First Sale Doctrine



By Michelle M. Shin

Copyrights are a form of protection granted to owners of original works of authorship. Examples of works of authorship that may be entitled to copyright protection include motion pictures, sound recordings, and other literary, musical, dramatic, pictorial, graphic, and sculptural works. Copyright law provides copyright owners with a bundle of exclusive rights, including the exclusive rights to reproduce, distribute or publish, publicly display, prepare derivative works of, and publicly perform their works.

Purchasing a copy of a copyrighted work does not give you unlimited rights to the work itself. The copyright owner retains its bundle of exclusive rights subject to certain exceptions such as the first sale doctrine. The first sale doctrine permits a person who purchases a "lawfully made" copy of a copyrighted work to resell or dispose of the purchased copy without authorization from the copyright owner. For example, if you purchase a copy of a book, the first sale doctrine generally allows you to resell or dispose of that copy without obtaining further permission from the copyright owner.[1] However, interpretations of the scope of the first sale doctrine have been evolving as a result of an increasingly global marketplace and technology.

The requirement under the first sale doctrine that the purchased copy be "lawfully made" under the Copyright Act has been interpreted in a manner that allows copyright owners to control the resale of gray market goods. In *Omega S.A. v. Costco Wholesale Corporation*, the Ninth Circuit held that the first sale doctrine does not apply to goods which the copyright owner manufactured and sold overseas, but were subsequently imported into the United States without the copyright owner's permission. The watch manufacturer Omega made its watches in Switzerland and sold them to an entity overseas. The same watches were ultimately sold to Costco for resale to consumers within the United States, and Omega brought suit against Costco for copyright infringement because it had not authorized the importation of the watches or Costco's resale of the watches within the United States. Costco argued that the first sale doctrine precluded Omega's infringement claim because the watches had been lawfully made and previously sold by Omega. The Ninth Circuit rejected Costco's argument and interpreted the "lawfully made" requirement of the first sale doctrine as requiring the watches to be lawfully made and sold *in the United States* in order for Omega's exclusive right of distribution to be exhausted. The Ninth Circuit's decision was recently affirmed by the United States Supreme Court.

Another important aspect of the first sale doctrine is that a purchaser of a copy of a copyrighted work is permitted to publicly display the purchased copy, either directly or by projection of no more than one image at a time, to viewers present where the copy is located. The limited scope of the display right associated with the first sale doctrine may be insufficient for a purchaser to advertise purchased copies. For instance, in *Teter v. Glass Onion, Inc.*, an artist claimed infringement of its exclusive rights to reproduce and distribute his artwork when a gallery owner posted images of the artist's works on the gallery's web site. The gallery owner had created and posted images of art work that the gallery had legitimately purchased from the artist. The court found the "first sale" doctrine did not bar the artist's copyright infringement claim. Under the first sale doctrine, the gallery could publicly display the art in its gallery, but the first sale doctrine did not give the gallery the rights to reproduce and display the purchased art on the gallery's web site.

When purchasing a copy of a copyrighted work, you should consider whether the first sale doctrine applies and whether it covers your intended use of the work. You may need to negotiate additional rights from the copyright owner to avoid potential copyright infringement claims and liability.

[1] *The first sale doctrine does not apply to the commercial rental or lending of copies of certain phonorecords and computer programs.*

For more information or questions regarding this article, please call Michelle at 531-8031 ext 613, email her at mms@hawaiilawyer.com, or scan the code with your smartphone.

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Trademarks At A Glance

By Christi-Anne H. Kudo Chock

In July of this year, an astute American blogger living in Kunming, China reported that she thought she had found three fake Apple stores. She claimed the stores were not listed as authorized resellers on Apple's web site, that the authenticity of the products was unclear and that the employees believed they were working at authentic Apple establishments. Would you have been able to tell the difference? (http://birdabroad.wordpress.com/2011/07/20/are-you-listening-steve-jobs/).

What is a trademark?

A "trademark" can be any word, name, symbol, or device (or some combination thereof) used to identify and distinguish a particular good from a particular source from those manufactured or sold by others. In addition to Apple's apple, commonly recognized local trademarks include, for example, Aloha Petroleum's wave, American Savings Bank's taro leaf, Easy Music's guitar, Marukai's "M," and T&C Surf Design's yin-yang symbol. While we may not be able to discern one company's product from another's at a glance, the use of trademarks helps consumers identify and distinguish what we are purchasing and from whom.

What kinds of laws govern trademarks?

Trademarks are governed by state and federal laws, which attempt to protect the public from confusion about the source of certain goods, and shield the trademark owner from attempts by others to misrepresent or appropriate the goodwill or other value the owner has already obtained through the use of the trademark. Under the Lanham Act and Hawaii law, any person who uses another's trademark without consent and in a manner that is likely to cause confusion or to deceive as to the origin or sponsorship of the goods may be liable for infringement. Blurring and tarnishment are also prohibited. For example, assuming the blogger's claims are true, the alleged faux-Apple stores are pretty elaborate examples of "dilution," or the lessening of the capacity of a famous mark to identify and distinguish its goods. Had such a thing occurred here, Apple probably could obtain an injunction and, if a court found that the deception was intentional, the stores' proprietors could be liable for damages alleged by Apple and required to disgorge any profits procured through the improper appropriation of Apple's trademarks.

How can I enforce my trademark rights?

You don't need to be Apple to enforce your trademark rights, however. Federal and state claims for trademark infringement are based on two things: (1) a protectible property interest in mark held by the plaintiff; and (2) the defendant's use of the trademark in a manner that creates a likelihood of confusion among prospective customers as to the source of the goods. A protectible property interest in a particular mark can be evidenced by state or federal registration of the trademark at issue, but registration is not necessary.

A likelihood of confusion exists when consumers confronted with products or services bearing a particular mark would be "likely to assume that the source of the products or services is the same as or associated with the source of a different product or service identified by the same mark." Eight factors may be considered: (1) strength of the mark; (2) proximity of the goods; (3) similarity of the marks; (4) evidence of actual confusion; (5) marketing channels used; (6) type of goods and degree of care likely to be exercised by purchaser; (7) defendant's intent in selecting the mark; and (8) likelihood of expansion of product lines.

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Strength of the Mark: The strength of the mark determines the scope of protection. There are five categories of trademarks: (1) "arbitrary" marks that do not have any connection with the actual products (Apple; Google); (2) "fanciful" marks based on "words" created by the trademark's holder (Kleenex; Kodak); (3) "suggestive" marks that indirectly refer to the products (Froot Loops; Jaguar); (4) "descriptive" marks that relate to a product-trait (Cinnabon; Healthy Choice); and (5) "generic" marks that describe the product, but are too commonly used to be afforded trademark protection (aspirin; escalator). Arbitrary and fanciful marks are entitled to more protection under trademark law. Unless a descriptive mark has "secondary meaning," or distinctiveness recognized by consumers, it may be treated like a generic mark and given little to no protection. In other words, the more unique your mark is, the greater the degree of protection it will receive in court.

Similarity: The similarity of the marks is weighed more heavily than their differences. Similarity may be tested on three levels: sight, sound and meaning. ("Sound is an important consideration...because reputation is often conveyed by word of mouth[.]").

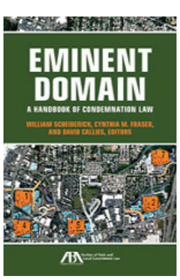
Actual confusion: Trademark owners typically become aware of potential infringement claims when purchasers contact them to confirm that the owner is the source of a particular good bearing the same or similar trademark. But, while evidence of actual confusion may be strong evidence of the likelihood of confusion, it is not determinative.

"Aesthetic Functionality" Exception: Trademark law does not prohibit copying of "functional" features, including aesthetics that contribute to the perceived value of the product. Unlike assurances regarding a particular source, designs that have a utilitarian function (heart-shaped candy box) or enhance a product's appearance without identifying a source, may receive less protection.

Protect Your Mark: If your trademark is the apple of your eye, consult your attorney about protecting the value of your mark and your business.

For more information or questions regarding this article, please call Christi at 531-8031 ext 619, or email her at chkc@hawaiilawyer.com, or scan the code with your smartphone.

Did You Know



The American Bar Association's Section of State & Local Government Law has just published a new book on eminent domain fundamentals: *Eminent Domain - A Handbook of Condemnation Law*, which features three Damon Key authors. Robert H. Thomas wrote two chapters *Prelitigation Process* and *Flooding & Erosion*, and Mark M. Murakami and Christi-Anne H. Kudo Chock teamed up to co-author the chapter, *Damages Resulting from a Taking: An Overview*.

This book is an overview of the law from nationally-recognized experts. It is intended as a deskbook - a reference guide for attorneys who do not regularly practice condemnation law, a refresher for the more experienced eminent domain lawyer, and an overview of the law for those who want to understand the fundamentals. Contact Robert at rht@hawaiilawyer.com for more information, and how to order your copy.

You Snooze You May Lose, Even When It Violates The Law

By Michael A. Yoshida

As a result of amendments to the Bankruptcy Code ("Code"), we've seen an increase in confirmed Chapter 13 Plans, which detail the debtor's plan for payments to creditors. As a result of a recent U.S. Supreme Court case, a creditor may be subject to a plan even if it contains provisions that violate the Code or a result is obtained in violation of the Bankruptcy Rules ("Rules"). What this means is that creditors need to be vigilant in protecting their rights.

In a potentially far reaching decision, the U.S. Supreme Court in *United Student Aid Funds, Inc. v. Espinosa*, held that a Chapter 13 Plan remained binding even when it contained payment provisions that violated the Code. In that case, the debtor submitted a plan that provided for the payment of only principal on his student loan but not interest. Under the Code, a student loan – both principal and interest – can only be discharged upon a finding of "undue hardship" by the court. Additionally, under the Rules, an adversary proceeding (initiated by the filing of a Complaint) is necessary for the court to determine whether there is "undue hardship." Thus, Espinosa's Chapter 13 Plan bypassed these procedural steps.

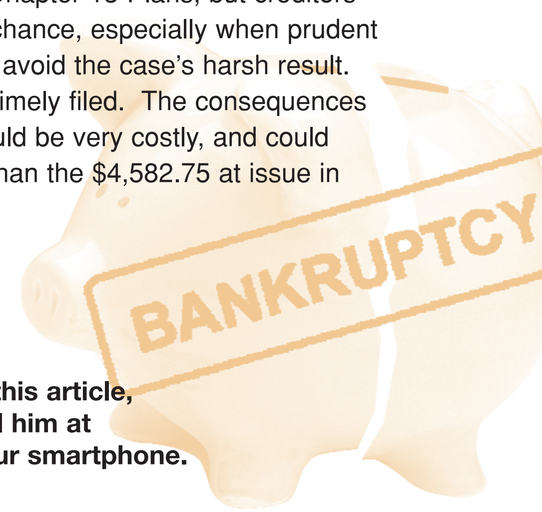
Espinosa's student loan lender filed a claim with the court for both principal and interest. It received notice of Espinosa's plan and his attempt to avoid paying interest. But the lender failed to object.

The court confirmed Espinosa's plan. The lender received notice that the amount it claimed Espinosa owed was more than his plan contemplated paying, since his plan did not include the payment of interest. However, the lender did nothing and Espinosa began his plan payments. Four years later, Espinosa completed his student loan principal payments as provided in his plan and the court discharged the student loan.

Three years later, the lender began efforts to collect the $4,582.75 in unpaid interest from Espinosa. He in turn asked the court to enforce his discharge. The court ultimately ordered the lender to cease all collection efforts. After several appeals, the U.S. Supreme Court heard the case, and in a unanimous decision upheld the discharge of Espinosa's student loan.

The Court acknowledged that the Bankruptcy Court should have required Espinosa to show "undue hardship" by way of an adversary proceeding. However, the lender was bound to the payments provided in the Chapter 13 Plan because it failed to timely object, and therefore forfeited its right to rely on the protections provided by the Code and Rules. The net result was that the lender was forced to live by a Chapter 13 Plan that everyone agreed violated the Code and the Rules.

The impact of *Espinosa* is potentially far reaching, extending beyond the confirmation of Chapter 13 Plans, and it holds some important lessons for creditors. What the case teaches is that creditors should not rely on the Bankruptcy Court to police whether remedies sought by a debtor are proper, and should not rely on an after-the-fact argument that the remedies violate the Code or the Rules. The courts have not presently expanded the holding of *Espinosa* to cover more than Chapter 13 Plans, but creditors should not take the chance, especially when prudent and early action can avoid the case's harsh result. Objections must be timely filed. The consequences of standing silent could be very costly, and could involve much more than the $4,582.75 at issue in the case.



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"Construction law is of especially significant importance in the Islands—for 35 years, I have had the opportunity to collaborate with a multitude of talented and dedicated professionals in the construction and architectural fields. Together, we have worked to develop Hawaii in a way that benefits its people for generations to come."

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"I am honored to serve on the National Easter Seals Board of Directors as Secretary and Chairman of the Public Affairs Committee, supporting its mission to provide help and hope directly to the people who rely on it—children, adults, seniors and veterans with disabilities and their families."

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"Serving on the executive committee and the board of directors of the Meritas global network of independent, full-service law firms has been invaluable in developing and enhancing best-practice ideas to benefit our clients. As the only Meritas firm in Hawaii, Damon Key is committed to providing the highest level of legal services."

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"Helping clients plan their charitable giving is a facet of law that is incredibly rewarding. In planning and implementing a client's charitable giving plans, we find ways to best leverage the client's resources to cause the greatest benefit for both the donor and donee."

***Doug Smith,** recognized as one of Hawaii's Best Lawyers since 2008*

Damon Key Leong Kupchak Hastert applauds Ken, Diane, Jim and Doug for consistently being honored among Honolulu Magazine's Best Lawyers in Hawaii. In their unwavering commitment to clients and service to our local community, they lead a firm of more than 25 attorneys by example.

Damon Key Leong Kupchak Hastert is proud to have been a part of the Hawaii business community for nearly 50 years, and to have positively impacted the lives of Hawaii's people both through our work and personal passions. We congratulate our colleagues for exemplifying excellence in professionalism and service.

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