

# Pennsylvania Bar Association Quarterly

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# Environmental Due Diligence In Real Estate Transactions

By MARC E. GOLD AND MICHAEL C. GROSS<sup>1</sup>

Montgomery County  
Members of the Pennsylvania Bar

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## INTRODUCTION

There are a myriad of environmental issues to evaluate in connection with the proposed purchase of real estate because of the breadth of environmental liability and the significant costs associated with addressing that liability. Thus, practitioners must fully understand the nature of potential environmental liabilities, being sensitive to the factual nuances that matter, and avail themselves of the appropriate tools to gather the necessary facts on which to provide meaningful legal advice to their clients. As an initial matter, this article will detail the federal regulatory standard for due diligence in the context of certain Superfund defenses, aimed at evaluating environmental conditions that may be indicative of releases or threatened releases of hazardous substances at a property. This article will also identify other issues of environmental concern outside the realm of site contamination that need to be considered, including the presence of wetlands, the location of a property in a flood plain, the presence of streams in and around the property and the availability of sewage treatment capacity to serve new development. This article will then address the critical issues associated with permit transfers and conditions that must be met when an entity purchases an ongoing industrial concern that will continue to be operated by the new owner.

## “ALL APPROPRIATE INQUIRY” REQUIREMENTS UNDER FEDERAL LAW

### *Background*

On November 1, 2005, the United States Environmental Protection Agency (“EPA”) promulgated regulations entitled “Standards for Conducting All Appropriate Inquiries” (the

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"AAI Rule").<sup>2</sup> The AAI Rule establishes the regulatory and industry standard for performing environmental due diligence in real property transactions and for establishing the factual predicate to qualify for any one of three liability defenses under the Comprehensive Environmental Response Compensation and Liability Act ("CERCLA").<sup>3</sup> (The AAI Rule became effective on November 1, 2006.) The AAI Rule applies to those seeking to establish the following liability defenses under CERCLA: (1) the innocent landowner defense,<sup>4</sup> (2) the bona fide prospective purchaser defense<sup>5</sup>; and (3) the contiguous property owner defense.<sup>6</sup> The AAI Rule also applies to persons conducting site assessments using CERCLA Brownfields grant funds. In those instances, the AAI Rule requires the inquiry to focus on identifying releases of hazardous substances and petroleum products. Of these liability defenses, the AAI Rule is most important in establishing the bona fide prospective purchaser defense. Simply put, if a purchaser performs due diligence and identifies contamination, the purchaser cannot establish the innocent landowner and contiguous property owner defenses. In contrast, a purchaser that discovers contamination is not disqualified from establishing the bona fide prospective purchaser defense, as long as the purchaser performed "all appropriate inquiry" and satisfies the other elements of that defense.

### *Mandatory Requirements and Allocation of Functional Responsibilities*

The AAI Rule specifies that most tasks required as part of "all appropriate inquiry" must be undertaken by an "environmental professional" or someone under the direct supervision of an environmental professional. As discussed in greater detail below, certain AAI

Rule tasks can (and must) be performed by the purchaser of property rather than the environmental professional. An environmental professional includes a person who either: (1) holds a professional engineer's or geologist's license and has three years of relevant experience; (2) holds a license to perform environmental inquiries and has three years of relevant experience; (3) has a baccalaureate or higher degree in engineering or science and has five years of relevant experience; or (4) has the equivalent of ten years of full time relevant experience.<sup>7</sup>

The AAI Rule rejects a "checklist" approach to due diligence whereby the environmental professional must perform carefully scripted tasks and review specifically identified documents. Instead, the AAI Rule adopts a more flexible, subjective standard based upon identified objectives and performance factors.<sup>8</sup> This is the heart of the AAI Rule and, as discussed below, has the potential to cause problems in its implementation. Regarding objectives, first and foremost, application of the requirements of the AAI Rule is intended to result in the identification of conditions "indicative of releases and threatened releases" at the subject property. To meet this objective, the AAI Rule requires that the purchaser and/or environmental professional must evaluate current and past property uses and occupancies; current and past uses of hazardous substances; waste management and disposal activities; current and past remediation at the subject property; engineering controls (e.g., caps, paving); institutional controls (e.g., restrictions on groundwater for drinking purposes); and properties adjoining or located nearby the subject property. All of the specified tasks in the AAI Rule are measured against specified performance factors. Since the performance factors, by definition, require the exercise of discretion and subjective decision-making, they create a central and controversial element of the AAI Rule. The performance factors include: (1) gathering information that is "publicly available, obtainable from its source within reasonable time and cost constraints and which can practicably be reviewed;" (2) reviewing and evaluating "the thoroughness and reliability of the information" gathered; (3) identifying "data gaps" in the information gathered, commenting on the significance of the data gaps and potentially recommending sampling and analysis to develop information to address the data gaps; and (4) identifying in

<sup>2</sup> See 40 C.F.R. §312; 70 Fed. Reg. 66070 (November 1, 2005). The procedures of the ASTM International Standard E1527-05 "Standard Practice for Environmental Site Assessments: Phase I Environmental Site Assessment Process" have been incorporated by reference into the AAI Rule and may be used to comply with the requirements of 40 C.F.R. 312.23 through 40 C.F.R. 312.31. Thus, the ASTM E1527-05 Standard is anticipated to be looked upon by environmental professionals and users of the practice, as the practice that constitutes "all appropriate inquiry" into the previous ownership and uses of the property consistent with good commercial or customary practice.

<sup>3</sup> 42 U.S.C. §6901 *et seq.*

<sup>4</sup> 42 U.S.C. §§9602(35) and §9607(b)(3).

<sup>5</sup> 42 U.S.C. §§9601(40) and 9607(r).

<sup>6</sup> 42 U.S.C. §§9607(q).

<sup>7</sup> 40 C.F.R. §312.10(a).

<sup>8</sup> 40 C.F.R. §312.20(e) and (f).

the report releases and threatened releases discovered, unless the quantities of the releases individually and in the aggregate "would not pose a threat to human health or the environment."<sup>9</sup>

Another issue created by the adoption of the AAI Rule focuses on the shelf life of environmental due diligence reports, including the use of reports prepared by other parties. Generally, all appropriate inquiry must be conducted within one year prior to the date of acquisition of the property. However, the following components of the inquiry must be completed or updated within six months of acquisition: (a) interviews with past and present owners and occupants, (b) searches for environmental liens, (c) review of government records, (d) visual inspection of the property, and (e) completion of the declaration by the environmental professional.<sup>10</sup> Results of previous "all appropriate inquiry" conducted by the same person at the same property may be used and relied upon if conducted in compliance with the "all appropriate inquiry" standards in effect at the time, and if the results are updated within a year of the date of acquisition, or for certain factors listed set forth in the AAI Rule, updated within six months of acquisition. Similarly, results of previous "all appropriate inquiry" conducted by other persons may be used and relied upon if the report meets the objectives and performance factors of the AAI Rule and the environmental professional and/or purchaser reviews the report and updates all of the inquiries as required by the AAI Rule.

The AAI Rule requires the environmental professional and/or the purchaser to perform a defined list of activities.<sup>11</sup> The environmental professional must perform the interviews, review historical sources, review government records, perform the visual inspections and evaluate the degree of obviousness of the presence of contamination. Either the purchaser or the environmental professional may search for environmental liens on the property and determine the commonly known or reasonable or ascertainable information about the property. The AAI Rule also sets forth new requirements regarding interviews which must now include interviews with the current owner of the subject property and all current occupiers likely to handle hazardous substances.<sup>12</sup> To the extent

necessary to meet the objectives and performance factors of the AAI Rule, this may include interviews of current and past facility managers, past owners and operators and past and current employees thereof. For abandoned properties, the AAI Rule mandates interviews of at least one occupant of a neighboring or nearby property from which one can observe the abandoned property. Similarly, the AAI Rule contains new provisions regarding the review of historical sources of information. This includes, but is not limited to, review of aerial photos, fire insurance maps, chain of title records and building records.<sup>13</sup> Further, in the discretion of environmental professional, this review must cover a period of time as far back in history that property contained structures, or when property was first used for any residential, agricultural, commercial, industrial or governmental purposes. The AAI Rule also contains new requirements regarding searches for recorded environmental cleanup liens,<sup>14</sup> reviews of governmental records,<sup>15</sup> and the parameters for visual inspections of properties.<sup>16</sup>

For the first time, the AAI Rule mandates that certain aspects of the environmental due diligence process must be performed by the prospective purchaser, rather than the environmental professional. For example, the "Additional Inquiries" section of the AAI Rule indicates that the purchaser must take into account its specified knowledge of the property, the surrounding area and other experience relevant to the inquiry.<sup>17</sup> Further, the purchaser must consider whether the purchase price of the subject property reflects the fair market value of the property if uncontaminated.<sup>18</sup> If the purchase price is not at fair market value, the purchaser must determine whether the price differential is due to environmental impacts. Some tasks falling under the "Additional Inquiries" section can be performed by either the prospective purchaser or the environmental professional. The purchaser and/or environmental professional must take into

<sup>13</sup> 40 C.F.R. §312.24.

<sup>14</sup> 40 C.F.R. §312.25.

<sup>15</sup> 40 C.F.R. §312.26.

<sup>16</sup> 40 C.F.R. §312.27.

<sup>17</sup> 40 C.F.R. §312.28.

<sup>18</sup> 40 C.F.R. §312.29. No formal real estate appraisal is required to determine the relationship of the purchase price to the fair market value of the property. However, the preamble to the AAI Rule states that: "A determination of fair market value may be made by comparing the price for a particular property to prices paid for similar properties located in the same vicinity." See 70 Fed. Reg. 66070 at 66098-66099 (November 1, 2005).

<sup>9</sup> 40 C.F.R. §312.20(e).

<sup>10</sup> 40 C.F.R. §312.20(a), (b), (c) and (d).

<sup>11</sup> 40 C.F.R. §312.21(b) and §312.22(a).

<sup>12</sup> 40 C.F.R. §312.23.

account commonly known or reasonable ascertainable information about the property within the local community.<sup>19</sup> This could include information from owners or occupiers of neighboring properties, local government officials, newspapers, websites, community organizations, local libraries or historical societies. In addition, the purchaser and/or the environmental professional must take into account, based on all of the inquiry, the degree of obviousness of the presence of contamination and the ability to detect that contamination.<sup>20</sup> In any event, care must be taken to assure that the responsibilities of the AAI Rule are undertaken by the appropriate party.

Following the completion of the investigation, the results of the inquiry must be documented in a written report prepared by the environmental professional that contains: (1) the environmental professional's opinion as to whether conditions indicative of a release or threatened release exist at the subject property; (2) a list of data gaps and the significance of the data gaps on the ability to express the above opinion; (3) the qualifications of the environmental professional; and (4) a declaration by the environmental professional that it meets the definition of that term and has complied with the AAI Rule.<sup>21</sup>

### *Practical Considerations and Dilemmas*

The AAI Rule is legally significant for many reasons, particularly because it codifies for the first time the level of environmental due diligence that must be performed by prospective purchasers of contaminated property. However, the AAI Rule also presents many unresolved issues and potential difficulties for prospective purchasers and their lawyers. The AAI Rule requires the exercise of discretion and subjective judgment particularly those provisions addressing data gaps, records review, date of historic sources and the scope of interviews. While this may be fine for ensuring the quality of the inquiry, it creates ambiguity and substantial litigation risk for both the environmental professional and those seeking to establish the CERCLA liability defenses. For example, those seeking to establish the bona fide prospective purchaser defense will face fact-specific inquiries as to whether they did everything necessary to meet the objectives and performance factors. At a minimum, these inquiries will require extensive fact and expert

witness discovery and potentially provide a basis for defeating a purchaser's summary judgment motion regarding the defense. At worst, these inquiries may defeat the claimed defense itself.

Further, while the AAI Rule will be considered industry standard for real property transfers, questions persist as to whether the AAI Rule should be required in other transaction scenarios, such as asset and/or stock acquisitions, where CERCLA liability protection is not of primary concern. Another common dilemma encountered since the effective date of the AAI Rule concerns whether environmental professionals are sufficiently qualified to conduct the required interviews, and at a minimum, what sort of basic training does the environmental professional need in typical "Q & A". With respect to data gaps, questions have emerged as to how the data gaps be handled and when sampling and analysis is required to fill the data gaps. Other unresolved issues presented by the AAI Rule include: what records do purchasers need to create and retain to evidence the "additional inquiries" they have undertaken; when should a purchaser not share the result of the "additional inquiries" with their environmental professional; how should the environmental professional treat the absence of this information in its report and declaration; what steps must an environmental professional take to review the "reliability" of data it gathers; and when is a release so *de minimis* that it need not be identified in the report.<sup>22</sup> Indeed, nearly 18 months after the publication date of the final AAI Rule, prospective purchasers and most environmental professionals remain unclear as to how to best comply with the AAI Rule while meeting business objectives. Another complicating factor concerns the fact that many of these issues are considered in a "deal time" scenario where complex issues of environmental liability are not properly weighed due to timing constraints. Accordingly, it is beneficial for the prospective purchaser to tackle issues presented by the AAI Rule as early as possible in the transaction process.

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<sup>22</sup> See ASTM International Standard E1527-2005, Section 3.3.21: "The term [Recognized Environmental Condition] is not intended to include *de minimis* conditions that generally do not present a threat to human health or the environment and that generally would not be the subject of an enforcement action if brought to the attention of appropriate governmental agencies. Conditions determined to be *de minimis* are not recognized environmental conditions."

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<sup>19</sup> 40 C.F.R. §312.30.

<sup>20</sup> 40 C.F.R. §312.31.

<sup>21</sup> 40 C.F.R. §312.21(c).

Environmental due diligence evaluations in a real property transfer scenario should also contemplate potential contamination and health risks presented by the subject property, which are not covered by the AAI Rule. For example, typical “non-scope” health concerns falling outside the realm of the AAI Rule include the potential presence of asbestos, radon and lead-based paint.<sup>23</sup> Moreover, the AAI Rule does not assess the potential presence of mold or other impacts to indoor air quality. In addition, the presence of lead in drinking water can be a major impediment that exists in transactions involving aged properties. Prospective purchasers, their counsel and their environmental consultants should strategize collectively to determine whether additional investigation is warranted to address these concerns.

#### WATER AND SEWER CONSIDERATIONS<sup>24</sup>

While the AAI Rule has received significant attention from the environmental and real estate communities, many environmental conditions arising in the context of real estate development have nothing to do with environmental contamination. These conditions include the presence of floodplains, wetlands and streams/waterways; and the availability of public sewage treatment capacity. Since each of these water-related conditions has the ability to delay or derail a proposed development, significant time and resources should be devoted to assessing the impacts of these conditions during the nascence of the project. A summary of these potential issues is set forth below.

##### *Floodplains*

If a property is located within a floodplain, development of the property will be a complex endeavor. Pursuant to the National Flood

Insurance Act of 1968,<sup>25</sup> the Federal Emergency Management Agency (“FEMA”) has identified the 100 year flood plain—the highest level of flooding that, on average, is likely to occur once every 100 years. Pennsylvania has similarly enacted the analogous Flood Plain Management Act<sup>26</sup> to “encourage planning and development in flood plains which are consistent with sound land use practices.”<sup>27</sup> The maximum area of land that is likely to be flooded by a 100 year flood is identified on FEMA flood plain maps.<sup>28</sup> Structural development that would cause an increase in the 100 year flood elevation is barred by federal minimum standards. This could necessitate elevating or flood proofing non-residential structures to the 100 year flood elevation or elevating residential structures. Municipalities are required to implement the Flood Plain Management Act by passing ordinances to restrict development in flood plains.<sup>29</sup> Issues related to flood protection are particularly important in southeastern Pennsylvania because of the recent frequency of serious flood events.

##### *Wetlands and Streams*

Pennsylvania and federal law both regulate the development of areas deemed to be wetlands. Section 404 of the Federal Clean Water Act regulates the discharge of dredge and fill materials into waters of the United States.<sup>30</sup> Jurisdictional wetlands are included in the definition of waters of the United States.<sup>31</sup> Accordingly, both the EPA and the United States Army Corps of Engineers (“Corps”) have jurisdiction over wetlands that are waters of the United States. Permits must be obtained from by the Corps to fill wetlands.<sup>32</sup> In Pennsylvania, wetlands are regulated under the Dam Safety and Encroachment Act,<sup>33</sup> the Pennsylvania Clean Streams Law<sup>34</sup> and Pennsylvania’s Dam Safety and Waterway Management

<sup>23</sup> See ASTM International Standard E1527-2005, Section 13.1 “*Additional Issues*—there may be environmental issues or conditions at a property that parties may wish to assess in connection with commercial real estate that are outside the scope of this practice (non-scope considerations).” Section 13.1.5 sets forth an extensive list of potential non-scope issues that may be considered when appropriate.

<sup>24</sup> This section is adapted with permission from materials prepared by Howard J. Wein, Esquire, Buchanan Ingersoll & Rooney, P.C. entitled “Environmental Due Diligence: It’s Not Only the Contamination That Can Sink Your Ship” presented at the Pennsylvania Bar Institute’s Seminar *Due Diligence In Real Estate Transactions*, September 2006.

<sup>25</sup> 42 U.S.C. §4121.

<sup>26</sup> 35 P.S. §§679.101 *et seq.*

<sup>27</sup> 35 P.S. §679.103.

<sup>28</sup> 35 P.S. §679.104 and 25 Pa. Code §113.

<sup>29</sup> These ordinances are to be adopted pursuant to the Pennsylvania Municipalities Planning Code, 53 P.S. §10101 *et seq.*

<sup>30</sup> 33 U.S.C. §1314.

<sup>31</sup> 33 C.F.R. §328.1 *et seq.*

<sup>32</sup> *But see Rapanos v. United States*, (128 S.Ct. 2208, 165 L.Ed. 2d 159, 74 USLW 4365, June 19, 2006) (holding certain wetlands may not be regulated under Federal Law).

<sup>33</sup> 32 P.S. §693.1 *et seq.*

<sup>34</sup> 35 P.S. §691.1 *et seq.*

regulations,<sup>35</sup> also known as “Chapter 105.” Wetlands are defined in Chapter 105 as “areas that are inundated or saturated by surface water or groundwater at a frequency and duration sufficient to support, and that under normal circumstances do support, a prevalence of vegetation typically adapted for life in saturated soil conditions including swamps, marshes, bogs and similar areas.”<sup>36</sup> State permits issued by the Pennsylvania Department of Environmental Protection (“PaDEP”) are also required to either fill wetlands or encroach on waters of the Commonwealth.<sup>37</sup> While the presence of wetlands on a subject property will always create issues in the context of real estate development, certain wetland areas are more prohibitive than others. Pennsylvania recognizes that there are exceptional value wetlands<sup>38</sup> and “other wetlands.”<sup>39</sup> Potential purchasers need to bear in mind that different standards apply to permitting structures and activities in wetlands deemed to be of higher value.<sup>40</sup>

The presence of streams and other watercourses on a property also presents development challenges. The Dam Safety and Encroachment Act and Chapter 105 regulations require a permit for any encroachment on a stream. Examples of activities likely requiring a permit include filling in a stream or installing a culvert to convey a stream. In addition, if the proposed development will dam a watercourse, a permit is required as well. Changing or impeding a watercourse would also require a permit. It is also extremely difficult to obtain the requisite approvals to impact any stream classified as high quality (“HQ”) or exceptional value (“EV”). During the permitting process, PaDEP will require an “alternatives analysis” which mandates that the applicant must evaluate whether the property can be developed without filling the wetland or causing a stream encroachment.

### *Stormwater Management*

National Pollutant Discharge Elimination System (“NPDES”) stormwater permits are required for essentially all construction activities. Such permits are issued by PaDEP under the authority of the Pennsylvania Clean Streams

Law and pursuant to a delegation of authority from EPA under the Clean Water Act. NPDES permits are required if greater than one acre is disturbed and there will be a point source to surface waters or if more than five acres are disturbed.<sup>41</sup> The NPDES permit could be either a general permit or individual permit, although individual permits may also be required by PaDEP where there is evidence of site contamination. Projects affecting less than one acre do not require a NPDES permit but PaDEP regulations regarding Erosion and Sedimentation (“E&S”) control must be met.<sup>42</sup> The NPDES permit applicant is also required to conduct a Pennsylvania Natural Diversity Inventory (“PNDI”) project planning environmental review to ensure that the proposed construction activity will not harm threatened and endangered plants and animal species.<sup>43</sup> Various E&S planning requirements must also be identified in the NPDES permit application including: (1) any previous uses of the land proposed for construction; (2) potential pollutants; (3) the type, source and location of fill materials; (4) receiving water or watershed name; and (5) receiving water classification.<sup>44</sup>

An often overlooked regulatory program that can impact NPDES permitting is Pennsylvania’s stream classification scheme, codified at 25 Pa. Code Chapter 93. Pursuant to Chapter 93, discharges to HQ or EV streams mandate additional stringent controls and an analysis under Pennsylvania’s anti-degradation regulations.<sup>45</sup> Chapter 93 requires the water quality of HQ waters must be maintained, unless there is a social or economic justification for the project. Non-discharge alternatives to a point source discharge must first be analyzed and if a non-discharge alternative is not environmentally sound and cost-effective, alternative technologies must be employed. An applicant must be prepared to demonstrate that the proposed discharge will maintain and protect existing water quality if no environmentally sound and cost effective non-discharge alternative exists. Because there is no social and economic justification for discharges to EV waters, EV waters create a greater challenge.

### *Sewage Treatment Capacity*

The availability of public sewers at a subject property can drastically alter the course of a planned development. To the extent public

<sup>35</sup> 25 Pa. Code Chapter 105.

<sup>36</sup> 25 Pa. Code §105.1.

<sup>37</sup> See 25 Pa. Code §105.11 *et seq.*

<sup>38</sup> 25 Pa. Code §105.17(1).

<sup>39</sup> 25 Pa. Code §105.17(2).

<sup>40</sup> See 25 Pa. Code §105.18a(a) for permitting exceptional value wetlands and 25 Pa. Code §105.18a(b) for other wetlands.

<sup>41</sup> 25 Pa. Code Chapter 102.

<sup>42</sup> *Id.*

<sup>43</sup> 25 Pa. Code §102.6(a)(2).

<sup>44</sup> 25 Pa. Code Chapter 93.

<sup>45</sup> See e.g. 25 Pa. Code §93.4a(c).



sewers are lacking, a series of expensive and time consuming measures to obtain approval to construct a private treatment system must be pursued. Such measures must be consistent with the municipality's Official Plan<sup>46</sup> under the Pennsylvania Sewage Facilities Act,<sup>47</sup> and the implementing regulations thereto.<sup>48</sup> The approval of the municipality and PaDEP is required through a sewage facility official plan revision where the proposed development is not identified in the Official Plan. Operation of such systems require an NPDES permit as well as a Part II construction permit. NPDES permits for these facilities also impose discharge limits premised upon the more stringent of either water quality based or technology-based limits. Other relevant factors in establishing effluent limits placed on the discharge include the size of the receiving waterway and whether it can assimilate treated sewage. HQ and EV waterways also pose a unique set of issues in the context of sewage discharges, based upon the PaDEP's anti-degradation requirements.<sup>49</sup>

If public sewers exist, such sewers must be capable of handling the additional flow from the proposed development. New developments that are not in the Official Plan and are not exempt must be added to a municipality's Official Plan. This "plan revision" process involves "planning modules" that are specific to individual projects. A broad change to the Official Plan is known as an "update revision" as may be required by PaDEP. However, a plan revision for a new development will not be approved by PaDEP if (1) a municipality has not completed its Chapter 94 Report (a report required by Pennsylvania's wasteload management regulations<sup>50</sup> that must be submitted to the PaDEP annually to determine whether sewage facilities are currently overloaded or have the potential to be overloaded), (2) the information in an Act 537 planning module is inconsistent with wasteload management information, (3) the municipality's sewage facilities (e.g. sewer lines, pump stations and/or sewage treatment plant) are already overloaded and an acceptable plan and schedule have not been submitted by the municipality to PaDEP to address the situation, or (4) the municipality has already been given alloca-

tions beyond its capacity (known as sewer tap-ins) and an acceptable plan and schedule have not been submitted to the PaDEP.<sup>51</sup>

Municipalities are also required to prohibit new connections to overloaded facilities.<sup>52</sup> This connection ban does not apply to a structure that received a building permit within one year of the sewer ban. Also, exceptions exist where a source replaces another source on the same property or the connection is necessary to the operation of a facility of public need.<sup>53</sup> In such scenarios, a Corrective Action Plan ("CAP") must be submitted to PaDEP. PaDEP will ban new connections to all or part of the system if a satisfactory CAP is not submitted or if the obligations of the CAP are not met by the municipality. If the municipality can show that the overloads have been reduced substantially and the limited number of connections will not cause additional pollution, exceptions to the ban can also be granted by PaDEP.<sup>54</sup> Submission of a CAP is further required if any overload to the sewer system is projected in the next five years. In such a scenario, the municipality also needs to identify how it will control connections and extensions to the system based upon remaining capacity.<sup>55</sup>

#### BUSINESS REGULATORY COMPLIANCE FOR ONGOING OPERATIONS

In certain instances, prospective purchasers will acquire an existing industrial facility with the intent of continuing existing operations. In such scenarios, the prospective purchaser must fully assess all of the environmental permits presently held by the operator and analyze all legal obligations necessary for continued operations. It is also critical to assess the facility's compliance with all applicable legal requirements and historic violations if any, so as to minimize the new owner's potential liability after the sale.

Numerous Pennsylvania environmental laws and regulations have explicit provisions governing permit transfers when there is a change of ownership of an operating facility. Each specific permit held by a facility may have its own conditions regarding permit transfers and these documents must be carefully analyzed by counsel well in advance of the anticipated transfer to define the applicable requirements. For example, the NPDES

<sup>46</sup> Act 537 requires municipalities to develop an official sewage plan ("Official Plan") to address both present and future sewage disposal needs. 35 P.S. §750.5(a).

<sup>47</sup> 35 P.S. §750.1 *et seq.*

<sup>48</sup> 35 Pa. Code Chapters 71 and 73.

<sup>49</sup> 25 Pa. Code §93.4a.

<sup>50</sup> 25 Pa. Code Chapter 94.

<sup>51</sup> *Id.*

<sup>52</sup> 25 Pa. Code §94.20.

<sup>53</sup> See 25 Pa. Code §§94.55-94.57.

<sup>54</sup> 25 Pa. Code §94.42.

<sup>55</sup> 25 Pa. Code §94.22.

permit regulations<sup>56</sup> (and the conditions included in such permits) contain provisions regarding the transfer of either a Pennsylvania NPDES permit (Pennsylvania has been delegated NPDES authority by EPA) or a Pennsylvania water quality permit (Part II permit).<sup>57</sup> These provisions require written notice to PaDEP thirty days in advance of the proposed transfer and a written agreement between the existing permittee and the new permittee containing a specific date for transfer of permit responsibilities, coverage, and liability between the parties.<sup>58</sup> The Pennsylvania Air Pollution Control Regulations<sup>59</sup> provide another example of a codified permit transfer process. With regard to Plan Approvals, PaDEP must approve the transfer in writing, following a compliance review.<sup>60</sup> Simply stated, each regulatory program must be carefully reviewed to discern applicable obligations since failure to do so could result in potentially significant violations.

Another concern regarding the transfer of ongoing industrial operations involves the transferability of a hazardous waste generator identification number to a new owner of a facility. While it may be legally feasible to transfer an existing hazardous waste generator identification number by completing and submitting an EPA hazardous waste registration form to both EPA and PaDEP, there are numerous reasons why a new owner should consider obtaining a new identification number. By obtaining a new identification number for the facility, the new owner would reduce potential issues with the prior owner and others as to the responsibility for hazardous wastes generated prior to the transfer.

In addition to assessing permit transfer requirements and the current regulatory compliance of the existing facility, there are many other issues that can complicate the transaction. These include but are not limited to interim status/corrective action obligations pursuant to the federal Resource Conservation and Recovery Act<sup>61</sup> and any obligations to maintain institutional or engineering controls in place pursuant to the Pennsylvania Land Recycling and Environmental Remediation Standards Act, commonly known as Act 2.<sup>62</sup>

An often overlooked environmental requirement that is particularly relevant to the transfer of current or former industrial facilities involves deed acknowledgments under the Pennsylvania Solid Waste Management Act ("SWMA")<sup>63</sup> and the Pennsylvania Hazardous Sites Cleanup Act ("HSCA").<sup>64</sup> Under the SWMA and HSCA, a deed acknowledgement is required for transactions involving parcels on which hazardous waste/substances are currently being or have ever been (to the grantor's actual knowledge) disposed.<sup>65</sup> To constitute disposal, the hazardous substance/waste must have come in contact with the environment, as required in the definition of the term "disposal" in each statute.<sup>66</sup> Moreover, the SWMA contains a rebuttable presumption that storage of substances for a period exceeding one year constitutes disposal.<sup>67</sup> Thus, it can be argued that a deed notice will be required under the SWMA where hazardous waste has been stored on a property for a period longer than one year, unless this presumption is rebutted with "clear and convincing evidence." Evidence that the property was cleaned up prior to transfer may provide a basis to avoid a deed acknowledgement depending on the Act 2 cleanup standard achieved.<sup>68</sup> Failure to comply with the relevant statutory deed acknowledgment provisions could constitute a violation of either or both statutes.

#### MISCELLANEOUS DUE DILIGENCE PROCEDURAL ISSUES

Another delicate situation involving the transfer of operating facilities involves the negotiation of site access agreements for environmental due diligence to enable the prospective purchaser to investigate the condition of the property and assess regulatory compliance while not interfering with the current owner's operations. Such agreements typically contemplate that the prospective purchaser will obtain the owner's approval of the proposed

<sup>63</sup> 35 P.S. §6018.101 *et seq.*

<sup>64</sup> 35 P.S. §6020.101 *et seq.*

<sup>65</sup> 35 P.S. §6018.405, 35 P.S. §6020.512.

<sup>66</sup> 35 P.S. §6018.103 and 6020.103.

<sup>67</sup> 35 P.S. §6018.103. The legislative intent behind this presumption is to avoid the situation in which "storage becomes merely a sham to avoid the more extensive—and expensive—requirements pertaining to disposal." *Starr v. DER*, 147 Pa. Cmwlth. 196, 205, 607 A.2d 321 (1992) (internal citations omitted).

<sup>68</sup> Cleanup to the Background Standard or Residential Statewide Health Standard under Act 2 avoids the otherwise applicable deed acknowledgment requirements.

<sup>56</sup> 25 Pa. Code §92.1 *et seq.*

<sup>57</sup> 25 Pa. Code §92.71(a).

<sup>58</sup> 25 Pa. Code §92.71a(2).

<sup>59</sup> See 25 Pa. Code §121.1 *et seq.*

<sup>60</sup> 25 Pa. Code §127.12 and §127.32(a).

<sup>61</sup> 42 U.S.C. §6901 *et seq.*

<sup>62</sup> 35 P.S. §6026.101 *et seq.*

due diligence work plan. Timing of due diligence activities is also usually a consideration so as to ensure non-interference with ongoing business operations. The existing owner may also require that all due diligence activities should be conducted in compliance with environmental laws and that the property will be restored to its original condition after any subsurface sampling. The owner may impose specific insurance requirements on the due diligence proponent (e.g. worker's compensation, employer's liability, CGL, business/automobile and professional liability with pollution coverage) and may require an indemnification of the owner for liability that flows from site investigation work.

In some scenarios, it may be desirable for the prospective purchaser to provide the owner with split samples, analytical results and reports relating to the environmental investigations. Conversely, the owner may explicitly request that such information not be shared and kept solely within the purchaser's possession. In any event, confidentiality of information obtained during the environmental investigation is of obvious concern to both parties. Access agreements may require the purchaser to keep analytical results and reports confidential, unless otherwise required by law and after consulting with the owner. However, the purchaser should not readily consent to such provisions if it needs to share information with other parties (e.g. lenders, project engineers, land planner, etc.). The parties should also consider the disposition of documents regarding the facility shared with the prospective purchaser if the transaction fails to close.

There is also a common misconception that if counsel (rather than the client) hires an environmental consultant to perform environmental due diligence investigations, that the results of such investigation are automatically cloaked by the attorney-client privilege. It is critical to bear in mind that such information may not constitute a privileged communication unless the consultant was directly assisting the lawyer in providing legal advice and that certain underlying facts (e.g., analytical results) may never be subject to the privilege. Nevertheless, there are often useful reasons for counsel to retain the consultant. First, it increases chance that consultant's work will be

deemed privileged (especially if the contract is drafted with this objective). Second, the consulting contract may also require the consultant to report information to counsel first and prohibit unauthorized disclosures. Third, routing report drafts through counsel helps to catch inaccuracies and misinterpretation of regulations by non-lawyer consultants. With respect to potentially maintaining a privilege, it is important to note that the exchange of environmental information between the parties to a transaction undercuts the argument in favor of privilege.

## CONCLUSION

Due diligence in the environmental arena touches on considerations of timing and financing, allocating environmental liability associated with the transaction, consideration of available government liability protections, assessing which party will be performing any required cleanup, identifying potential issues affecting future development and compliance, and complying with any property transfer requirements including deed disclosures. With approximately 240,000 Phase I Environmental Site Assessments conducted nationally on an annual basis at a total cost of approximately \$500 million, performing environmental due diligence is a burgeoning business.<sup>69</sup> The advent of the AAI Rule will only serve to heighten the importance of environmental due diligence in many real estate transactions. Parties to such transactions need to look beyond potential contamination and understand all constraints that could impact potential development plans. Facilities that will continue to operate under new ownership present unique due diligence challenges. By proactively implementing a thorough plan for environmental due diligence and allocating the necessary time and resources for such investigations, prospective purchasers can avail themselves of significant assurances and minimize the potential for future environmental liability.

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<sup>69</sup> Sven-Erik Kaiser, Due Diligence Update: The Inside Scoop on the All Appropriate Inquiry Rule. [www.brownfieldnews.com](http://www.brownfieldnews.com), December 2004.

# Computer Presentations By Lawyers In The Conference Room, Classroom, And Courts

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## INTRODUCTION

Technology-based presentations using computer graphics presentation programs, like Microsoft PowerPoint, have become ubiquitous in education, government, business and professions, including the practice of law. They can display a wide variety of content, ranging from existing documents, to custom prepared slides and charts, to sophisticated computer-generated animations.

These graphics programs build on the well-established principle that visual observation is a primary method of learning today. Most people understand more and retain it longer when it is presented both orally and visually. The old adages, "a picture is worth a thousand words" and "seeing is believing" are more true today than ever. Television news, sports and weather are filled with maps, charts, diagrams

and bullet-point lists. Printed media, including newspapers, are filled with diagrams, charts and graphics. Use of computers and the Internet, which are graphics intensive, are becoming more and more common and almost universal. Computer graphics have become standard in the classroom, the boardroom and, more and more, in the courtroom.

This article provides an overview of computer graphics presentations for lawyers. It uses PowerPoint for much of its discussion and also introduces other types of presentation software like trial presentation packages. It does not cover the step-by-step mechanics of the use of PowerPoint or other presentation software. For specifics of operation, see Microsoft publications in "Presentations Information" at the end of this paper and information from the publishers of other presentation software.

## VISUALS IN ATTORNEY COMMUNICATIONS

Computer presentation programs provide substantial benefits to both the presenter and to the audience. For the presenter, they provide an outline which promotes better flow of the presentation and more complete and orderly coverage of the subject matter. They also help greatly by keeping the audience (including juries) interested and engaged. In addition, they substantially promote understanding and retention by the audience.

Research has established that most people understand and remember more when information is presented both orally and graphically than when presented only orally:

Experts say we remember only 20 percent of what we hear. That number jumps to over 50 percent when we both see and hear something.<sup>1</sup>

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<sup>1</sup> A. Brenden and J. Goodhue, *Persuasive Computer Presentations*, Second Edition (American Bar Ass'n. 2005), p. 3.

Another study found that people who attended a "show and tell" presentation retained 65 percent of the information after three days, compared to about 10 percent where the presentation was simply heard.<sup>2</sup> A recent university study found that 55 percent of what an audience learns comes from visuals compared to 38% from audio.<sup>3</sup>

These visual learning principles apply to all areas of communications by lawyers and particularly to litigation. *The Manual for Complex Litigation (Fourth)* notes that "[j]urors understand better and remember more when information is presented both visually and verbally."<sup>4</sup> The *Civil Litigation Management Manual* reports that "[m]ost judges who have used [visual evidence presentation] systems find that such systems improve their ability . . . to understand testimony and evidence."<sup>5</sup>

Sonya Hamlin, a communications consultant and expert in training trial advocates, explains the visual learning concept as applied to litigation in the following way:

. . . Research has shown that we receive 90 percent of our knowledge from visual sensory impression. We remember 85 to 90 percent of what we see and less than 15 percent of what we hear. . . . Bottom line? You've got to *show while you tell* to make your material interesting, clear and memorable. Sometimes even to *just show without telling* is the best move because visuals are so eloquent. But most of all, accept that *visuals are indispensable* in getting your message across.<sup>6</sup>

DecisionQuest, a national litigation consulting firm, reports the following information retention rates from jury studies, with and without the use of visuals<sup>7</sup>:

	Tell	Show Only	Show & Tell
Short Term (3 hours)	70%	72%	85%
Long Term (3 days)	10%	20%	65%

The retention rate after 3 days increases substantially from 10% to 65%, when the information is presented both orally and graphically.

James McElhaney, a law professor and respected trial advocacy teacher, suggests that

<sup>2</sup> BusinessTown.com, [www.businesstown.com/presentations/present-vision.asp](http://www.businesstown.com/presentations/present-vision.asp) or <http://tinyurl.com/pyeg8>.

<sup>3</sup> Presentersonline.com, <http://www.presentersonline.com/basics/visuals/needvisuals.shtml> or <http://tinyurl.com/rds7l>.

<sup>4</sup> Federal Judicial Center, *Manual for Complex Litigation (Fourth)* (2004), §12.31.

<sup>5</sup> Judicial Conference of the United States, *Civil Litigation Management Manual* (2001), p. 137.

<sup>6</sup> S. Hamlin, *What Makes Juries Listen Today* (Glasser Legal Works 1998), p. 77.

<sup>7</sup> DecisionQuest, *Visual Learning & Jury Behavior* (self-guide CLE Presentation on CD).

litigators review David Macaulay's bestseller, *The New Way Things Work* (Houghton Mifflin Co. 1998), for clear visual explanations of complex processes. It is also available on CD ROM. *HowStuffWorks*, a book, CD and website ([www.howstuffworks.com](http://www.howstuffworks.com)), similarly provides straightforward explanations of various subjects, with simple explanations, including diagrams and pictures. It covers a wide range of diverse topics such as computers and the Internet, engines and automotive, body and health, around the house and machines.

The tasks which attorneys routinely perform in litigation and dispute resolution can be divided into the following categories:

1. Information gathering (facts and law)
2. Analysis
3. Communication
4. Persuasion

Graphics can help in all four of these areas. Attorneys often prepare graphics, like chronologies, timelines, organization charts, diagrams and flow charts, during the information gathering and analysis processes. Computer presentation programs are most often used in the communication and persuasion processes.

**In preparing and using presentation technology, it is critical to remember that technology is a means for communication and persuasion and not an end in itself.** It is easy to get carried away with what technology can do and lose sight of the goal of communicating and persuading. Computer presentations should be part of a visual strategy, deliberately employed to carry out these tasks and certainly not to detract from them.

Graphics presentation programs, including PowerPoint and trial presentation programs, are a major and often predominant part of visual communication strategies. Other tools include documents, charts, blowups, physical objects, blackboards, flip charts, photographs, overhead transparencies, movies and slides. Some observers believe that key exhibits like blowups of key documents and timelines should be on foam boards, rather than projected, to keep them constantly in the view of audiences, including juries. They should all be used, in combination, to effectively communicate and persuade.

In developing a visual strategy for trial, it is important to consider early surveys which found that while a majority of responding judges and jurors responded favorably to presentation technology, a substantial minority of judges and jurors responded that they would prefer to handle the evidence in some instances.<sup>8</sup>

<sup>8</sup> *The Third Branch*, Newsletter of the Federal Judiciary, July 1998; *Civil Litigation Management Manual*, Note 5, *supra*, pp. 137-138.

At trial, it is important to control focus of the jury on counsel, witnesses and visuals. Herbert Stern, a former federal judge and well-regarded trial advocacy instructor, presents "Personal Advocacy" by attorneys as "Rule 1" of trial advocacy. He illustrates it in the following way:

The greatest weapon in the arsenal of an able trial lawyer is not the law, or even the facts. It is personal advocacy, coupled with personal standing with the jury. Put it this way: providing your case is triable (that is, it is possible for either side to "win"), would you rather have an edge on the law, an edge on the facts, or Abraham Lincoln as your lawyer?<sup>9</sup>

Since witnesses, particularly the parties, are generally the foundation of trial evidence, it is also critical to direct appropriate focus to each witness as they present testimony.

Graphics should supplement eye contact with the attorney and with witnesses. Visuals should certainly not interfere with this critical eye contact. A litigator must balance focus between himself or herself, witnesses and visuals, particularly when computer graphics are used. In many respects, it's like the role of a movie director.

Since juries often form impressions and even conclusions early in the case, appropriate use of visuals and graphic presentations should be made during openings to the jury. Again, it is also important to maintain appropriate focus on the attorney and the visuals. It is often better to start and end the opening without visuals to keep focus on the attorney.

These conclusions about visual learning are not new and startling developments; graphics and demonstrative evidence have been used for years. The major changes in recent years are that visual communications are becoming more common in everyday life, graphics and computer presentation software has been more available, less expensive, and easier to use, and graphics and visuals are becoming better understood by experts in communications.

## POWERPOINT OVERVIEW

PowerPoint is Microsoft's presentation graphics program that is software used for creating, editing and presenting computerized slide show presentations. A new version, PowerPoint 2007, has recently been released. PowerPoint 2007 is available separately or as part of Microsoft Office 2007. It is the most common presentation graphics program and reportedly commands a market share of about 40 percent.

Other presentation programs from other vendors include: Corel Presentations ([www.](http://www.corel.com)

[corel.com](http://www.corel.com)) (available for free download), Harvard Graphics Advanced Presentations ([www.harvardgraphics.com](http://www.harvardgraphics.com)), Lotus Freelance Graphics ([www.lotus.com](http://www.lotus.com)) and StarOffice Impress ([www.sun.com/staroffice](http://www.sun.com/staroffice)) (available for free download). Because of PowerPoint's popularity, this paper focuses on it. While not a presentation program, Adobe Acrobat ([www.adobe.com](http://www.adobe.com)) can be used in Full Screen View to display PDF documents.

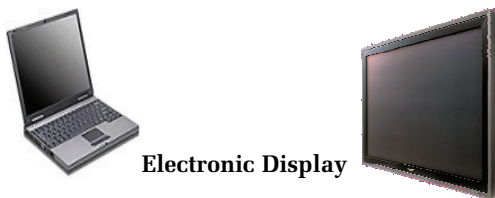
PowerPoint enables users to create, edit and display computerized slide show presentations. Slide shows are made up of series of slides which can contain text, charts, graphics, bulleted lists, photos, documents, video clips, sound clips and additional content. PowerPoint makes it relatively easy to create, edit and organize slides.

## WHAT YOU NEED

In order to give an electronic presentation, you need a computer with the presentation software and a display. Most often, display is through a projector and a screen or an electronic display.



**Projector and Screen**



**Electronic Display**

Laptop computers are almost always used for presentations because of the size and lack of portability of desktop computers. In addition to the presentation software, it's important to make sure that the computer has a fast enough processor, a large enough hard drive and sufficient random access memory (RAM) to handle the software and size of presentations which you will be using, and a sufficient video card. For example, Microsoft's listed minimum system requirements for PowerPoint 2007 include:

- Operating System: Windows XP (with Service Pack 2) or later
- Processor: 500-MHz or higher
- Memory: 256MB RAM or greater
- Hard Drive: 1GB of available disk space (a minimum)

<sup>9</sup> Herbert J. Stern, *Trying Cases to Win* (John Wiley & Sons 1991), p. 13.

- Drive: CD-ROM or DVD-ROM Drive
- Display: XGA (1024 × 768) or higher resolution

PowerPoint presentations tend to be large files, particularly where a lot of graphics, videos and sounds are used. Presentations which are too large for a laptop's resources can cause performance to be sluggish or even cause the computer to freeze.

The recommended "Optimal System Configuration" for Sanction II, one of the leading trial presentation programs, is:

- Windows XP
- Pentium 4 2.4Ghz or higher
- 512MB RAM or greater
- 1024 × 768 (XGA)
- 32-Bit Color Depth
- Sound Card Enabled
- Internet Explorer 6+
- CD-ROM or DVD-ROM Drive

It is critical to have the proper configuration for all software which will be used and to test it with the laptop and all of the presentation equipment which will be used.

For presentations, it is important to make sure that the display setting on the laptop matches the projector and that "screensaver" and "power management" are turned off.

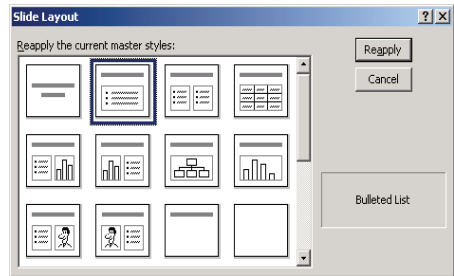
The most common type of projector is the liquid crystal display (LCD) projector. In recent years, projectors have been becoming more compact, less expensive and brighter. Projectors in the 3 to 5 pound range are becoming common. Brightness is rated in lumens. The higher the lumens, the brighter the projected light. The larger the presentation room and the brighter the ambient light in it, the brighter projector is necessary. A general rule is that a 1,500 lumen rating is the minimum necessary for presentations in rooms larger than an average conference room. Projectors rated at 3,500 lumens have been recommended for courtrooms. A new alternative to LCD projectors is digital light processing (DLP) projectors. The difference is in the way in which the light is generated inside the projector. DLP projectors are newer, more expensive and generally considered to be better. An even newer projection technology is liquid crystal on silicon (LCOS) which are in prototype development.<sup>10</sup>

As an alternative to projectors and screens, computer presentations are sometimes displayed directly on large cathode ray tube (CRT) monitors (outdated, but still used) and LCD monitors, or, with a converter, on TV monitors, plasma displays or electronic white boards.

Because equipment can fail, it is important to have backups for laptops, projectors and other essential equipment. This is particularly important for courtroom technology. In the courtroom, it's also a good idea to have a "Plan B," like blowups on foamboard, in case the technology totally fails.

## WORKING WITH POWERPOINT

Slide shows are created in PowerPoint by preparing the individual slides which make up the slide show. The first step is to select a *slide layout*. PowerPoint has 24 *master styles* of layouts, including a blank layout which permits the user to set up the entire layout.



**Slide Layout**

PowerPoint contains a number of *design templates* which can be selected to give slides a consistent appearance and color scheme.

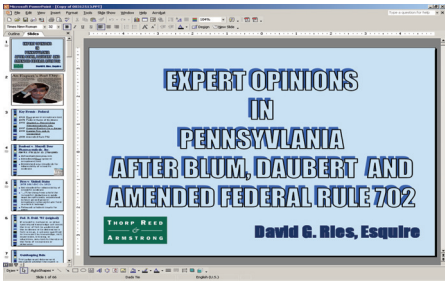
*Master slides* are used for each presentation or portion of presentations to set formatting information such as style and size of title fonts, bullet characters, color schemes, etc. If you decide to change any of these, you can change the master once instead of changing each slide individually.

PowerPoint has four *views* for the computer screen for preparing and displaying slides. The details of the views differ between the different versions of PowerPoint. Slides are prepared and edited using the *slide view* and *normal view*. The *slide sorter view* displays all of the slides in a presentation in reduced size to facilitate re-arranging the order of the slides. The *slide show view* displays a full screen image of single slides, one at a time, and is used for presentations. Examples of these PowerPoint views follow:

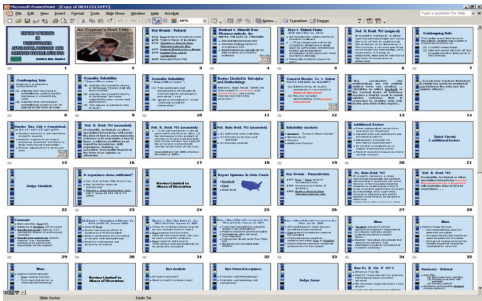
<sup>10</sup> For information on projectors, see *Presenting Solutions* ([www.presenting\\_solutions.com](http://www.presenting_solutions.com)), "Projector Advice and Information," *Presentations* ([www.presentations.com](http://www.presentations.com)), *Laptop Magazine*, "The Ultimate Projector Buyer's Guide," ([www.laptop](http://www.laptop)

[mag.com](http://mag.com)), *PC World Reviews* ([www.pcworld.com](http://www.pcworld.com)), *ProjectorCentral.com* ([www.projectorcentral.com](http://www.projectorcentral.com)), and *Cnet Reviews* ([www.cnet.com](http://www.cnet.com)).

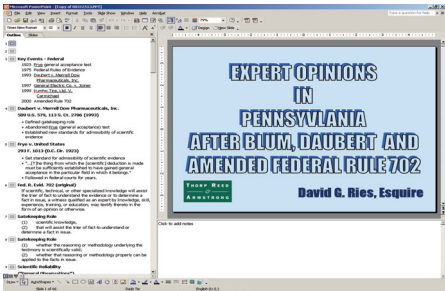
WORKING WITH POWERPOINT (CONT'D)



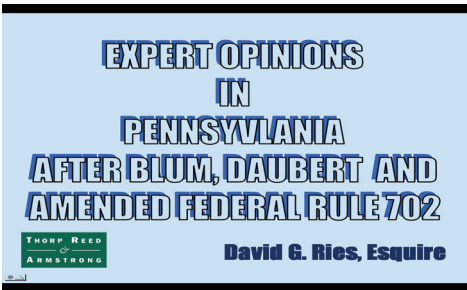
Slide View (Working View)



Slide Sorter View



Normal View (Working View with Outline)



Slide Show View

Text and a number of shapes and other information can be entered directly onto each slide in PowerPoint. Objects which are already in electronic format like digital photos and imaged documents can also be inserted directly into PowerPoint for display on slides. (On the Menu Bar, click on "Insert," then "Picture," then "From File" and click on the appropriate file.) Imaged documents are treated as pictures by PowerPoint. Photos taken with a digital camera can be inserted directly into PowerPoint. Regular photos and paper documents must be converted to digital files through use of a scanner.

The complete contents of a computer screen can be inserted into PowerPoint by pressing

the "Alt-Print Screen" keys, then moving to the slide and clicking "Edit", then "Paste" on the PowerPoint Menu Bar. Clip art, video segments, sounds and additional files in electronic format can also be imported into PowerPoint.

The contents of a slide can be set to all appear at once, or, through a process called *animation*, can be set to appear one at a time.

Principles of graphic design and selection of slide content are beyond the scope of this article, but are, of course, critical. Information on these subjects is contained in some of the sources in the Presentations Information section at the end of this paper. Particularly recommended are ABA's *Persuasive Computer Presentations*,<sup>11</sup> ABA's *Creating Winning Trial Strategies and Graphics*,<sup>12</sup> and NITA's *PowerPoint For Litigators*.<sup>13</sup>



Digital Camera



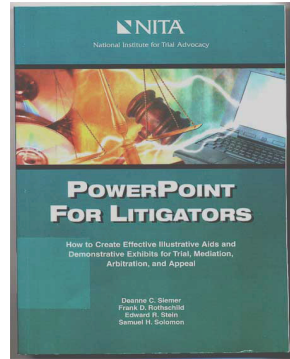
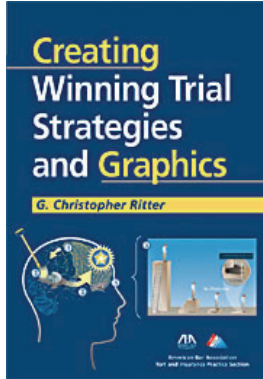
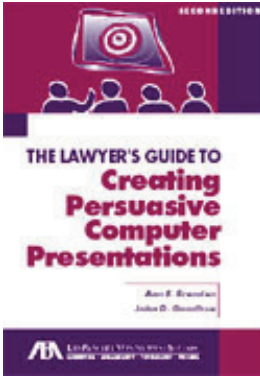
Flatbed Scanner

<sup>11</sup> A. Brenden and J. Goodhue, *Persuasive Computer Presentations – The Essential Guide for Lawyers* (Second Ed.) (American Bar Ass'n. 2005).

<sup>12</sup> G. C. Ritter, *Creating Winning Trial Strategies and Graphics* (American Bar Ass'n. 2004).

<sup>13</sup> D. Siemer, et al., *PowerPoint for Litigators - How to Create Effective Illustrative Aids and Demonstrative Evidence for Trial, Mediation, Arbitration and Appeal* (NITA 2000), p. xvii.





## SLIDES FOR TRIAL

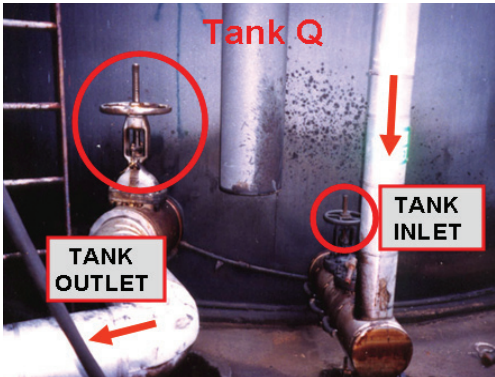
NITA's *PowerPoint for Litigators* notes that the following type of slides "constitute about ninety percent of the demonstrative exhibits and illustrative aids used in most trials": bulleted lists, labeled photo exhibits, relationship charts, text document treatments and annotated diagrams. Examples of these kinds of PowerPoint slides follow. Most of the remaining ten percent, which can also be prepared in PowerPoint, include organization charts, video clips, statistical charts and graphs, and advanced time lines.

### 1. Bulleted List

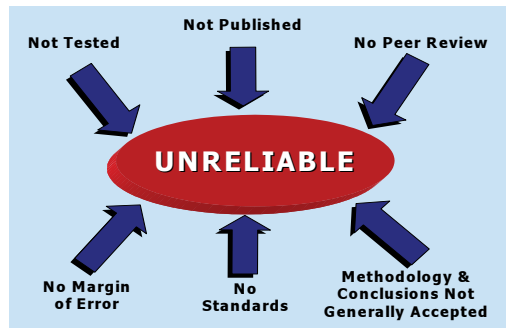
### Issues

1. Quantity of Discharge
2. Qualitative Nature of Discharge
3. Route and Final Destination
  - physical route
  - chemical and physical changes
  - timing

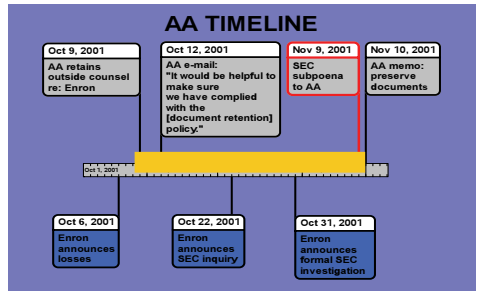
### 2. Labeled Photo Exhibit



### 3. Relationship Charts a. Central Conclusion



### b. Time Line



### 4. Text Documents

#### a. Imaged Document (with callout)

01/14/2002 15:56 FAX 212 450 6032 DPM 28-29

To: David B. Durcan@ANDERSEN WO  
 CC:  
 BCC:  
 Date: 10/12/2001 09:36 AM  
 From: Michael C. Olson  
 Subject: Document retention policy  
 Attachments:  
 Main body

10/12/2001

**It might be useful to consider reminding the engagement team of our documentation and retention policy. It will be helpful to make sure that we have complied with the policy.**

have complied with the policy. Let me know if you have any questions.

Nancy

<http://www.ennant-andersen.com/enfirms.us/contacts/Resource/TimeWeb/PolicyPo>  
<http://ClientInformation/Organizations/OpenedDocument>



PowerPoint which include slide templates, quotations, transitions, 3D titles and super shapes for use with PowerPoint. Crystal Graphics also produces an instructional CD, *Slides that Win!*, which is a computer-based training product for creating presentations, including over 300 illustrations of the right way and wrong way to create slides.

Corbis Bizpresenter ([www.bizpresenter.com](http://www.bizpresenter.com)) markets numerous photographs, cartoons, illustrations and templates for use in computer presentations. Digital Juice ([www.digitaljuice.com](http://www.digitaljuice.com)) sells a 24-CD collection of photos, videos and animations designed for use in computer slide presentations.

Microsoft Design Gallery Live, which can be accessed on the Internet through a link in PowerPoint, contains a large collection of clip art. Clipart.com ([www.clipart.com](http://www.clipart.com)) is an Internet subscription service which contains a large collection of clip art, photos and backgrounds. Gettyworks ([www.gettyworks.com](http://www.gettyworks.com)) is a similar site.

A type of software which has been growing in popularity in recent years is geographic information system (GIS) programs. They allow users to take a base, like a map or aerial photograph, and add layers of information from a database, like property boundaries, buildings, locations of utilities, zoning districts, and many other types of information. They are frequently used in environmental practice to show sources of contamination, sampling points, and concentrations of contaminants. For general information, visit [www.gis.com](http://www.gis.com). A common GIS program is ArcView ([www.esri.com/software/arcview](http://www.esri.com/software/arcview)).

## TECHNOLOGY IN THE COURTROOM

The use of presentation technology in courtrooms is becoming more and more common today—and more and more necessary. Some courtrooms have complete presentation technology installed, while others require portable technology for high tech trials brought in by counsel or service providers.

This is a typical technology-enabled or “wired” courtroom, including an evidence display system with monitors in view of all participants.



Courtroom technology for a modern trial includes:

- Computers (usually provided by the parties)
- Trial presentation software (usually provided by the parties)
- Evidence presentation systems
- Evidence displays
- Sound systems
- Reporting/recording systems
- Video conferencing
- Internet access

The following elements are typically included in a court evidence presentation system:

- Document camera (a device with a television camera which projects documents and objects)
- Evidence annotation
- Evidence preservation
- VCR/DVD player
- Controls
- Computer input presentation (scanned documents, digital images, PowerPoint, etc.) (provided by the parties)

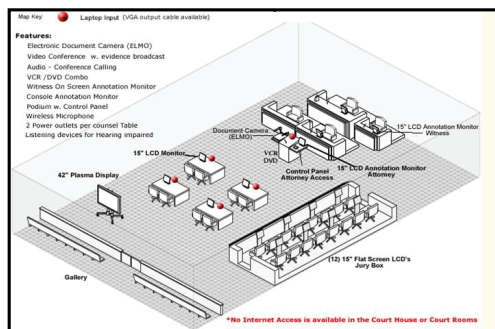
The evidence presentation is usually centered in a podium or cart like the one below. It generally includes a control panel, a monitor, an annotation device, a document camera, a DVD/CD player, a tape player, and sometimes a color printer to print copies of annotated exhibits.



*The Civil Litigation Management Manual* notes the following about evidence presentation systems:

Video evidence presentation technologies display evidence electronically and simultaneously to everyone in the courtroom through monitors placed at the judge's bench, jury box, witness stand, and counsel tables. Most judges who have used such systems find that the systems improve their ability to manage proceedings, reach decisions, question wit-

nesses, and understand testimony and evidence. These improvements seem to be due primarily to the judges' being able to view exhibits and contested materials at the same time as everyone else. In addition, most jurors who have been queried about the technique have indicated that they were able to see evidence clearly and follow the attorneys' presentations. Most judges also have found that the technologies make it easier for attorneys to present at least some evidence; as a result, most judges believe they are able to remain more focused on testimony and evidence (although a substantial minority of judges prefer to handle the evidence in some instances).<sup>14</sup>



The Administrative Office of the U.S. Courts has published a *Courtroom Technology Manual* which covers options for presentation technology and its installation. (Available at [www.uscourts.gov/misc/courtman.pdf](http://www.uscourts.gov/misc/courtman.pdf).) The Federal Judicial Center and the National Institute of Trial Advocacy (NITA) have published *Effective Use of Courtroom Technology: A Judge's Guide to Pretrial & Trial*, which is available for online review and downloading on the Center's website at [www.fjc.gov/public/pdf.nsf/lookup/CTtech00.pdf/\\$file/CTtech00.pdf](http://www.fjc.gov/public/pdf.nsf/lookup/CTtech00.pdf/$file/CTtech00.pdf) or <http://tinyurl.com/kl7lr> and for purchase from NITA, [www.nita.org](http://www.nita.org).

An example of a court which is fully technology-enabled is the U.S. District Court for the District of Minnesota. Its courtrooms have had complete presentation technology installed for several years. ([www.mnd.uscourts.gov](http://www.mnd.uscourts.gov), click on "Courtroom Technology," includes a training manual.)

Another example of a "wired" court with evidence presentation technology is the U.S. District Court for the Western District of Pennsylvania. It has recently completed courthouse renovations which include six courtrooms in Pittsburgh and one courtroom in Erie with installed presentation technology. For information, visit ([www.pawd.uscourts.gov/pages/techcourtroom.htm](http://www.pawd.uscourts.gov/pages/techcourtroom.htm), includes a courtroom drawing and operation manuals). This court

has recently added wireless Internet access for counsel in limited areas. The following drawing is from the court's website.

Different types of displays can be appropriate for different types of evidence in court. For example, standard LCD monitors, which are commonly installed, may be too small for large charts and drawings and may not be optimal for certain kinds of testimony. Some attorneys prefer to have witnesses, particularly experts, stand next to a large screen or display. This keeps the jury's focus on both the witness and the electronic evidence. Choice of type of equipment and display (when there is an option) can be an important part of a visual trial strategy.

## ADMISSIBILITY CONSIDERATIONS

While a full discussion of admissibility at trial of computer presentations and demonstrative evidence is beyond the scope of this article, some key points are summarized in this section.

Projection of substantive evidence, which is admitted or admissible, like documents, objects, etc., should generally not present any special issues beyond admissibility. It is important to give early notice about the use of technology to the court and opposing parties and to obtain any necessary advance court approval. One limitation is that projection may not distort or unfairly present the evidence. For example, it is not acceptable to display a pocket knife so that it looks like a sword or machete.

Demonstrative evidence is tendered for the purpose of rendering other evidence more comprehensible to the trier of fact. It helps to explain other evidence; it is not substantive evidence. *Commonwealth v. Serge*, 896 A.2d 1170, 1177 (Pa. 2006), *cert. denied*, 127 S.Ct. 275 (2006).

Demonstrative evidence presents issues in addition to those presented by substantive evidence.

*The Manual for Complex Litigation (Fourth)* notes the following:

Demonstrative evidence may be admitted, whatever its source, if it will help the trier of fact understand other evidence; however, the court should prohibit misleading representations, such as physical representation of data (e.g., the area occupied on a chart) that is disproportionate to the ratio of the numbers represented, distorted representation of data (e.g., representing one-dimensional data by three-dimensional bars), showing amounts of money in nonconstant dollars, or graphs taking figures out of context or using different scales that may distort large or small differences in data. . . .<sup>15</sup>

<sup>14</sup> *Civil Litigation Management Manual*, Note 5, *supra*, at pp. 137-138.

<sup>15</sup> *Manual for Complex Litigation (Fourth)*, Note 4, *supra*, §12.31.



In Pennsylvania, demonstrative evidence is admissible if it:

- (1) Is properly authenticated pursuant to Pa.R.E. 901 as a fair and accurate representation of the evidence it purports to portray;
- (2) Is relevant pursuant to Pa.R.E. 401 and 402; and
- (3) Has probative value that is not outweighed by the danger of unfair prejudice pursuant to Pa.R.E. 403.

*Commonwealth v. Serge*, 896 A.2d at 1178-1179.

The Comment to Pa.R.E. 901, Requirement of Authentication or Identification, notes the following:

Demonstrative evidence such as photographs, motion pictures, diagrams and models must be authenticated by evidence sufficient to support a finding that the demonstrative evidence fairly and accurately represents that which it purports as depict. *See Nyce v. Muffley*, 384 Pa. 107, 119 A.2d 530 (1956).

For a discussion of the details on authenticating various types of demonstrative evidence, see Edward D. Ohlbaum, *Ohlbaum on the Pennsylvania Rules of Evidence* (2006-2007 Ed.), §901.08.

The standard for admissibility of demonstrative evidence in federal courts is similar, under Fed. R. Evid. 901 (authentication), Fed. R. Evid. 401 and 402 (relevance), and Fed. R. Evid. 403 (probative value versus prejudice). *See, Young Dental Manufacturing Co. v. Q3 Special Products*, 112 F.3d 1137 (Fed. Cir. 1997), *Jones, et al. v. Kearfott Guidance and Navigation Corp., et al.*, 198 U.S. Dist. LEXIS 21489 (D.N.J. 1998).

Pa.R.E. 601 and Fed. R. Evid. 601 provide that "[t]he court shall exercise reasonable control over the mode and order of interrogation of witnesses and presenting evidence. . . ."

The Pennsylvania Supreme Court recently addressed the standards for admissibility of demonstrative evidence in *Commonwealth v. Serge*, 896 A.2d 1170, in which it affirmed the admission of a computer generated animation (CGA) in a criminal case.<sup>16</sup> The CGA demonstrated the prosecution's theory of how a fatal stabbing occurred, based on expert reconstruction opinions.

A CGA is:

"a drawing, or drawings, created by a computer that, when assembled frame-by-frame, produce the image of motion. The image is merely a graphic representation depicting the previously formed opinion of a witness or witnesses . . ."

896 A.2d at 1174, n.1. The computer does not calculate an outcome or present its own conclusions. *Id.*

The Court held that CGA is potentially admissible in Pennsylvania and "should be treated equivalently to any other demonstrative exhibit or graphic representation and, thus, a CGA should be admissible if it satisfies the requirements of Pa.R.E. 401, 402, 403 and 901." 896 A.2d at 1176 (listed above).

In its analysis of potential unfair prejudice, the Court noted that the CGA did not include "unnecessary and prejudicial aspects," like "(1) sounds; (2) facial expressions; (3) evocative or even life-like movements; (4) transition between the scenes to suggest a story line or add subconscious prejudicial effect; or (5) evidence of injury such as blood or other wounds." 896 A.2d at 1182.

Because of "the additional dangers and benefits this particular type of demonstrative evidence presents as compared with more traditional demonstrative evidence," the trial court must issue limiting instructions to the jury to explain the nature of the CGA. 896 A.2d at 1179. The trial court here issued limiting instructions before the CGA was displayed and in the final charge to the jury.

In this case, the Commonwealth filed a pre-trial motion *in limine* to seek permission to use the CGA. The Supreme Court observed that this is the preferred practice to reduce potential prejudice. A motion should be filed pre-trial, or as soon as the need for the CGA arises, even after the start of the trial. 896 A.2d at 1174, n.2. The trial court also required pretrial disclosure of the CGA. This can be important so that the opposing party can effectively respond to the CGA or have its own CGA prepared.

The Supreme Court found that the test for expert opinions in *Frye v. United States*, 293 F.1013 (D.C. Cir. 1923) does not apply "[b]ecause a CGA is a graphic illustration of an expert's reconstruction rather than a simulation based upon scientific principles and computerized calculations." The underlying expert opinion which it illustrates must satisfy *Frye* and Pa.R.E. 702 and 703. The Court noted that the issue of application of *Frye* to computer simulations "must await another day." 896 A.2d at 1176.

This significant decision by the Pennsylvania Supreme Court should be read and understood by attorneys offering and opposing demonstrative evidence, particularly computer generated evidence.

In *Department of Environmental Resources v. Al Hamilton Contracting Co.*, 665 A.2d 849 (Pa. Cmwlth. 1995), *appeal denied*, 686 A.2d 1310 (Pa. 1996), the Commonwealth Court addressed the admissibility of an exhibit which included computer generated contour lines.

<sup>16</sup> Justice Newman wrote the opinion, two justices joined in it, and three justices wrote concurring opinions.

A Department of Environmental Resources hydrogeologist prepared a composite map which showed a mine and surrounding area, marks to show discharge areas, and computer generated contour lines. The computer generated lines were developed through the use of a digitizer, a computer using a program called "SURFER," and a plotter. The hydrogeologist testified that he was not familiar with the particulars of how they worked and called the digitizer a "mystery box." The Environmental Hearing Board concluded that the exhibit was inadmissible under the best evidence rule and because it did not satisfy the *Frye* standard for admissibility of scientific evidence. 686 A.2d at 850-853.

On appeal, the Commonwealth Court affirmed the Environmental Hearing Board's decision. The court held that the best evidence rule did not apply because the composite exhibit is an original, separate and apart from the original map on which it was based. In addressing the *Frye* requirement, the court agreed with the Department's position "that it does not matter how the map was developed as long as the map is a fair and accurate portrayal of what it seeks to depict." However, the court found that the Department failed to satisfy its burden of showing that the map was a fair and accurate portrayal. 665 A.2d at 852-853.

The application of *Frye* to computer generated exhibits, where a computer calculates an outcome or reaches conclusions based upon programmed formulas, is the issue which the Pennsylvania Supreme Court left open for "another day" in *Commonwealth v. Serge*, 896 A.2d at 1174, n.1 and 1176, n.3. This category includes simulations, modeling programs, and other kinds of programs which generate substantive conclusions.

## USE OF CONSULTANTS

Because most attorneys lack training and experience in graphics and many aspects of communications, it is important to consider the use of consultants when appropriate. There are consultants who specialize in areas like jury analysis, graphics and communications. This is a highly specialized field:

Visualizing is a major science, intersecting with psychology, physiology, the science of how the brain learns and absorbs information, a graphics repertoire, and even marketing principles!<sup>17</sup>

Consultants are often more cost-effective for these kinds of services and bring more expertise than most attorneys have in these areas.

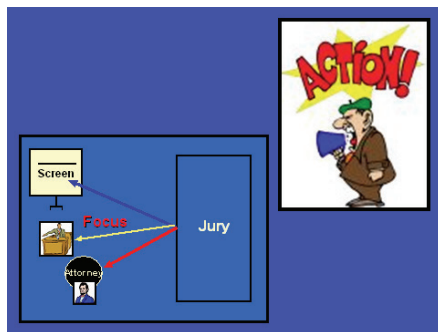
## GIVING A PRESENTATION

The starting points for a smooth and effective presentation are (a) thorough preparation; (b) familiarity with PowerPoint or other presentation software, the laptop and presentation equipment, and (c) proper setup of the room in which the presentation will be made. Arrangement for back-up in case of computer or projector problems is important, particularly in litigation.

If you are not thoroughly familiar with both the laptop and projector (or other display technology) make sure that someone will be present who knows the equipment. More steps are often necessary than just connecting the laptop to the projector. Display settings often have to be changed. It is best to have the laptop close to the speaker (either in front or to the side) so that the speaker can see on the computer screen what is displayed on the large screen without turning away from the audience. Most laptops will allow display on the laptop's screen and through a projector or monitor at the same time through adjustment with the function keys. If the speaker plans to move around or will not be within easy reach of the laptop, a remote mouse can be used.

The room should be arranged so that everyone in the audience has an unobstructed view of the speaker(s) and the screen. The speaker should be located close to the screen or display so that the audience does not have to move their focus a long distance when looking back and forth between the speaker and the screen.

Remember that the speaker should usually be the most important focus of the audience's attention. This is particularly the case where your goal is persuasion. In the courtroom, it is critical to control the jury's focus, including appropriate focus on counsel, witnesses and visual presentations. As noted above, it is, in many respects, like the role of a movie director.



## CONTROL JURY FOCUS

PowerPoint is used in the slide show view for delivering presentations. In this view, the

<sup>17</sup> *What Makes Juries Listen Today*, at p. 78.

space bar and enter key on the laptop will advance to the next slide and the *backspace* key will move back one slide. A left click on a mouse will also advance the slides. Pressing the *B* key gives a black screen and pressing the *W* key gives a white screen. The slides return to the screen when the space bar or enter key is pressed or the mouse clicked. Make sure that “screensaver” and “power management” are turned off on the laptop.

PowerPoint has tools for drawing or circling items to provide emphasis, but their use should be limited during a presentation. They are not easy to use quickly or “on the fly.”

**Make sure that the presentation can be seen and read by the entire audience, including those in the back of the room.** This is critical in trials, where the audience is the jury. Lights should be set so that the slides can be easily viewed. Remember that a long presentation in a dark room can cause the audience to lose attention. Plan for changes from differences in natural lighting from outside the room.

Public speaking skills are beyond the scope of this paper, but remember to address the audience, avoid speaking at too fast of a pace and leave each slide displayed long enough for the audience to read and understand it.

## CONCLUSION

Technology-based presentations, using software like PowerPoint and trial presentation programs, are powerful communication and persuasion tools for attorneys. They are becoming essential for litigators. It is important for attorneys to understand their capabilities, learn how to use them, and incorporate them into communication strategies.

## PRESENTATIONS INFORMATION

### Court Publications

Administrative Office of the U.S. Courts, *Court Technology Manual* (1999)

Federal Judicial Center and National Institute for Trial Advocacy, *Effective Use of Courtroom Technology: A Judge's Guide to Pretrial and Trial* (2001)

Federal Judicial Center, *Manual for Complex Litigation (Fourth)* (2004)

Judicial Conference of the United States, *Civil Litigation Management Manual* (2001)

### Legal Books

M. Arkfeld, *The Digital Practice of Law*, (Law Partner Publishing 2001), Chapter 8, “Multimedia in Legal Proceedings”

A. Brenden and J. Goodhue, *Persuasive Computer Presentations—The Essential Guide for Lawyers* (Second Ed.) (American Bar Ass'n. 2005) **(Recommended for a good introduction and overview.)**

S. Hamlin, *What Makes Juries Listen Today* (Glosser Legal Works 1998)

G. Joseph, *Modern Visual Evidence* (Law Journal Press 2006 Supp.)

A. Lipson, *Art of Advocacy Series: Demonstrative Evidence* (Matthew Bender, 2006 Supp.)

G. C. Ritter, *Creating Winning Trial Strategies and Graphics* (American Bar Ass'n. 2004)

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D. Siemer and F. Rothschild, *Easy Tech Series:*

—*Argument Slides* (NITA 2003)

—*Basic PowerPoint Exhibits* (NITA 2003)

—*The Digital Projector and Laptop* (NITA 2005)

—*The Evidence Camera* (NITA 2004)

D. Siemer, et al., *Demonstration—Presentation Technology in the Courtroom: Homestead Properties, Inc. v. Manhattan Fire and Casualty Co.* (NITA 2000)

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D. Siemer and F. Rothschild, *PowerPoint 2003: 50 Great Tips for Faster, Easier Slides* (NITA 2005)

### Legal Articles

C. Ball, *Technology and the Power of Persuasion: Beyond Bullet Points*, LAW PRACTICE (May/June 2003)

A. Bocchino, J. Dobson and S. Solomon, *What Juries Want to Hear II: Reverse Engineering The Verdict*; 74 TEMPLE L. REV. 177 (Spring 2001)

A. Bocchino and S. Solomon, *What Juries Want to Hear: Methods for Developing Persuasive Case Theory*, 67 TENN. L. REV. 543 (Spring 2000)

F. Burke, Jr. *Tools of the Trade for Today's Litigator*, THE PRACTICAL LITIGATOR, p. 19 (July 2001)

M. Cobo, *Technology is a Tool, Not a Case Strategy in the Courtroom*, DecisionQuest Library

K. Dial, *Demonstrative Evidence & Technology in the Year 2000*, Zagnoli McEvoy Foley, Ltd. (2001)

E. Ebner, *Out of Sight, Out of Mind: Making Sure Your Audience Doesn't Miss the Big Picture*, DecisionQuest Library

E. Foley and A. LeFevre, *Understanding Generation X*, TRIAL (June 2000)

F. Herrera, Jr. and S. Rodriguez, *Courtroom Technology: Tools for Persuasion*, TRIAL (May 1999)

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D. Kennedy, *Legal Technology Primer—Using Computers to Keep a Judge and Jury Interested*, (November 2005) available at [www.deniskennedy.com](http://www.deniskennedy.com)

M. Kenny and W. Jordan, *Trial Presentation Technology: A Practical Perspective*, 67 TENN. L. REV. 587 (Spring 2000)

G. Krehel, *Better Visuals Via Brainstorming*, THE PRACTICAL LITIGATOR (January 2003)

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J. Zand, *Courtrooms Go High Tech*, MODERN PRACTICE (March 2003), available on FINDLAW, [www.findlaw.com](http://www.findlaw.com)

T. Zagnoli and K. Dial, *Getting Jurors to Buy Your Case*, TRIAL (June 2000)

#### Microsoft References

Microsoft Press has published a series of books on PowerPoint which explain, in detail, use of the software. These include PowerPoint books from its *Quick Course* series, *At a Glance* series, *Pocket Guides*, *Step by Step* series, *Running* series and *Step by Step Interactive* series. Available from bookstores or from [www.microsoft.com/learning/books/default.mspx](http://www.microsoft.com/learning/books/default.mspx)

#### Internet Resource

ABA Legal Technology Resource Center, [www.abanet.org/tech/ltrc/courttech.html](http://www.abanet.org/tech/ltrc/courttech.html)

Adobe, [www.adobe.com](http://www.adobe.com)

Corel, [www.corel.com](http://www.corel.com) (Corel Presentations, part of Word Perfect Office)

Crystal Graphics, [www.crystalgraphics.com](http://www.crystalgraphics.com)

Epson Presenters Online, [www.presentersonline.com](http://www.presentersonline.com)

Harvard Graphics, [www.harvardgraphics.com](http://www.harvardgraphics.com)

law.com, [www.law.com](http://www.law.com) (automated lawyer section)

LLRX.com, [www.llrx.com](http://www.llrx.com) (presentations & training section)

Lotus/IBM, [www-306.ibm.com/software/lotus](http://www-306.ibm.com/software/lotus) (Freelance Graphics)

Microsoft, [www.microsoft.com/office/powerpoint](http://www.microsoft.com/office/powerpoint)

Presenting Solutions, [www.presentingsolutions.com](http://www.presentingsolutions.com)

Road tools, [www.roadtools.com](http://www.roadtools.com)

Sun Microsystems, [www.sun.com/star/staroffice](http://www.sun.com/star/staroffice) (StarOffice Impress)

#### Magazines

*Computer World*, online version, [www.computerworld.com](http://www.computerworld.com)

*Law Technology News* [www.lawtechnologynews.com](http://www.lawtechnologynews.com)

*Mobile Computing*, online version, [www.mobilecomputing.com](http://www.mobilecomputing.com)

*Law Practice* (American Bar Ass'n., Law Practice Management Section) [www.abanet.org/lpm](http://www.abanet.org/lpm)

*Law Practice TODAY* (webzine) (American Bar Ass'n., Law Practice Management Section), [www.abanet.org/lpm/lpt/home.shtml](http://www.abanet.org/lpm/lpt/home.shtml)

*PC Magazine*, online version, [www.pcmagazine.com](http://www.pcmagazine.com)

*PC World*, online version, [www.pcworld.com](http://www.pcworld.com)

*Presentations Magazine*, [www.presentations.com](http://www.presentations.com) (no longer published as a magazine; new content on website)

#### Litigation and Communications Consulting Firms (Some Examples)

ARCCA, Inc. [www.arcca.com](http://www.arcca.com)

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# Dilution Revisited: A First Look At The Trademark Dilution Revision Act

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*[A merchant's] mark is his authentic seal; by it he vouches for the goods which bear it; it carries his name for good or ill.<sup>1</sup>*

## INTRODUCTION

Under the Federal Trademark Dilution Act of 1995 (FTDA),<sup>2</sup> owners of "famous" trademarks are afforded protection against the use of the same or substantially the same mark of similar or dissimilar products or services. Protection under the FTDA is limited exclusively to "famous" marks. Dilution results when another's commercial use of the same or similar mark weakens its distinctiveness or tarnishes it. Courts have held that dilution can occur as a result of either "blurring" or "tarnishment." Blurring typically refers to the whittling away or watering down of distinctiveness caused by the unauthorized use of a mark on dissimilar products; whereas tarnishment involves an unauthorized use of a mark which links it to products or services that are of poor quality or which is portrayed in an unwholesome or unsavory context that is likely

to reflect adversely upon the trademark owner's product or service. In either case, dilution results in an injury to the distinctiveness or reputation of the mark itself, rather than to consumers.

In the years following its enactment, a number of issues arose as to the scope of the FTDA. Foremost among these issues was the question of whether a plaintiff needed to prove actual dilution or merely the likelihood of dilution. A related question was whether the FTDA applied to dilution by tarnishment, or whether only dilution by blurring was afforded a remedy. Another issue involved the nature of the trademarks covered by the FTDA. Did the mark need to be inherently distinctive to be protected, or were marks with acquired distinctiveness protected as well? Was the fame of the mark to be measured on the basis of general, widespread renown, or was fame in a niche market sufficient for protection under the FTDA? Finally, the matter of fair use as a defense to dilution claims emerged as a concern to defendants.

On October 6, 2006, President Bush signed into law the Trademark Dilution Revision Act (TDRA), which significantly amended the FTDA to address these issues with the intent of clarifying the ambit of protection afforded to famous marks under federal law. This article will examine the revisions to trademark dilution law brought about by the TDRA, and considers other questions that may arise under its provisions. In addition, this article will draw comparisons to corresponding provisions of the Pennsylvania Anti-Dilution Act<sup>3</sup> to contrast similarities and differences between state law and the TDRA.

## TRADEMARK LAW'S DOMAIN

A trademark is a word, phrase, symbol, logo, design, or other perceptible feature used in

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<sup>1</sup> *Yale Elec. Corp. v. Robertson*, 29 F.2d 972, 972 (2d Cir. 1928) (Judge Learned Hand).

<sup>2</sup> 15 U.S.C. §1125(c).

<sup>3</sup> 54 PA. CONS. STAT. §1124.

commerce to identify the source of the goods or services and distinguish them from those of competitors.<sup>4</sup> Trademarks benefit consumers by reducing search costs<sup>5</sup> and serving as signals of product characteristics, reputation, and quality.<sup>6</sup> Thus, trademarks incentivize firms to provide goods and services of better quality and to advertise this information to the consuming public.<sup>7</sup> Trademarks promote competition in the market by improving the quality of information available to consumers thereby allowing the purchases of well-informed consumers to drive firms to make better quality products.<sup>8</sup> In fact, trademark law, with its concern of preventing confusion and deception, has its origins in the common law torts of passing off and unfair competition.<sup>9</sup> Likewise, federal protection of trademark exists alongside state and common law protection.<sup>10</sup> Ownership of a trademark confers the sole right to

use it commercially and to exclude others from using it in a confusingly similar manner.<sup>11</sup> So long as the trademark owner makes commercial use of the mark, protection can last indefinitely.<sup>12</sup>

Distinctiveness is the touchstone for trademark protection. Indeed, lack of distinctiveness would make the mark incapable of identifying the good or service and signaling to a consumer the information needed to lower his or her search costs. Trademarks, at least those of the word variety, are usually ranged along a continuum of distinctiveness that spans unprotectable "generic"<sup>13</sup> marks on one end to the inherently distinctive "suggestive," "arbitrary," and "fanciful" marks on the other end.<sup>14</sup> Situated between generic and the inherently distinctive ends of this spectrum are descriptive marks, which may be registered only if they have achieved secondary meaning as to source in the minds of consumers.<sup>15</sup>

Confusion is the antithesis of trademark rights. When consumers may be duped by confusingly similar marks into purchasing goods or services other than those they had sought,

<sup>4</sup> 15 U.S.C. §1127.

<sup>5</sup> See William M. Landes & Richard A. Posner, *Trademark Law: An Economic Perspective*, 30 J.L. & ECON. 265, 268-70 (1987) ("[A] trademark conveys information that allows the consumer to say to himself, 'I need not investigate the attributes of the brand I am about to purchase because the trademark is a shorthand way of telling me that the attributes are the same as that of the brand I enjoyed earlier.'").

<sup>6</sup> H.R. Rep. No. 944 ("Trade-marks are merely a convenient way of distinguishing the goods of one trader from those of another. By furnishing a means of identification, they perpetuate good will, and enable purchasers, by recognizing the marks, to buy again the goods which have pleased them before.").

<sup>7</sup> See WILLIAMS M. LANDES & RICHARD A. POSNER, *THE ECONOMIC STRUCTURE OF INTELLECTUAL PROPERTY LAW* 168 (2003); see also S. Rep. No. 79-133, at 3 (1946), *reprinted* in 1946 U.S.C.C.A.N. 1274.

<sup>8</sup> See Sen. Rep. No. 1333; H.R. Rep. No. 2283 ("Trade-marks, indeed, are the essence of competition because they make possible a choice between competing articles by enabling the buyer to distinguish one from the other."); *Landscape Forms, Inc. v. Columbia Cascade Co.*, 113 F.3d 373, 379 (2d Cir. 1997) ("the Lanham Act must be construed in light of a strong federal policy in favor of vigorously competitive markets").

<sup>9</sup> RESTATEMENT (THIRD) OF UNFAIR COMPETITION §9, cmt. d ("The earliest cases involving trademarks were actions on the case in the nature of deceit . . . . These actions eventually evolved into a distinct tort of 'passing off,' or 'unfair competition' as it came to be known in the United States."); See also Sen. Rep. No. 1333 ("There is no essential difference between trade-mark infringement and what is loosely called unfair competition. . . . [T]he law of trade-marks is but a part of the broader law of unfair competition.").

<sup>10</sup> See ROGER E. SCHECHTER & JOHN R. THOMAS, *INTELLECTUAL PROPERTY: THE LAW OF COPYRIGHTS, PATENTS, AND TRADEMARKS* 550 (2003) ("The United States has a 'dual' system of trademark law.").

<sup>11</sup> Accordingly, trademark owners do not hold an absolute monopoly over all uses of their marks. If two product markets are sufficiently unrelated, two firms can use the same trademark without incurring liability for infringement. See *Amstar Corp. v. Domino's Pizza, Inc.*, 615 F.2d 252 (5th Cir. 1980). Furthermore, descriptive and noncommercial uses of another's trademark are allowed. Thus, reference to a trademark in a news article or for purposes of comparative advertising is not infringing. See 15 U.S.C. § 1115(b)(4). Similarly, the use of a trademark as the basis for a parody is noninfringing. See *Jordache Enters., Inc. v. Hogg Wyld, Ltd.*, 828 F.2d 1482 (10th Cir. 1987).

<sup>12</sup> "An axiom of trademark law is: no trade, no trademark." *Societe de Developments at D'Innovations des Marches Agricoles et Alimentaries-Sodima Union de Cooperatives Agricoles v. International Yogurt*, 662 F.Supp. 839, 847 (D. Ore. 1987).

<sup>13</sup> See *Schechter & Thomas*, *supra* note 8, at 591-98.

<sup>14</sup> See *id.* at 572-74.

<sup>15</sup> See *id.* at 587-91. If the mark has been registered and has been in commercial use for five consecutive years, it is deemed to be "incontestable." See 15 U.S.C. §1065. Once a mark has achieved incontestable status, secondary meaning is presumed and the validity of the mark cannot be challenged on the grounds that it is "merely descriptive." See *Park N Fly*, 469 U.S. 189, 196 (1985) ("Mere descriptiveness is . . . not a basis for challenging an incontestable mark"); *Soweco v. Shell Oil Co.*, 617 F.2d 1178, 1184-85 (1980) ("An 'incontestable' mark cannot be challenged as lacking secondary meaning; such marks are conclusively presumed to be nondescriptive or to have acquired secondary meaning.").

the key rationale for trademarks—to allow consumers to recognize and differentiate between the providers of goods or services—is defeated. In such instances, trademark law affords a remedy in the form of an action for infringement.<sup>16</sup> Proof of actual confusion is not required in order to prevail in an infringement suit<sup>17</sup>; rather, it is only necessary to prove that consumers are likely to be confused by the defendant's use of the same or similar mark.<sup>18</sup> Nevertheless, use of a trademarked term in a non-trademark context, such as in a descriptive sense and in good faith, is not liable for trademark infringement.<sup>19</sup>

## THE DILUTION OF FAMOUS TRADEMARKS UNDER THE FTDA

The impetus for legal protection against dilution was offered in a law review article authored by Frank Schechter in 1927.<sup>20</sup> The first dilution law was passed in Massachusetts in 1947. Since then, a number of states enacted anti-dilution statutes.<sup>21</sup> In 1995, Congress enacted the Federal Trademark Dilution Act to empower owners of famous trademarks with the right to sue to prevent others from diluting

their marks. By enacting the FTDA, Congress also intended to ensure uniformity and consistency in preventing the dilution of famous trademarks.<sup>22</sup> Section 1125(c) of the FTDA provides, in pertinent part, as follows:

The owner of a famous mark shall be entitled, subject to the principles of equity and upon such terms as the court deems reasonable, to an injunction against another person's commercial use in commerce of a mark or trade name, if such use begins after the mark has become famous and causes dilution of the distinctive quality of the mark, and to obtain such other relief as is provided in this subsection.<sup>23</sup>

Dilution results when another's commercial use of the same or similar mark blurs it by

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§1530; Massachusetts, MASS. GEN. L. ANN., Ch. 110B, §12; Minnesota, MINN. STAT. ANN. §325D.165; Mississippi, MISS. CODE ANN. §75-25-25; Missouri, MO. REV. STAT. §417.061(1); Montana, MONT. REV. CODE ANN. §30-13-334; Nebraska, NEB. REV. STAT. §87-122; New Hampshire, N.H. REV. STAT. ANN. §350-A:12; New Jersey, N.J. STAT. ANN. §56:3-13.20; New Mexico, N.M. STAT. ANN. §57-3B-15; New York, N.Y. GEN. BUS. L. §360-1; Oregon, ORE. REV. STAT. §647.107; Pennsylvania, 54 PA. CONS. STAT. §1124; Rhode Island, R.I. GEN. L. §6-2-12; South Carolina, S.C. CODE ANN. §§39-15-1105(2), 39-15-1165; Tennessee, TENN. CODE ANN. §47-25-512; Texas, TEX. BUS. & COMM. CODE ANN. §16.29; Washington, WASH. REV. CODE §§19.77.010(6), 19.77.160; West Virginia, W. VA. CODE §47-2-13; Wyoming, WYO. STAT. §40-1-115. In addition, several courts have recognized a common law remedy for dilution. See, e.g., *Chemical Corp. of Am. v. Anheuser-Busch, Inc.*, 306 F.2d 433, 438 (5th Cir. 1962) (suggesting that a claim for dilution exists under Florida's common law of unfair competition); *Jet, Inc. v. Sewage Aeration Sys.*, 165 F.3d 419 (6th Cir. 1999) (recognizing a common law cause of action for dilution under Ohio law); *De Rosier v. 5931 Business Trust*, 870 F.Supp. 941, 948 (D. Minn. 1994) (identifying a dilution claim under Minnesota common law).

<sup>22</sup> See H.R. REP. NO. 104-374, at 6 (1995), *reprinted in* 1995 U.S.C.C.A.N. 1029, 1033.

<sup>23</sup> 15 U.S.C. §1125(c). The FTDA specifies several defenses to a dilution claim: (1) fair use of the plaintiff's mark in comparative advertising, (2) noncommercial use of the mark, and (3) use of the mark in news reporting and commentary. See 15 U.S.C. §1125(c)(4). In addition, the courts have recognized parody as a defense. See *Hornel v. Jim Henson Productions, Inc.*, 73 F.3d 497, 507 (2d Cir. 1996). Although the typical remedy afforded under the FTDA to the successful plaintiff is injunctive relief, if the defendant has "willfully intended to trade on the owner's reputation or to cause dilution of the famous mark," the court may award up to treble damages, reasonable attorney's fees, and destruction of the items using the offending mark. *Id.* §§1117(a) & 1118.

<sup>16</sup> See 15 U.S.C. §1114(1).

<sup>17</sup> Nevertheless, evidence of actual confusion is one of several factors considered in making a likelihood of confusion determination. Other factors employed in assessing the likelihood of confusion include: similarity of the marks, defendant's intent, consumer sophistication, and strength of the plaintiff's mark, and relatedness of the products. See *AMF, Inc. v. Sleekcraft*, 599 F.2d 341 (9th Cir. 1979); *Polaroid Corp. v. Polarad Elec. Corp.*, 287 F.2d 492 (2d Cir. 1961).

<sup>18</sup> See *id.*; see also *Minnesota Mining & Mfg. Co. v. Rauh Rubber, Inc.*, 130 F.3d 1305, 1308 (8th Cir. 1997) ("likelihood of consumer confusion . . . is the 'hallmark of any trademark infringement claim'").

<sup>19</sup> See 15 U.S.C. §1115(b)(4) ("That the use of the name, term, or device charged to be an infringement is a use, otherwise than as a mark . . . of a term or device which is descriptive of and used fairly and in good faith only to describe the goods or services of such party. . . .").

<sup>20</sup> See Frank I. Schechter, *The Rational Basis of Trademark Protection*, 40 HARV. L. REV. 813 (1927).

<sup>21</sup> Alabama, 10 ALA. CODE §8-12-17; Alaska, ALASKA STAT. §45.50.180(d); Arizona, ARIZ. REV. STAT. ANN. §44-1448.01; Arkansas, ARK. STAT. ANN. §§4-71-113, 201, 213; California, CAL. BUS. & PROF. CODE §14330; Connecticut, CONN. GEN. STAT. ANN. §§35-11a(11), 35-11i(c); Delaware, 6 DEL. CODE ANN. §3313; Florida, FLA. STAT. ANN. §495.151; Georgia, GA. CODE ANN. §10-1-451(b); Idaho, IDAHO CODE §48-513; Illinois, ILL. ANN. STAT., Ch. 765, §1036/65; Iowa, IOWA CODE §548.113; Louisiana, LA. REV. STAT. ANN. §51:223.1; Maine, 10 ME. REV. STAT. ANN.

weakening its distinctiveness<sup>24</sup> or tarnishes it by linking the mark to products or services that are of poor quality or portraying the mark in an unwholesome or unsavory context that is likely to reflect adversely upon the trademark owner's product or service.<sup>25</sup> The ultimate injury that an infringement suit seeks to remedy is that suffered by the consumer, who is confused by the misuse of another's trademark. The trademark owner is harmed by this, of course, because sales and attention are shifted to a competitor, but it is the consumer and his or her potential confusion that is the focus. Dilution, on the other hand, is at its core an injury to the mark and its owner because another's use of the mark lessens its strength or taints it,<sup>26</sup> regardless of the occurrence or absence of confusion or deception.<sup>27</sup> Unlike infringement analysis, consumer confusion plays no role in dilution analysis as dilution and infringement address different types of harm.

When blurring occurs, the consumer must invest more mental energy in associating the

mark with the particular good or service.<sup>28</sup> With tarnishment, the association of the mark with something negative imposes a cost on the mark that makes the associated goods or services seem less desirable. In either case, the diluter appropriates without compensation some of the trademark owner's investment in advertising its brand and producing a quality product that attracts consumer attention.<sup>29</sup> Absent a remedy, the cost of investing in the creation of a famous mark would increase. Thus, an unauthorized use of a mark on dissimilar or noncompeting goods or services may lead to dilution if the mark's distinctiveness is dissipated.<sup>30</sup>

As an example of the difference between dilution by blurring and tarnishment, consider the famous trademark GUCCI and a manufacturer of toilet paper that names its product "Gucci." A consumer who is familiar with GUCCI brand products may think about both the apparel manufacturer and the toilet paper manufacturer when he or she sees the name "Gucci." The consumer is probably not confused by this into thinking that the apparel manufacturer is now selling toilet paper, or that the toilet paper is of higher quality just because it has the name "Gucci," but the impression of quality associated with GUCCI mark may be associated with the toilet paper all because of the fame of the GUCCI mark. Similarly, consider another user of the GUCCI mark who is selling "Gucci" brand pornography. Consumers who come across this use may think less highly of the GUCCI brand because they subconsciously associate it with pornography, even if they understand that the apparel manufacturer did not itself create or sponsor the pornographic materials.

<sup>24</sup> Blurring involves the whittling away or watering down of the mark's distinctiveness. See, e.g., *Mead Data Central, Inc. v. Toyota Motor Sales, U.S.A., Inc.*, 875 F.2d 1026, 1031 (2d Cir. 1989); *I.P. Lund Trading ApS v. Kohler Co.*, 163 F.3d 27, 48, 52-53 (1st Cir. 1998). See also Terry Ahearn, Comment, *Dilution by Blurring Under the Federal Trademark Dilution Act of 1995: What Is It and How Is It Shown?*, 41 SANTA CLARA L. REV. 893 (2001).

<sup>25</sup> See, e.g., *Panavision Int'l, L.P. v. Toeppen*, 141 F.3d 1316, 1326 n. 7 (9th Cir. 1998); *Deere & Co. v. MTD Products, Inc.*, 41 F.3d 39, 43-45 (2d Cir. 1994); *Pillsbury Co. v. Milky Way Prods., Inc.* (N.D. Ga. 1981); *Dallas Cowboys Cheerleaders, Inc. v. Pussycat Cinema, Ltd.*, 467 F.Supp. 366 (S.D.N.Y. 1979); see also Robert S. Nelson, *Unraveling the Trademark Rope: Tarnishment and Its Proper Place in the Laws of Unfair Competition*, 42 IDEA 133 (2002).

<sup>26</sup> "The concept of dilution recognizes the substantial investment the owner has made in the mark and the commercial value and aura of the mark itself, protecting both from those who would appropriate the mark for their own gain." H.R. REP. NO. 104-374 (1995).

<sup>27</sup> See *Hershey Foods Corp. v. Mars, Inc.*, 998 F.Supp. 500 (M.D. Pa. 1998) (explaining that a dilution claim asserts that, while the defendant's mark does not confuse consumers as to the source of the goods, it leads consumers to believe that the plaintiff's mark now identifies two different sources of goods, thus diluting the mark's ability to identify the plaintiff's goods alone). See also Landis & Posner, *supra* note 5, at 208 (another purpose of a dilution remedy is to "arm[] trademark owners to enjoin uses of their mark that, while not confusing, threaten to render the mark generic. . .").

<sup>28</sup> That is not to say that mere mental association between a famous mark and a junior mark is sufficient evidence to prove dilution. See *Moseley v. V.Secret Catalogue, Inc.*, 537 U.S. 418 (2003) ("[A]t least where the marks at issue are not identical, the mere fact that consumers mentally associate the junior user's mark with a famous mark is not sufficient to establish actionable dilution.").

<sup>29</sup> See ROBERT MERGES, ET AL., *INTELLECTUAL PROPERTY IN THE NEW TECHNOLOGICAL AGE* 634 (3d ed. 2003) ("[T]he harm that dilution seeks to address might best be described at a loss of consumer attention due to the proliferation of similar or identical symbols of trade.").

<sup>30</sup> Courts have also recognized that dilution can occur between competing products. See, e.g., *I.P. Lund Trading ApS v. Kohler Co.*, 163 F.3d 27, 45-48 (1st Cir. 1998); *Federal Express Corp. v. Federal Espresso, Inc.*, 201 F.3d 168, 177-178 (2d Cir. 2000); *Times Mirror Magazines, Inc. v. Las Vegas Sports News, LLC*, 212 F.3d 157, 168 (3d Cir. 2000).

The Pennsylvania Anti-Dilution Act<sup>31</sup> parallels the language of the FTDA and provides that the owner of a trademark that is famous in Pennsylvania is entitled to injunctive relief against another who makes unauthorized commercial use of the mark or trade name if the use begins after the mark has become famous and the use causes dilution of the distinctive quality of the mark.<sup>32</sup> Furthermore, the presence or absence of predatory intent on part of infringer is relevant consideration to claim under the Pennsylvania statute.<sup>33</sup>

The FTDA was welcomed by trademark owners as an additional remedy to state law in cases where their marks were being harmed or misused but where consumer confusion was unlikely. The courts applied the FTDA in a variety of such cases, but a number of interpretive issues gradually surfaced. One such issue was whether the standard of proof for dilution required evidence of actual dilution or likely dilution, which eventually led to a circuit split.<sup>34</sup> In the only U.S. Supreme Court case interpreting the FTDA, the Court in *Moseley v. V. Secret Catalogue, Inc.*<sup>35</sup> held that a plaintiff suing for dilution must prove "actual" dilution, rather than the mere "likelihood" of dilution.<sup>36</sup> The decision led to great uncertainty as to how to demonstrate the requisite level of likely di-

lution and substantially raised the bar for plaintiffs in dilution actions. The *Moseley* decision, and the remaining issues left unanswered, finally prompted Congress to amend the FTDA in 2006 by enacting the provisions found in the new TDRA.

## THE TRADEMARK DILUTION REVISION ACT

The TDRA is intended to rectify the issues that emerged under the FTDA and better delineate the scope of protection afforded to famous marks under the Lanham Act. Specifically, the TDRA settles concerns as to the standard of proof for dilution claims, the types of marks and dilution covered by the statute, and the reach of the fair use defense. Although it resolves a number of these issues, the TDRA suggests other issues that may continue to trouble trademark dilution law.

### Questions Answered by the TDRA

#### The Likelihood of Dilution

First and foremost, the TDRA abolishes the actual dilution standard decreed by the Supreme Court in *Moseley* and replaces it with a likelihood of dilution standard.<sup>37</sup> Specifically, the TDRA provides:

Subject to the principles of equity, the owner of a famous mark that is distinctive, inherently or through acquired distinctiveness, shall be entitled to an injunction against another person who, at any time after the owner's mark has become famous, commences use of a mark or trade name in commerce that is likely to cause dilution by blurring or dilution by tarnishment of the famous mark, regardless of the presence or absence of actual or likely confusion, of competition, or of actual economic injury.<sup>38</sup>

This change will make it much easier for plaintiffs to prove dilution. Even so, the courts will still have to determine how to measure the likelihood of dilution. One possibility is that courts will adopt a balancing of factors test akin to the likelihood of confusion standard applied in trademark infringement cases.<sup>39</sup>

By contrast, although no Pennsylvania appellate court has yet addressed the issue, a fed-

<sup>31</sup> See 54 Pa. Cons. Stat. §1124. Where the plaintiff and the defendant have both engaged in extensive marketing and advertising of the trademark in connection with their respective products or services, and there is no evidence to prove that, in the mind of a large segment of the consumers in the plaintiff's market, the mark has an association only with the plaintiff, the longer the period over which the defendant has been using the mark, the more difficult it will be for the plaintiff to show that it has the exclusive right to use the mark in that market. See *Moore Push-Pin Co. v. Moore Bus. Forms, Inc.*, 678 F.Supp. 113 (E.D. Pa. 1987).

<sup>32</sup> The Pennsylvania anti-dilution law is based on the 1992 Model State Trademark Bill drafted by the International Trademark Association. See Caroline Chicoine & Jennifer Visintine, *The Role of State Dilution Statutes in Light of the Trademark Dilution Revision Act of 2006*, 96 TRADEMARK REP. 1155, 1159 (2006).

<sup>33</sup> See *A & H Sportswear Co., Inc. v. Victoria's Secret Stores, Inc.*, 926 F.Supp. 1233 (E.D. Pa. 1996) (proof of predatory intent is relevant to establishing claim under Pennsylvania anti-dilution law).

<sup>34</sup> Compare *Ringling Bros.-Barnum & Bailey Combined Shows Inc. v. Utah Div. of Travel Dev.*, 170 F.2d 449, 464 (4th Cir. 1999) (requiring actual dilution), with *Nabisco, Inc. v. PF Brands, Inc.*, 191 F.2d 208, 224 (2d Cir. 1999) (likelihood of dilution sufficient).

<sup>35</sup> 537 U.S. 418 (2003).

<sup>36</sup> See *id.* at 433.

<sup>37</sup> 15 U.S.C. §1125(c)(1) (proscribing use of a mark "that is likely to cause dilution" of the famous mark "regardless of the presence or absence of . . . actual economic injury").

<sup>38</sup> *Id.*

<sup>39</sup> See e.g., *Polaroid Corp. v. Polarad Elects. Corp.*, 287 F.2d 492, 495 (2nd Cir.), cert. denied 368 U.S. 820 (1961); *AMF Inc. v. Sleekcraft Boats*, 599 F.2d 341, 348-49 (9th Cir. 1979).

eral district court construing the Pennsylvania Anti-Dilution Act has held that a plaintiff is required to prove actual dilution.<sup>40</sup> The court's conclusion in this case was based, in large measure, to the similarity between the language of the statute and the FTDA.

### Acquired Distinctiveness As Well

Under the FTDA, some courts differed on whether dilution of the "distinctive quality of the famous mark" meant that the trademark had to be inherently distinctive or whether acquired distinctiveness was sufficient.<sup>41</sup> The TDRA specifies that distinctiveness acquired through secondary meaning is sufficient to support a claim for dilution, a revision that will favor plaintiffs. Likewise, marks that have acquired distinctiveness by way of secondary meaning are protected under the Pennsylvania anti-dilution law.<sup>42</sup>

### Dilution by Blurring and Tarnishment Defined

The FTDA did not specifically define blurring or tarnishment, nor was it clear whether it applied to tarnishment as well as blurring. The TDRA, however, expressly defines dilution by blurring as "an association impairs the distinctiveness of the famous mark,"<sup>43</sup> and dilution by tarnishment as "an association arising from the similarity" between the famous mark and diluting mark "that harms the reputation of the

famous mark."<sup>44</sup> These definitions are broadly stated, so it will be up to the courts to interpret their range of application. Although the language of the Pennsylvania Anti-Dilution Act does not specifically define or differentiate between blurring and tarnishment, the courts have recognized both forms of dilution as well.<sup>45</sup>

### The End of Niche Fame

Truly nationally-known trademarks such as MICROSOFT, McDONALD'S, and EXXON are clearly famous and protected under federal law. In recent years, however, a split among the circuit courts of appeal developed as to whether a mark that has achieved fame in only a "niche market" and is not of general renown is eligible for protection under the FTDA.<sup>46</sup> A niche market is something less than the general nationwide consumer market, such as a market defined by a specific product category or a particular geographic region. The crux of niche market fame theory was whether the mark had to be known by those who are not familiar with or not consumers of the particular good or service, or whether it suffices that the mark is well-known by participants in the niche market.

The TDRA answers this question by defining a "famous mark" as one "widely recognized by the general consuming public of the United States as a designation of source of the goods or services."<sup>47</sup> This definition eliminates the concept of niche fame. Fame is a requirement under Pennsylvania law as well,<sup>48</sup>

<sup>40</sup> See *Scott Fetzer Co. v. Gehring*, 288 F.Supp. 2d 696, 702 (E.D. 2003).

<sup>41</sup> Compare *Savin Corp. v. Savin Group*, 391 F.3d 439, 449 (2d Cir. 2004), with *Times Mirror Magazines, Inc. v. Las Vegas Sports News LLC*, 212 F.3d 157, 167 (3d Cir. 2000).

<sup>42</sup> See *Guardian Life Ins. Co. of Am. v. American Guardian Life Assur. Co.*, 943 F.Supp. 509 (E.D. Pa.1996) (plaintiff may establish that its mark has distinctive quality by proving that its has acquired secondary meaning in infringer's market); *Nugget Distributors Co-op. of Am., Inc. v. Mr. Nugget, Inc.*, 776 F.Supp. 1012 (E.D. Pa. 1991) (distinctiveness requirement met if mark has secondary meaning in infringer's market).

<sup>43</sup> 15 U.S.C. §1125(c)(2)(B). This section articulates six factors a court may consider in determining whether dilution by blurring is likely: (i) the degree of similarity between the diluting mark and the famous mark; (ii) the degree of distinctiveness of the famous mark; (iii) the extent to which the owner of the famous mark is engaged in "substantially exclusive use of the mark; (iv) the degree of recognition of the famous mark; (v) whether the defendant intended to create an association between it and the famous mark; and (vi) any actual association between the diluting mark and the famous mark. *Id.*

<sup>44</sup> *Id.* §1125(c)(2)(C). Unlike the definition of blurring, the TDRA does not list any factors to be used in assessing the likelihood of tarnishment.

<sup>45</sup> See *Hershey Foods Corp. v. Mars, Inc.*, 998 F.Supp. 500 (M.D. Pa.1998) (stating that to prove dilution by blurring, plaintiff must show that (1) its mark is famous, (2) defendant began using a mark in commerce after the plaintiff's mark became famous, and (3) defendant's use causes dilution by lessening the capacity of the plaintiff's mark to identify and distinguish goods or services); *World Wrestling Fed'n Ent. Inc. v. Big Dog Holdings, Inc.*, 280 F.Supp. 2d 413 (W.D. Pa. 2003) (holding that a manufacturer's use of "dogified" caricatures of professional wrestling characters on t-shirts and related merchandise did not tarnish wrestling promoter's trademarks under either federal or Pennsylvania law).

<sup>46</sup> Compare *Times Mirror Magazines, Inc. v. Las Vegas Sports News, LLC*, 212 F.3d 157 (3d Cir. 2000) (allowing niche fame), with *TCPIP Holding Co., Inc. v. Haar Comm., Inc.*, 244 F.3d 88 (2d Cir. 2001) (rejecting niche fame).

<sup>47</sup> 15 U.S.C. §1125(c)(2).

<sup>48</sup> The Pennsylvania Anti-Dilution Act enumerates a nonexclusive set of factors to consider in determining whether a mark is "famous":

but the owner of mark famous only in Pennsylvania will be limited to a claim under the Pennsylvania anti-dilution statute.<sup>49</sup> In addition, the TDRA revises the array of factors to consider in determining fame by consolidating or deleting some of the factors found in the FTDA.<sup>50</sup>

### Dilution of Unregistered Trade Dress

Trade dress refers to the design of or packaging associated with a product, and may be registered if it is distinctive and nonfunctional.<sup>51</sup> In an action for trade dress dilution where the trade dress is not federally registered, the TDRA requires that, taken as a whole, the trade dress must not be functional and must be famous.<sup>52</sup> In addition, the unregistered trade dress must be “famous separate and apart from any fame” of a registered mark.<sup>53</sup> Accordingly, the plain-

tiff cannot rely on the fame of a registered mark to establish fame of unregistered trade dress, even if the famous mark is incorporated in unregistered trade dress.

### Fair Use Expanded

The TDRA has amended the fair use defenses available to a defendant in a dilution action. Nonactionable trademark uses are those involving “nominative or descriptive fair use, or facilitation of such fair use, of a famous mark by another person other than as a designation of source for the person’s own goods or services,” including in comparative advertising, parody, criticism, or commentary. This provision supplements the uses included in the original FTDA for “[a]ll forms of news reporting” and “[a]ny noncommercial use of a mark.”<sup>54</sup> The Pennsylvania Anti-Dilution Act also affords a fair use defense to dilution claims.<sup>55</sup>

### Relief for Willful Misconduct

As to monetary relief, the TDRA allows recovery of profits, damages and costs, if the defendant “willfully intended to trade on the recognition of the famous mark,” or “willfully intended to harm the reputation of the famous mark.”<sup>56</sup> The Pennsylvania anti-dilution law contains substantially similar language to this effect as well.<sup>57</sup> If the defendant willfully in-

In determining whether a mark is distinctive and famous, a court may consider factors such as, but not limited to:

(1) The degree of inherent or acquired distinctiveness of the mark in this Commonwealth.

(2) The duration and extent of use of the mark in connection with the goods and services with which the mark is used.

(3) The duration and extent of advertising and publicity of the mark in this Commonwealth.

(4) The geographical extent of the trading area in which the mark is used.

(5) The channels of trade for the goods or services with which the mark is used.

(6) The degree of recognition of the mark in the trading areas and channels of trade in this Commonwealth used by the mark’s owner and the person against whom the injunction is sought.

(7) The nature and extent of use of the same or similar marks by third parties.

(8) Whether the mark is the subject of a registration in this Commonwealth or a Federal registration. . . .

54 Pa. Cons. Stat. §1124.

<sup>49</sup> 54 Pa. Cons. Stat. §1124 (applying to “a mark which is famous in this Commonwealth”) (emphasis added).

<sup>50</sup> Omitted from the FTDA’s set of factors are “the degree of inherent or acquired distinctiveness of the mark” as well as “the nature and extent of the use of the same or similar marks by third parties.” *Id.* Fame can be established in various ways, including by proving a clear pattern of advertising with resulting national prominence achieved over time. *See Shields v. Zuccarini*, 254 F.3d 476 (3d Cir. 2001).

<sup>51</sup> *See Traffix Devices, Inc. v. Marketing Displays, Inc.*, 532 U.S. 23 (2001); *Wal-Mart Stores, Inc. v. Samara Bros., Inc.*, 529 U.S. 205 (2000); *Two Pesos, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763 (1992).

<sup>52</sup> 15 U.S.C. §1125(c)(4)(A). Pennsylvania’s anti-dilution law also applies to unregistered famous trade dress. *See Hershey Foods Corp. v. Mars, Inc.*, 998 F.Supp. 500 (M.D. Pa.1998).

<sup>53</sup> *Id.*, §1125(c)(4)(B).

<sup>54</sup> *Id.* §1125(c)(3).

<sup>55</sup> *See* 54 Pa. Cons. Stat. §1124 (The following shall not be actionable under this section: (1) Fair use of a famous mark by another person in comparative commercial advertising or promotion to identify the competing goods or services of the owner of the famous mark. (2) Noncommercial use of a mark. (3) All forms of news reporting and news commentary.). *See, e.g., Institute for Scientific Information, Inc. v. Gordon & Breach*, 743 F.Supp. 369 (E.D. Pa.1990) (competitors’ use of common English words “current contents” to accurately describe competitors’ product, and not as trademark, could not dilute publisher’s trademark); *but see Louis Vuitton Malletier & Oakley, Inc. v. Veit*, 211 F.Supp.2d 567 (E.D. Pa. 2002) (finding liability for dilution under Pennsylvania law for the domain name “louisvuitton-replicas.com”).

<sup>56</sup> *Id.* §1125(c)(5).

<sup>57</sup> The Pennsylvania statute states:

In an action brought under this section, the owner of a famous mark shall be entitled only to injunctive relief in this Commonwealth unless the person against whom the injunctive relief is sought willfully intended to trade on the owner’s reputation or to cause dilution of the famous mark. If such willful intent is proven, the owner shall also be entitled to the remedies set forth in this chapter, subject to the discretion of the court and the principles of equity.

54 Pa. Cons. Stat. § 1124.

tended to trade on the plaintiff's reputation or to cause dilution of the famous mark, the plaintiff is entitled to such other relief as is provided in the Pennsylvania Trademark Act.<sup>58</sup>

### State Anti-Dilution Law Claims Barred

Under the FTDA, a defendant's federal trademark registration is a bar to a state law dilution claim. The TDRA amends this provision to direct that a federally registered mark is a "complete bar" to any action that "asserts any claim of actual or likely damage or harm to the distinctiveness or reputation of a mark, label, or form of advertisement."<sup>59</sup>

### Questions Presented by the TDRA

Although it was intended to resolve various issues that arose under the application of the FTDA, the TDRA may lead to new areas of uncertainty and make proof of dilution claims more complex, especially in cases that also involve infringement claims.<sup>60</sup> For instance, since the list of factors that a court *may* consider in assessing whether a mark is "famous" is nonexclusive, there will remain some uncertainty as to what other considerations may be taken into account in making this determination. This is a particularly important concern now that it is clear that a federal dilution remedy is available to descriptive marks that have acquired distinctiveness through secondary meaning.

Another part of the TDRA that is likely to engender speculation is the multifactor test for measuring dilution by blurring, and the absence of such a test for dilution by tarnishment. Among the possible future developments may be the creation by the courts of a separate set of factors for tarnishment claims, with the risk that different circuits will apply different sets of factors that may favor one party or the other. Since tarnishment is defined as harm to the "reputation" of the famous mark, the courts will surely face the task of defining the meaning of reputation and the essence of reputational harm. Another possibility is that some circuits will afford more weight to some factors than others in applying the multifactor test for blurring. For example,

does the "any 'actual association' between the defendant's mark and the famous mark" factor refer to evidence of actual dilution and, if so, would such evidence carry greater weight than the other factors? Moreover, since the set of factors is nonexclusive, some courts may take into account other circumstantial factors, as they arise in each case.

A final area of potential uncertainty concerns the fair use defense for nominative and descriptive uses. Although the TDRA expands the defenses that are included in the FTDA by apparently allowing fair use, other than use as a designation of source for the defendant's own goods or services, the TDRA does not delineate what will be required to prove fair use. It is probable that courts will continue to look for guidance on this issue in cases where it was applied as a defense to trademark infringement.<sup>61</sup>

### CONCLUSION

Trademark dilution has proved to be a "dauntingly elusive concept."<sup>62</sup> The TDRA marks a significant revision of federal trademark dilution law and is intended to more clearly define the protection afforded to famous marks under section 43(c) of the Lanham Act. Most directly benefited are owners of nationally famous trademarks, though the fair uses allowed by defendants have been clarified. However, while the TDRA resolves a number of important issues that arose under the original FTDA, it is likely to generate additional issues, ensuring that dilution will remain an evolving and somewhat unsettled area of trademark law and that state anti-dilution statutes will remain a useful alternative in cases where a federal remedy is unavailable.

<sup>61</sup> See, e.g., *Century 21 Real Estate v. Lendingtree, Inc.*, 425 F.3d 211 (3d Cir. 2005) (explaining the factors to be considered in nominative fair use as to website allowing consumers to compare real estate agents and mortgage providers); *Mattel, Inc. v. MCA Records*, 296 F.3d 894 (9th Cir. 2002) (holding that the song "Barbie Girl" a parody of Mattel's trademarked doll was not infringement of Mattel's trademark because the song was not purely commercial speech and was protected by First Amendment); *Playboy Enters., Inc. v. Welles*, 279 F.3d 796 (9th Cir. 2002) (use by a former Playboy Playmate of "Playmate of the Year" as a metatag in her website was descriptive fair use).

<sup>62</sup> *Ringling Bros.-Barnum & Bailey Circus Combined Shows, Inc. v. Utah Div. of Travel Dev.*, 170 F.3d 449, 451 (4th Cir. 1999).

<sup>58</sup> See 54 Pa. Cons. Stat. §1123(b).

<sup>59</sup> *Id.* §1125(c)(6).

<sup>60</sup> E.g., *Playboy Enters., Inc. v. Universal Tel-a-Talk, Inc.*, 1998 U.S. Dist. Lexis 17282 (E.D. Pa. 1998); *Wawa, Inc. v. Haaf*, 40 U.S.P.Q.2d 1629 (E.D. Pa.1996).



# Avoiding Pitfalls In Assuring Timeliness Of Appeals In Land Use Cases

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When to appeal? A simple question which yearns for a simple answer. Yet, panel decisions of the commonwealth court have served to muddy the otherwise clear statutory waters.

## GUIDING PRINCIPLES

Consider the following principles, premised upon appellate court decisions:

- In the context of a zoning hearing board decision, you cannot appeal the vote of

the zoning hearing board—such an appeal is premature.<sup>1</sup>

- Not only should you not appeal the vote of the zoning hearing board, but that vote might not be the last vote. The zoning hearing board has the right to change its mind and vote again, until the written decision is rendered.<sup>2</sup>
- A zoning hearing board may issue a notice of a decision, and/or a zoning hearing board may issue an opinion with findings of fact, conclusions of law, and reasons for the decision. A notice of the decision satisfies the 45 days for the issuance of a written decision.<sup>3</sup> Some appellate cases hold that the opinion, not the notice of the decision, starts the appeal period.<sup>4</sup>
- One case holds that a written notice of a decision relating to a conditional approval, which fails to state the conditions themselves, is a deficient notice, resulting in a deemed approval.<sup>5</sup>
- In the context of an objector's appeal of a subdivision or land development approval, you do not appeal the vote, but. . . .<sup>6</sup>

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<sup>1</sup> *Snyder v. ZHB of Warminster Twp.*, 782 A.2d 1088 (Pa. Cmwlth. 2001), *appeal dismissed*, 570 Pa. 493, 810 A.2d 636 (2002).

<sup>2</sup> *Seipstown Village, LLC v. Zoning Hearing Board of Weisenberg Township*, 882 A.2d 32 (Pa. Cmwlth. 2005).

<sup>3</sup> *Romesburg v. Fayette County Zoning Hearing Board*, 727 A.2d 150, 153 (Pa. Cmwlth. 1999); *Heisterkamp v. Zoning Hearing Board of the City of Lancaster*, 34 Pa. Cmwlth. 539, 383 A.2d 1311 (1978).

<sup>4</sup> *Bishop Nursing Home, Inc. v. Zoning Hearing Board*, 162 Pa. Cmwlth. 118, 638 A.2d 383 (1994), *appeal denied*, 538 Pa. 675, 649 A.2d 676 (1994).

<sup>5</sup> *Romesburg v. Fayette County Zoning Hearing Board*, 727 A.2d 150, 153 (Pa. Cmwlth. 1999).

<sup>6</sup> *Peterson v. Amity Township Board of Supervisors*, 804 A.2d 723 (Pa. Cmwlth. 2002).

## IN THE BEGINNING, STATUTORILY SPEAKING

It all starts off rather simply, by virtue of section 1002-A of the Pennsylvania Municipalities Planning Code<sup>7</sup>:

“All appeals from all land use decisions rendered pursuant to Article IX shall be taken to the court of common pleas . . . within 30 days after entry of the decision as provided in 42 Pa.C.S. §5572 . . . or, in the case of a deemed decision, within 30 days after the date upon which notice of said deemed decision is given . . . .”

## “DECISION” DEFINE

The MPC defines “decision” as the “final adjudication of any board or other body granted jurisdiction under any land use ordinance or this act to do so. . . .”<sup>8</sup>

## ENTRY OF THE DECISION

Contained within Article IX of the MPC are provisions relating to zoning hearing board and other administrative proceedings, referring to both a zoning hearing board and a governing body. Thus, all appeals from all land use decisions, be they appeals by a landowner, an objector, or even a municipality, must be filed within 30 days after entry of the decision. If the decision is mailed, then the 30 days run from the date of mailing, by reference to 42 Pa.C.S. §5572:

“**Time of Entry of Order.** The date of service of an order of a government unit, which shall be the date of mailing if service is by mail, shall be deemed to be the date of entry of the order for the purposes of this subchapter. The date of entry of an order of a court or magisterial district judge may be specified by general rules.”

## NOTICE OF THE DECISION

The statute is absolute, except where a person alleges and proves that he had no notice, knowledge or reason to believe that the approval had been given. MPC section 914.1(a)<sup>9</sup>:

“No person shall be allowed to file any proceeding with the board later than 30 days after an application for development, preliminary or final, has been approved by an appropriate municipal officer, agency or body if such proceeding is designed to secure reversal or to eliminate the approval in any

manner unless such person alleges and proves that he had no notice, knowledge, or reason to believe that such approval had been given. If such person has succeeded to his interest after such approval, he shall be bound by the knowledge of his predecessor in interest. The failure of anyone other than the landowner to appeal from an adverse decision on a tentative plan pursuant to section 709 or from an adverse decision by a zoning officer on a challenge to the validity of an ordinance or map pursuant to section 916.2 shall preclude an appeal from a final approval except in the case where the final submission substantially deviates from the approved tentative approval.”

## ZONING CASES

In *Berryman v. Wyoming Borough Zoning Hearing Board*,<sup>10</sup> the commonwealth court held that neighbors were required to appeal within 30 days of when construction of a barn became visible; the neighbors were not entitled to actual notice of the building permit. The circumstances in *Berryman* concerned the issuance of a building permit for a pole barn. The landowners who obtained the building permit immediately began construction. Shortly thereafter, evidence of that construction—poles and cross members—were visible from the street and from adjoining properties. The neighbors/objectors filed an appeal of the building permit to the zoning hearing board more than 30 days from when the commencement of construction was visible.

The zoning hearing board deemed the neighbors’ appeal timely and concluded that a zoning permit was required for construction and use. Landowners appealed and challenged the timeliness of the neighbors’ appeal to the zoning hearing board. The neighbors contended that they had never received actual notice of the building permit and were unaware of its issuance until more than 30 days after commencement of construction was visible. Although the neighbors owned the property near the proposed pole barn, the neighbors actually resided out of state. Relying upon MPC Section 914.1(a), the commonwealth court rejected the notion that actual notice of construction starts the 30 day appeal period. The court noted the “absurd result” from a rule of law that would afford absentee property owners a longer appeal period. “The resulting lack of predictability would make it impossible for a developer to know when it was safe to incur construction costs.”<sup>11</sup>

<sup>7</sup> 53 P.S. section 11002-A.

<sup>8</sup> MPC section 107(b), 53 P.S. section 10107(b).

<sup>9</sup> 53 P.S. section 10914.1(a).

<sup>10</sup> 884 A.2d 386 (Pa. Cmwlth. 2005).

<sup>11</sup> 884 A.2d at 390.

# THE VOTE, THE NOTICE OF DECISION, AND THE DECISION (A/K/A THE OPINION)

In a zoning hearing board application, typically the zoning hearing board votes, issues a written notice of the decision, and then issues the opinion (which is required if the application is denied or contested). MPC section 908(9)<sup>12</sup>:

“The board or the hearing officer, as the case may be, shall render a written decision or, when no decision is called for, make written findings on the application within 45 days after the last hearing before the board or hearing officer. Where the application is contested or denied, each decision shall be accompanied by findings of fact and conclusions based thereon together with the reasons therefor.”

The notice of a decision (“Dear Applicant: you lose. Have a nice day.”) satisfies the 45 day time period for the issuance of a written decision, compelled by MPC section 908(9).<sup>13</sup>

“Pursuant to section 908(9) of the Code, 53 P.S. §10908(9), the Board is required, within forty-five days of the last hearing on an application before a zoning board, to render a decision on a matter and communicate that decision to the applicant in writing. *Mullen v. Zoning Hearing Board of Collingdale Borough*, 691 A.2d 998 (Pa. Cmwlth. 1997). Otherwise, assuming that the applicant has not agreed to an extension of time, and even if the applicant was informed orally of a decision, there is a deemed approval of the application due to untimeliness. *Id.* It is not necessary that the written decision be accompanied by the usual written appurtenances of an opinion. *Id.* Despite language in the statute indicating otherwise, precedent clearly indicates that a decision, not supported by written findings and facts, is still valid; the decision is not deemed to be in favor of the applicant solely because the findings of fact and conclusions of law are late or absent. *Packard v. Commonwealth*, 57 Pa. Cmwlth. 322, 426 A.2d 1220 (1981); *Heisterkamp v. Zoning Hearing Board of City of Lancaster*, 34 Pa. Cmwlth. 539, 383 A.2d 1311 (1978). It is the decision itself that must be made in forty-five days. *Packard*.”<sup>14</sup>

## WHEN TO APPEAL

The question, therefore, is when do you appeal? The commonwealth court has stated that appealing the vote, before the entry of a writ-

ten decision, will result in the quashing of the appeal, since the appeal is premature.<sup>15</sup> In *Snyder*, the objectors filed their appeal within 30 days of the vote of the zoning hearing board, but they did not file another or supplemental appeal after the written decision was issued. The language of the objectors’ notice of appeal to the court of common pleas was itself a portent of their ultimate legal demise—it acknowledged that the zoning hearing board had not yet issued its written decision.

Emphasizing that the vote of a zoning hearing board has no legal effect, the commonwealth court has held that even after a vote, a zoning hearing board is free to take additional evidence and reconsider the vote until the time the zoning hearing board has actually issued a decision in writing.<sup>16</sup>

## DON’T LEAVE THE ROOM ’TIL THE LIGHTS ARE OUT

The question in *Seipstown*, as posed by the commonwealth court, was the authority of a zoning hearing board to reopen the record following an “oral decision.” However, one could quarrel with the statement of the question itself, since an “oral decision” is really a contradiction in terms, or best described as an oxymoron. At the risk of a slight diversion, the word “brief” could be considered an oxymoron, thanks to most of us. Word is that the well-known airplane “black box” is actually painted orange. One has to look carefully at a steak that is “well done”, since most times, that is deemed over-cooked. Or, as the comedian George Carlin has inquired: is a “jumbo shrimp” a big shrimp, or a tiny jumbo?

### Back to Seipstown

*Seipstown* concerned an appeal of a zoning officer’s determination and an alternative request for a variance. The zoning hearing board conducted a public hearing, which included participation by the developer and by objectors. At the conclusion of the developer’s case, the zoning hearing board went into executive session. Upon its return, it voted unanimously in favor of the developer. Figuring that this was the appropriate time to pop open the champagne, the developer and its entourage departed the hearing room.

<sup>15</sup> *Snyder v. ZHB of Warminster Twp.*, 782 A.2d 1088 (Pa. Cmwlth. 2001), appeal dismissed, 570 Pa. 493, 810 A.2d 636 (2002).

<sup>16</sup> *Seipstown Village, LLC v. Zoning Hearing Board of Weisenberg Township*, 882 A.2d 32 (Pa. Cmwlth. 2005).

<sup>12</sup> 53 P.S. section 10908(9).

<sup>13</sup> 53 P.S. section 10908(9).

<sup>14</sup> *Romesburg v. Fayette County Zoning Hearing Bd.*, 727 A.2d 150, 152 (Pa. Cmwlth. 1999).

Although the developer was no longer present, the objectors and the zoning hearing board lingered behind. The objectors complained that they had not been given an ample opportunity to present their side of the matter. The zoning hearing board continued the hearing to another night. At the continued hearing, the developer objected, but those objections fell on deaf ears, as the zoning hearing board re-opened the hearing and heard testimony and arguments from both sides. At the conclusion of the second hearing, the zoning board unanimously voted to rescind its previous oral vote, denying both the developer's appeal, and the request for a variance. A written decision, the first written decision, was issued thereafter, consistent with the second vote. To arrive at its holding, the commonwealth court pointed to the definition of "decision" in section 107(b) of the MPC and to the 45 day requirement imposed upon the zoning hearing board to render "a written decision", contained in MPC section 908(9)–(10). Since a final decision of the zoning hearing board must be in writing, the commonwealth court concluded that the vote of the Weisenberg Township Zoning Hearing Board was not the zoning hearing board's decision. Instead, the written decision following the second vote was the "official, final decision in this matter. . . ."<sup>17</sup>

The message of *Seipstown* is: do not leave the hearing room until the lights are out and the cars are gone. However, following the objectors home might be over the top.

## WHAT TO APPEAL

So, we know not to appeal the vote. In the case of a zoning hearing board which issues a notice of a decision followed by the opinion with findings of fact and conclusions of law, which do you appeal? Do you appeal the notice of the decision which has satisfied the zoning hearing board's obligation to issue a decision within 45 days? For those who think that you appeal the first written communication of the vote, see *Bishop Nursing Home, Inc v. Zoning Hearing Board*.<sup>18</sup> The commonwealth court held that the written notice of a decision by a zoning hearing board is not equivalent to the entry of an order. Thus, the appeal period does not begin to run until the zoning hearing board mails its written decision, the decision that contains the findings, conclusions, and reasons. If you are a land-

owner, however, you dare not wait, since there may not be an opinion with findings, conclusions, etc., if the application is not contested or denied. This makes the wicket somewhat sticky, legally speaking.

Until such time as the water is clarified, the experienced and cautious practitioner should likely appeal anything and everything in writing issued by the zoning hearing board, either an appeal followed by a supplemental appeal, or two different appeals, to be consolidated later. The precise procedure to follow may well differ from county to county. Checking the local rules is always in order. Some county rules relating to land use appeals address only the form of the caption, service, and parties. Land use appeals are statutory appeals, not governed by the Pennsylvania Rules of Civil Procedure.

Keep in mind that no reported case has enunciated a set time period for the issuance of the opinion with findings, conclusions, etc., once the zoning hearing board has issued a written notice of the decision.

## SUBDIVISION AND LAND DEVELOPMENT CASES

One might think that the principles applicable to subdivision and land development appeals would be no different, since MPC section 1002-A refers to "all appeals from all land use decisions . . . ." Before February 20, 2007, this was not necessarily so, given the commonwealth court's application of *Peterson v. Amity Township Board of Supervisors*.<sup>19</sup> In that case, the commonwealth court held that a party aggrieved by a subdivision decision must appeal within 30 days of the vote, where the decision is neither entered, nor deemed approved. The principle seems relatively digestible, until one considers circumstances relating to subdivision or land development approvals. Except in rare instances, there are no formal hearings relating to subdivision and land development approvals.

"Before acting on any subdivision plat, the governing body or planning agency, as the case may be, may hold a public hearing thereon after public notice."<sup>20</sup>

Absent a formal hearing, an aggrieved person need not actually be present at the time of the vote in order to have standing to appeal. The potential chaos, or "asymmetry" as the Supreme Court has now described it, results

<sup>17</sup> 882 A.2d at 37.

<sup>18</sup> 638 A.2d 383 (Pa. Cmwlth. 1994).

<sup>19</sup> 804 A.2d 723 (Pa. Cmwlth. 2002).

<sup>20</sup> MPC section 508(5), 53 P.S. section 10508(5).

from calculating different appeal periods for different persons in different circumstances. In *Peterson*, the commonwealth court acknowledged the state of the law to be uncertain and *sua sponte* allowed the appeal *nunc pro tunc*.

Compounding the problem was the commonwealth court's application of *Peterson* to a case in which a municipality appealed a subdivision approval of a neighboring municipality. Lower Merion Township approved a subdivision and mailed its notice of the subdivision approval to the developer within 15 days, as it was required to do by section 508(1) of the MPC. The Lower Merion subdivision featured a proposed 250 unit apartment building. Although the original plan for 280 apartment units was designed to have access onto a road within Lower Merion Township, the design was changed to create a second principal access point on a road within Narberth Borough. Narberth Borough exercised its right as a neighboring municipality, sending its solicitor to the Lower Merion Township meeting at which the approval vote was taken.<sup>21</sup> At this juncture, at issue was the 1st of a 3-step subdivision/land development approval process.

At the Lower Merion Township meeting, this author, in his capacity as the solicitor for Narberth Borough, advised the Lower Merion Township Board of Commissioners that the Borough intended to appeal the approval, requesting a copy of the Township's written notice of approval, as sent to the developer. Seemed like the polite thing to do at the time. The Borough appealed to the court of common pleas, and that appeal was filed within 30 days of the date of mailing of the Township's written approval notice to the developer. The Borough took comfort, or so it believed, that it was strictly following the statutory provisions of MPC section 1002-A, the 30 day appeal period that requires "[a]ll appeals from all land use decisions . . . shall be taken to the court of common pleas . . . within 30 days after entry of the decision as provided in 42 Pa.C.S. §5572 . . . ." The developer, however, contended that because the objecting neighboring municipality was not entitled to a copy of the written notice of the approval, Narberth Borough was required to appeal the vote.

At different times, three judges of the Court of Common Pleas of Montgomery County rejected that contention, pointing to section 1002-A of the MPC, and noting that Narberth Borough had, in fact, appealed within 30 days of the date of the mailing of the notice of the decision to the developer. However, on appeal, the commonwealth court reversed, applying *Peterson* retroactively, deeming the appeal by the objecting neighboring municipality untimely. The court disregarded the *Peterson* no-written-decision/no-deemed-approval preconditions, as there was, in fact, a timely written notice of the decision. Since this holding was the subject of an unreported opinion of the commonwealth court, it might have been of no moment, except to the parties in that case. However, the Supreme Court granted a petition for allowance of appeal, the case was argued, and a decision issued on February 20, 2007, reversing the order of the commonwealth court.<sup>22</sup>

The commonwealth court's reasoning and interpretation were quite remarkable in the Lower Merion—Narberth matter for several reasons. First, the commonwealth court applied *Peterson* retroactively, *Peterson* having been decided months after the stage was set in Lower Merion Township. Second, as previously noted, in *Peterson* there was neither a written decision, nor a deemed decision. Third, in *Peterson*, the commonwealth court *sua sponte* allowed the appeal *nunc pro tunc* noting ". . . the uncertain state of the law regarding the time within which to appeal in this situation."<sup>23</sup> The obvious question is why these equities were not accorded Narberth Borough, since the law was equally uncertain months before *Peterson* was decided.

The Supreme Court agreed to hear 2 issues, framed by Narberth—the interpretation of MPC section 1002-A in an objector's appeal of a subdivision/land development decision; and the retroactive application of the commonwealth's court later decision. In reversing the order of the commonwealth court and remanding the case to that court for consideration of the merits of the land use approval, the Supreme Court determined:

- The MPC is clear—section 1002-A applies to **all appeals from all land use decisions**.
- There is no basis for "asymmetry" in applying different time periods to different parties.

<sup>21</sup> "The governing body of the municipality may appear and comment before the governing body of a contiguous municipality and the various boards and commissions of the contiguous municipality considering a proposed subdivision, change of land use or land development." MPC section 502.1(b), 53 P.S. section 10502.1(b).

<sup>22</sup> *Narberth Borough v. Lower Merion Tp.*, \_\_ A.2d \_\_, 2007 WL 518840 (Pa.).

<sup>23</sup> 804 A.2d at 729.

- The objector's appeal was timely when filed within 30 days of the township's written notice to the developer.
- A vote on a subdivision/land development application is not the entry of a decision under the statute.
- The Supreme Court's role is not to rewrite artless legislation.
- The fact that the developer received subsequent approvals did not moot the issue of the deficiencies of the first level of mandatory plan approval.

Given the interpretation of the MPC, the Supreme Court did not reach the issue of the retroactive application of a later court holding. The opinion did set forth the following advisory for objectors:

... we caution objectors that under the current statutory scheme, they may well have the burden of determining the date of the entry of the decision by communication to the applicant, notwithstanding that they are not legally entitled to service thereof.<sup>24</sup>

This caution does not take into account the contention that under other applicable law,<sup>25</sup> the notice of decision to the developer is a public document, which a municipality must disgorge. Should the municipality not do so in

a timely fashion, there may well be a basis for an appeal *nunc pro tunc*.

The *Narberth* case also provides a postscript as to matters of strategy. After 5 years of litigation, the developer now must have its 1st level of land use approval scrutinized by the commonwealth court. The only court to have ruled on the merits was the court of common pleas, and it ruled in favor of *Narberth*, reversing the land use approval. How will the next adjudication affect the subsequent 2 approvals? I shall save this for the sequel.

In the case of subdivision and land development approvals, if your client is the landowner, you are probably safe appealing within 30 days of the written notice of the subdivision or land development decision, which must be issued within 15 days of the vote. If your client is an objector, you are also likely safe in appealing within 30 days of the notice to the developer of the written approval, relying on the *Narberth* ruling. Depending on the particular fiefdom in which you find yourself, you may have to wrangle to get a copy of the notice of the decision to the developer in time to appeal within 30 days of its date of mailing.

For now, appealing the vote is out the window, provided that there is a written decision or a deemed approval. Perhaps the legislature will plug the gap and mandate notice of the decision to persons who request it. That would be nice.

## DENOUEMENT

All of this, emanating from a statute that at first blush appears quite straight-forward: "[a]ll appeals from all land use decisions. . . ."

<sup>24</sup> *Narberth Borough v. Lower Merion Tp.*, \_\_\_ A.2d \_\_\_, 2007 WL 518840 at 9 n.19 (Pa.).

<sup>25</sup> Right-to-Know Law (Open Records Law), 65 P.S. section 66.1 *et seq.* (2001).

# Report On The Uniform Commercial Code Modernization Act of 2007

By the Uniform Commercial Code Task Force of the PBA Business Law Section\*  
To Accompany General Assembly of Pennsylvania House Bill No.-, Printer's No.- (2007)  
January 10, 2007

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## INTRODUCTION

### *Overview and Background*

The proposed Uniform Commercial Code Modernization Act of 2007 (the "Act") enacts as Pennsylvania law the revisions of two Articles of the Uniform Commercial Code ("UCC"), Article 1—General Provisions, and Article 7—Documents of Title. The joint sponsors of the UCC, the National Conference of Commissioners on Uniform State Laws ("NCCUSL") and the American Law Institute ("ALI") promulgated Revised Article 1 in 2001 and Revised Article 7 in 2003. NCCUSL and the ALI started the Revised Article 1 drafting process in 1996 and the Revised Article 7 drafting process in 2001.

The Act includes conforming changes to other Articles of the UCC.

Article 1 of the UCC provides the definitions and general provisions which, in the absence of conflicting provisions, usually apply as default rules covering transactions and matters otherwise addressed by other Articles of the UCC. As other Articles of the UCC have been revised and amended to accommodate changing business practices and development in the law, these modifications need to be reflected in an amended Article 1. As a result, Revised Article 1 contains several provisions recognizing and enabling electronic transactions. Revised Article 1 also contains a number of non-substantive changes, such as those re-numbering sections and adding gender-neutral terminology. In addition, Revised Article 1 includes a few substantive changes that are described in greater detail in the CHANGES TO ARTICLE 1 section of this Report.

Article 7 of the UCC governs documents of title, including bills of lading and warehouse receipts. Bills of lading and warehouse receipts have traditionally been paper docu-

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ments which identified the owner of certain physical goods being carried in commerce or stored in a warehouse. The document of title not only indicates ownership of goods, but also frequently incorporates the terms of the contract for carriage or storage. Documents of title may be negotiable or non-negotiable. A negotiable document can be negotiated for value like a check (a form of negotiable instrument), by signing ("endorsing") the instrument and physically delivering it to transfer it for value to a new owner. As in the case of a check, where endorsement and delivery of a piece of paper transfers ownership of the funds in question, endorsement and delivery of a document of title transfers ownership of the goods in question.

Article 7 of the UCC, in its original form, combined two earlier acts, the Uniform Warehouse Receipts Act and the Uniform Bills of Lading Act. Article 7 was first promulgated in 1952 as part of the original UCC and had not been revisited until the revision process that culminated in the 2003 revision. The revisions to Article 7 are intended to update and clarify the law in the context of electronic commerce, and assure commercial parties that the document of title is no longer limited to paper documents, and that the concepts of endorsement and delivery are likewise no longer limited to a written endorsement on and manual delivery of a piece of paper.

Like Revised Article 1, Revised Article 7 also contains several non-substantive changes to incorporate gender-neutral language and modern statutory drafting concepts. The revisions to Article 7 are discussed in greater detail in the CHANGES TO ARTICLE 7 section of this Report.

Both Articles 1 and 7 have been part of Pennsylvania law since 1953, when Pennsylvania became the first state to enact the UCC. In Pennsylvania's codification, the Articles of the UCC are called "Divisions." Existing Division 1 is found at 13 Pa.C.S. §1101 *et seq.* and Existing Division 7 is found at 13 Pa.C.S. §7101 *et seq.*<sup>1</sup> To minimize confusion, this Report will refer to the Articles of the UCC as "Articles."

### *Enactment Status Nationwide*

As of January 2, 2007, 22 states and the United States Virgin Islands have enacted Revised Article 1<sup>2</sup> and 24 states have adopted Revised Article 7.<sup>3</sup>

<sup>1</sup> The Official Text numbers the sections of the UCC with hyphens; for example, the first section of Article 1 is §1-101 and the first section of Article 7 is §7-101. Pennsylvania's codification of the UCC omits the hyphens, as does the Act.

## DRAFTING OF THE ACT

### *The Pennsylvania Committee*

The Act was drafted by the Uniform Commercial Code Task Force of the Business Law Section of the Pennsylvania Bar Association with the assistance of the Legislative Reference Bureau. The Task Force was appointed in 2005. The Task Force is geographically diverse and its members include private practitioners and members of the academic community. The Task Force began its review of the Official Text of Revised Articles 1 and 7 in January, 2006 and met a total of five times through January, 2007.<sup>4</sup>

### *Status of Report*

This Report will become part of the legislative history of the Act under 1 Pa.C.S. §1939 (relating to use of comments and reports).

## RECOMMENDATIONS

### *Article 1*

The Task Force recommends the adoption of the Official Text of Article 1 of the UCC with one significant change. The Official Text contains a choice of law provision that has not been adopted by any of the states that have adopted Revised Article 1. Therefore, for reasons of uniformity, which is of paramount importance in commercial law, the Act contains the choice of law provision from Existing Article 1, which is the choice of law provision that has been adopted by all of the jurisdictions that have adopted Revised Article 1. A more complete explanation of this recommendation follows in the next section of this Report.

### *Article 7*

The Task Force recommends the adoption of the Official Text of Article 7 without amend-

<sup>2</sup> Alabama, Arizona, Arkansas, California, Colorado, Connecticut, Delaware, Hawaii, Idaho, Kentucky, Louisiana, Minnesota, Montana, Nebraska, Nevada, New Mexico, North Carolina, Oklahoma, Texas, Virginia, West Virginia and the United States Virgin Islands. See the web site for the National Conference of Commissioners on Uniform State Laws, [http://nccusl.org/Update/uniformact\\_factsheets/uniformacts-fs-ucc1.asp](http://nccusl.org/Update/uniformact_factsheets/uniformacts-fs-ucc1.asp).

<sup>3</sup> Alabama, Arizona, California, Colorado, Connecticut, Delaware, Hawaii, Idaho, Maryland, Minnesota, Mississippi, Montana, Nebraska, Nevada, New Hampshire, New Mexico, North Carolina, North Dakota, Oklahoma, Rhode Island, Texas, Utah, Virginia and West Virginia. See [http://www.nccusl.org/Update/uniformact\\_fact\\_sheets/uniformacts-fs-ucc7.asp](http://www.nccusl.org/Update/uniformact_fact_sheets/uniformacts-fs-ucc7.asp).

<sup>4</sup> The Task Force would like to acknowledge the research assistance of James Greifzu, Temple University School of Law Class of 2008.



ment. The enactment of Article 7 nationwide has been non-controversial and it has been enacted in all of the adopting jurisdictions without changes.

## SUMMARY OF CHANGES TO ARTICLE 1 AND 7

### *Summary of Changes to Article 1*

- **Adds definitions to accommodate electronic transactions.**
- **Revises definitions to accommodate electronic transactions.**
- **Amends the definition of “good faith” to incorporate both an objective and a subjective element. This change recognizes the fact that with one exception (explained below), the revised Articles of the UCC provide that “good faith” includes both an objective and a subjective component.**
- **Expressly provides that the meaning of an agreement can be determined by the parties’ course of performance, course of dealing and applicable usages of trade. This change is designed to clarify the rules regarding contract interpretation applicable to contracts governed by all Articles of the UCC.**

### *Summary of Changes to Article 7*

- **Updates Article 7 to provide a framework for the use of electronic documents of title by adding and amending definitional sections and adding substantive provisions to assure that the provisions of Article 7 are “media neutral” in their application.**
- **Updates Article 7 to reflect modern industry practices by eliminating archaic terminology and references to practices that are no longer relevant.**

## CHANGES TO ARTICLE 1

Revised Article 1, as promulgated by NCUSL, makes several substantive changes to current law. With the exception of the choice-of-law provision, the Task Force recommends that Pennsylvania adopt all of these changes. In this section of the Report, we focus on sections that have changed.

Revised Article 1 reorganizes Existing Article 1. While Existing Article 1 consists of eighteen sections, Revised Article 1 consists of 23. There are few significant substantive changes, and the additional sections result in large part from the reorganization of the definitional section, §1201. Revised Article 1 contains General Provisions in Part 1, General Definitions and Principles of Interpretation in

Part 2, and Territorial Applicability and General Rules in Part 3.

### *Part 1: General Provisions*

**Scope of Article 1:** Existing Article 1 does not contain an explicit scope provision. Revised Article 1, in §1102, provides that Article 1 applies to a transaction “to the extent that it is governed by another Article” of the UCC. According to the Official Comment to the section, this change is intended to clarify what has “always been the case”—that Article 1 applies only to a UCC transaction. The state of the law referred to in the Official Comment has not however been clear, due to the statute of frauds provision in Existing §1206, which has been held to apply to sales of personal property, such as intellectual property and other intangibles, that are not covered by the other UCC Articles.<sup>5</sup>

In light of this revised scope provision, the drafters of Revised Article 1 have deleted §1206, which provided a statute of frauds applicable in transactions not covered by any of the other statute of frauds provisions in the UCC. Now that Article 1 clarifies that it applies only to transactions covered by other Articles of the Uniform Commercial Code, §1206 is unnecessary. As a result of this change, if a transaction does not fall within the scope of Article 2, 2A, 3, 4, 4A, 5, 7, 8, or 9 (Article 6 is no longer in force in Pennsylvania), it is not subject to Article 1.

Pennsylvania’s codification of Existing Article 1 contains a non-uniform provision excepting “qualified financial contracts” from the statute of frauds for non-UCC transactions. Because this is an exception to a statute of frauds that has been deleted from Article 1, the Task Force deems unnecessary any provision setting forth a statute of frauds for qualified financial contracts.

**Rules of Construction:** Existing Article 1 has two sections, §§1102 and 1103, that explain the purposes and policies of the UCC and set forth rules of construction. Those two sections have been combined into one section, §1103. The new section makes no substantive change to the existing Article 1. Existing §1102(c), which provides that the provisions of the UCC can be varied by agreement, has been moved to a new section, §1302.

<sup>5</sup> See, e.g., *Olympic Junior, Inc. v. David Crystal, Inc.*, 463 F.2d 1141 (3rd Cir. 1972) (holding, under the New Jersey version of the UCC, that the sale of a business is governed by §1-206). The only Pennsylvania case applying §1206 is *Simcoe v. Huszar*, 10 Pa.D&C 3rd 298 (Carbon Cty. 1979), which involved the sale of a liquor distributorship. Because the court found that the transaction did not involve a “sale,” it held that §1206 was inapplicable.

Revised Article 1 contains several rules of construction that already exist in Article 1 of the Pennsylvania Consolidated Statutes. For the sake of consistency with other Pennsylvania statutes, we have deleted these provisions from Revised Article 1. As a result, and to preserve the uniform numbering in Revised Article 1, §§1105 and 1106 are described as “reserved” in the Act. These sections do not substantively change Existing Article 1, nor do they substantively change Revised Article 1.

**Electronic Transactions:** §1108 is new, and provides that Article 1 modifies, limits and supersedes the federal Electronic Signatures in Global and National Commerce Act (“E-Sign”).<sup>6</sup> This section is consistent with E-Sign, which provides in §7002 that a state statute can modify, limit or supersede E-Sign if it specifies alternative procedures for the recognition of electronic records that are consistent with E-Sign. In addition, E-Sign specifies that it does not apply to a contract or other record to the extent that it is governed by the UCC.

## *Part 2: General Definitions and Principles of Interpretation*

**General Definitions:** Most of the definitions in Revised Article 1 are in §1201, “General Definitions.” Three definitions have been moved from Existing §1201 to their own sections. These new sections are §1202 (Notice; Knowledge), §1203 (Lease Distinguished from a Security Interest), §1204 (Value) and §1206 (Presumptions). The substance of these sections is unchanged and §1203 moves the rules for distinguishing a lease from a secured sale from the definition of “security interest” in §1201 to its own section.

There are several new definitions in §1201. One is a definition of “consumer.” Article 9 of the UCC has several definitions related to consumers, such as “consumer transaction” but no definition of consumer. Revised Article 1 fills this void.

Another new definition is the definition of “record.” The Article 1 definition is derived from the Revised Article 9 definition, which was included to facilitate electronic transactions. The UCC definition of record is identical to the definition of record in the Pennsylvania Electronic Transactions Act, 73 P.S. §2260.103. The term “record” includes both information that is written on paper and information that is stored in an electronic medium, and replaces the terms “writing” and “written” in many, but not all, places in the UCC.

Revised Article 1 changes several definitions to incorporate references to electronic transactions and to accommodate changes to

other articles of the UCC. In the former category are the definitions of “conspicuous” and “send.” Both of these definitions have been modified to recognize and accommodate the use of electronic records. The definitions of “bearer,” “bill of lading,” “delivery,” “document of title,” “holder,” and “warehouse receipt” have been amended to conform to the amendments to Article 7 and will be explained in the CHANGES TO ARTICLE 7 section of this Report.

**Definition of Good Faith:** Revised Article 1 makes one substantive change to the Existing Article 1 definitions and this change is the new definition of “good faith.” The majority of the jurisdictions that have enacted Revised Article 1 have adopted this new definition, so for reasons of uniformity and for the reasons explained below, the Task Force recommends the adoption of the new uniform definition of good faith.

The substantive Articles of the UCC measure the conduct of a party to a transaction by reference to a standard of “good faith.” In addition, Revised §1304 (Existing §1203), provides that “every contract or duty within this title imposes an obligation of good faith in its performance and enforcement.” Revised §1201 defines “good faith” as “honesty in fact and the observance of reasonable commercial standards of fair dealing,” except as otherwise provided in Article 5.

Revised §1201 amends Existing §1201 in three respects:

1. It explicitly declines to change the “good faith” definition in Article 5 (Letters of Credit);
2. It deletes the language, “in the conduct or transaction concerned,” as a limitation on the requirement of “honesty in fact”; and
3. It inserts the language “and the observance of reasonable commercial standards of fair dealing.”

Thus, “good faith” as contemplated by Revised §1201 has both (i) a subjective component (“honesty in fact”) and (ii) an objective component (“observance of reasonable commercial standards of fair dealing”).

The objective prong elevating the “good faith” threshold was previously incorporated into Article 2 of the UCC with respect to merchant transactions. Section 2103 provides that “in the case of a merchant, good faith means honesty in fact and the observance of reasonable commercial standards of fair dealing in the trade.” The objective requirement of “reasonable commercial standards of fair dealing” has gained acceptance with the enactment of the revised Articles of the UCC. The same two elements of subjective honesty and objective reasonableness have been incorporated into other revised or recently enacted Articles. See

<sup>6</sup> 15 U.S.C. §7001 *et seq.*

13 Pa.C.S. §§3103(a), 4104(c) (by reference to §3103(a)), 4A105(a), 8102(a) and 9102(a).

The definitions of “good faith” in each of these Articles include the two elements of honesty in fact and the observance of reasonable commercial standards of fair dealing. Furthermore, the Official Comments to sections contained in these Articles contemplate the enactment of a uniform version of Revised Article 1 that has incorporated the objective prong.<sup>7</sup>

In contrast, the only Article that measures “good faith” solely by reference to subjective honesty is Article 5 (§5102(a)), which is explicitly excepted from the definition in Revised §1201. Article 2A incorporates by reference the “good faith” definition of Section 1201, and neither Existing Article 7 nor Revised Article 7 contains a definition of “good faith”, which means that Section 1201 will provide the definition of “good faith.”

The definition of “good faith” in Revised §1201, therefore, accommodates the changes that have been incorporated into other Revised Articles of the UCC and would resolve any inherent tension or inconsistency that might arise between Revised Article 1 and Article 3, Article 4, Article 4A, Revised Article 8 and Revised Article 9.

Reference to the acceptance of the “good faith” definition in other jurisdictions may be instructive, particularly since Revised Article 1 is intended to be a uniform law. Of the twenty-two states and one territory that have adopted Revised Article 1 as of January 2, 2007, sixteen jurisdictions<sup>8</sup> have adopted the “good faith” definition of uniform Revised Article 1. Consequently, the Task Force recommends enactment of the uniform version of the definition of “good faith” (including both sub-

jective “honesty in fact” and objective “observance of reasonable commercial standards”) as part of §1201 of Revised Article 1.<sup>9</sup>

**Reasonable Time; Seasonableness:** Revised §1205 is substantively identical to Existing §1204. Subsection (a) of Existing §1204, which provides that the time within which an action must be performed may be fixed by agreement, has been moved to Revised §1302.

### *Part 3: Territorial Applicability and General Rules*

Part 3 is new to Article 1, and results primarily from the reorganization and renumbering of Existing Article 1.

Several sections in Part 3 of Revised Article 1 are substantively identical to sections in Existing Article 1. These sections are: §1302 (Variation by agreement), which combines the rules from Existing §1102 (c) and (d) and 1204 (a); §1304 (Obligation of good faith), which is identical to Existing §1203; §1305 (remedies to be liberally administered), which is identical to Existing §1106; §1307 (Prima Facie Evidence by Third Party Documents), which, with minor stylistic changes, is identical to § Existing 1202; §1308 (Performance or acceptance under reservation of rights), which is identical to Existing §1207; §1309 (Option to accelerate at will), which, with minor stylistic changes, is identical to Existing §1208; and §1310 (Subordinated obligations), which is substantively identical to Existing §1209.

**Choice of Law:** The most controversial change in the version of Revised Article 1 promulgated by NCCUSL is the choice-of-law provision. The choice of law rule in Article 1 was completely rewritten by the NCCUSL and ALI drafting committee and, in the new numbering system, is found in Proposed §1-301.<sup>10</sup> Every state that has adopted Revised Article 1 has rejected the new provision.<sup>11</sup> Therefore, the Task Force recommends that Pennsylvania replace

<sup>7</sup> For example, Official Comment 10 to Section 8102 states that

“section 1-201(b)(20) defines ‘good faith’ as ‘honesty in fact and the observance of reasonable commercial standards of fair dealing.’ The reference to commercial standards makes clear that assessments of conduct are to be made in light of the commercial setting. The substantive rules of Article 8 have been drafted to take account of the commercial circumstances of the securities holding and processing system.”

See also Official Comment 4 to Section 3103; Official Comment 4 to Section 4A105; and Official Comment 19 to Section 9102.

<sup>8</sup> Arkansas, California, Colorado, Connecticut, Delaware, Kentucky, Louisiana, Minnesota, Montana, Nevada, New Hampshire, New Mexico, North Carolina, Oklahoma, Texas, West Virginia and the United States Virgin Islands. Keith A. Rowley, *The Often Imitated, But Not Yet Duplicated, Revised Uniform Commercial Code Article 1*, available at <http://www.law.unlv.edu/faculty/rowley/RA1.1201.06.pdf>.

<sup>9</sup> In light of this changed definition, the Task Force is proposing the deletion of a Pennsylvania Bar Association Note to §1203 from 1953, which appears in PURDON’S PENNSYLVANIA CONSOLIDATED STATUTES ANNOTATED. Because of the proposed change in the definition of “good faith” and the case law that has evolved since 1953, this note no longer provides useful guidance.

<sup>10</sup> In the Choice of Law discussion, we refer to the choice of law provision adopted by NCCUSL and the ALI as “Proposed §1-301” rather than “Revised 1301” because the Task Force does not support the adoption in Pennsylvania of the new choice of law provision. In the Act, §1301 is substantively identical to Existing §1105.

<sup>11</sup> The Virgin Islands is the only jurisdiction that has enacted the revised choice of law rule and it did so soon after Revised Article 1 was promulgated.

the rewritten rule with the current UCC choice of law rule found in Existing §1105, updated and renumbered so it integrates with the remaining revision of UCC Article 1. That provision, now sanctioned by NCCUSL, is incorporated into the Act.

Current Pennsylvania law with respect to choice of law is found in Existing §1105. It provides

- that the parties can agree that the law of “this state” (i.e., Pennsylvania law) applies to their transaction provided that “the transaction bears a reasonable relation to this state.”
- that in the absence of such an agreement as to applicable law, “this Act” (i.e., Pennsylvania’s UCC) applies to those transactions “bearing an appropriate relation to this state.”

The rule functions as a conflict of laws rule directing Pennsylvania courts (and federal courts sitting in Pennsylvania) to the appropriate law to apply in disputes that are brought in courts located in Pennsylvania.

Two examples can make clear how the rule limits the law that parties can currently choose in their contract.

- Suppose the parties agreed that Pennsylvania law would govern an out-of-state transaction that bore no relationship whatsoever with Pennsylvania. If a Pennsylvania court obtained jurisdiction over a dispute arising out of that transaction, the Pennsylvania court would not, under this rule, recognize the parties’ agreement that Pennsylvania law ought to govern it.<sup>12</sup> The court, instead, would look to the Pennsylvania conflict of laws rules to determine the law that ought to be applied to resolving the dispute before it.
- Suppose a Pennsylvania court got jurisdiction of a dispute between parties arising out of a transaction bearing no relationship with Pennsylvania and the parties had not specified the applicable law in their contract. Existing §1105 does not speak directly to this question either since, by hypothesis, the transaction does not bear an “appropriate relation” to “this state.” The court would look to Pennsyl-

vania conflict of laws rules to determine the appropriate law to apply to the dispute before it. It is extremely unlikely that the court would use Pennsylvania law in such a setting to resolve the parties’ dispute.

This current UCC rule is consistent with the Restatement (Second) of Conflict of Laws, §187 which requires a relationship between the law that is applied (whether by choice or otherwise) and the transaction to be governed by it. The fact that the forum is in a given State does not, under modern conflict of laws principles, mean that the court will apply its own law to a dispute if there is no other connection to the forum’s law.

Proposed §1-301 eliminates the requirement that there be any connection between the law chosen and the parties or their underlying transaction. In so doing, Proposed §1-301 parts company with the Restatement (Second) of Conflict of Laws §187 which courts are likely to apply in non-UCC transactions. In the first situation discussed earlier, the court, under Proposed §1-301, would recognize the parties’ choice of Pennsylvania (or any other) law despite the lack of any connection between that chosen law and the parties and their transaction.

As indicated above, twenty-two states now have in place Revised Article 1 without its proposed changes to the choice of law rule. At this point, the need for uniformity in the UCC argues strongly in favor of rejecting the changes to the choice of law rule in Proposed §1-301 and enacting an updated version of Existing §1105 as the other states have done.

Uniformity in the UCC is important for many reasons. It may be uniquely important with choice of law rules.

A choice of law rule is a rule that applies to the forum. Pennsylvania’s choice of law rules apply in its courts, Maryland’s apply in Maryland courts, and so on. A choice of law rule tells the forum how to choose the law it should apply in cases before the court.

Non-uniformity in choice of law rules creates a premium for forum shopping. To give a simple example, suppose the parties to a contract chose unrelated law to govern it. They would get enforcement of that provision only in a state that has enacted the Proposed §1-301, and would not get enforcement of the contract provision in a jurisdiction with the “reasonable relationship” rule. As all litigators understand, it is impossible (even with a strong contractual choice of forum provision) to guarantee that the unknown future dispute will be litigated in the “right” state. Uncertainty of this kind simply cannot be eliminated at the contract drafting stage. While this may mean that parties will simply choose “related” law in order to eliminate the forum shopping uncertainty, policymakers should pause before

<sup>12</sup> Actually, the rule does not speak to this situation except indirectly; it only speaks to the situation where the parties have agreed to “this state’s” law and their transaction has a relationship with “this state.” Because the rule limits the parties’ choice of law to the law of a state with a reasonable relation to the transaction, however, the court would not, under Existing §1105, recognize the choice of Pennsylvania law.

enacting a rule that would create incentives for forum shopping.

There are no substantial problems with the rule now in place in Existing §1105. The substance of that rule is substituted for Proposed §1-301 and, as so revised, should be enacted.

**Course of Performance, Course of Dealing and Usage of Trade:** Existing Article 1, in §1205, defines “course of dealing” and “usage of trade” and explains how the parties’ course of dealing and the applicable usages of trade should be used to determine the meaning and supplement or qualify terms of an agreement. “Course of performance” was listed in Existing Article 1 as one element of an agreement, but this term was defined and given effect by Articles 2 and 2A. Existing §§2208 and 2A207 define “course of performance” and provide that the course of performance between parties is relevant in determining the meaning of an agreement between those parties.

Revised Article 1 changes this by expressly providing that the meaning of an agreement may be determined by the parties’ course of performance, course of dealing, and applicable usages of trade. Therefore, Revised §1303 incorporates into a single provision the course of performance rules found in Existing §§2208 and 2A207. The inclusion of all three interpretive devices in Article 1 addresses some existing confusion among the courts, some of which have held that because course of performance is defined and given effect by Articles 2 and 2A, an agreement governed by other Articles of the UCC cannot be explained or supplemented by the parties’ course of performance.<sup>13</sup> The revised provision clarifies the fact that the parties’ course of performance can be used to interpret agreements in transactions governed by all of the substantive Articles of the UCC. Courts applying Pennsylvania law have used course of performance in interpreting agreements under other Articles of the UCC,<sup>14</sup> so this change reflects existing Pennsylvania law.

**Waiver or Renunciation of Claim or Right After Breach** Revised §1306 is derived from Existing §1107, but the new section makes two changes to existing law. First, the new section embraces medium neutrality. Whereas Exist-

ing §1107 contemplates waiver or renunciation of a claim upon delivery of a “written waiver,” Revised §1306 requires such a waiver or renunciation to be in an “authenticated record.” This change is consistent with changes throughout the UCC designed to give effect to electronic communication methods.

The second change to this section is substantive. Existing §1107, which, as noted above, requires delivery of a written waiver or renunciation, merges the separate concepts of a party’s agreement to forgo rights and the manifestation of that agreement. Revised §1306 separates those concepts by explicitly requiring the agreement of the aggrieved party.

## CHANGES TO ARTICLE 7

Article 7 is the last of the articles of the Uniform Commercial Code to be revised during the last decade. The genesis of this project is twofold: to provide a framework for the further development of electronic documents of title and to update Article 7 for modern times in light of state, federal and international developments. Revised Article 7 contains several substantive changes to current law and the Task Force recommends that Pennsylvania adopt all of these changes. The changes to existing law are described in this part of the Report.

Electronic documents of title and documents in tangible form are in regular use in commerce today. As time passes, the percentage of documents that are in electronic form increases and the percentage of documents in tangible form decreases. It has been estimated by one of the largest commercial ocean carriers serving the United States in foreign commerce that if it had to use only paper documents, commerce would come to a virtual standstill. The Customs Service now requires that all cargo manifests of all imports to the United States be filed in electronic form. However, the current language of Article 7, governing bills of lading, warehouse receipts, and other documents of title, speaks in language which was intended to apply only to paper documents, and can only be stretched to cover electronic documents with difficulty if at all. The proposed amendments deal with these issues and bring Article 7 into the modern electronic commercial world. They do so by (1) making changes to the definitional sections of the Article and adding substantive provisions to assure that the provisions are “media neutral” in their application; and (2) adding a few modest sections to Article 7 to eliminate any difficulties in the application of existing provisions in an electronic world. Many of these changes track provisions found in the Uniform Electronic Transactions Act and the 2001 Revised Article 9 of the Uniform Commercial Code, both of which have been enacted in

<sup>13</sup> See, e.g., *Universal C.I.T. Credit Corp. v. Middlesboro Motor Sales, Inc.*, 424 S.W. 2d 409, 411 (Ky. 1968) (“UCC §-208] deals with sales only. As to secured transactions the code apparently does not contain a rule for varying a contract by performance.”).

<sup>14</sup> See e.g., *Major’s Furniture Mart, Inc. v. Castle Credit Corporation*, 449 F.Supp. 538 (E.D.Pa. 1978), *aff’d* 602 F. 2d 538 (3rd Cir. 1979) (applying the rules of §2208 to an Article 9 transaction); *In the Matter of Penn Housing Corp.*, 367 F.Supp. 661 (W.D. Pa. 1973) (applying §2208 to an Article 9 transaction).

Pennsylvania.<sup>15</sup> Conforming amendments to other Articles of the UCC are also necessary to fully integrate electronic documents of title into the UCC.

Article 7 was updated to take into account deregulation of affected industries. For example, references to tariffs are eliminated in Revised §§7103, 7204, 7309, 7403, and 7601 given the deregulation in the shipping industry. Section 7104 deleted the ability to make a document of title negotiable in international trade if it “runs to a named person or assigns” and allows parties to make a document non-negotiable at issuance by a conspicuous legend to that effect.

The organization of Revised Article 7 is identical to that of Existing Article 7 and several new sections have been added.

### *Part 1: General*

**Definitions:** Revised Article 7, in §7102, adds several new definitions to existing law. The new definitions of “Carrier” and “Shipper,” both bailees under current law, have been added for clarification. The bulk of the definitions that accommodate electronic commerce are being incorporated into Article 1. Those definitions are the definitions of “bearer,” “bill of lading,” “delivery,” “document of title,” “holder,” and “warehouse receipt.”

The most important definitional change is in the definition of “document of title.” The current definition, in Existing §1201, defines the term in paper terminology, referring to documents that can be “possessed.” The current definition does not explicitly provide for documents of title that are in electronic form. By contrast, the new definition describes a document of title as a “record,” which, as explained above in our explanation of the Revised Article 1 definitions, is a term that includes information written on paper and information stored in electronic form. Revised Article 7 also explicitly defines “electronic document of title” within the definition of document of title. The new definition also adds the concept of control, the electronic analogue to possession. Therefore, under the new definition, a paper document can be in the possession of a person while an electronic document can be in the control of a person. Revised Article 7 defines control in a separate section, §7106, explained below.

The remaining new Article 1 definitions related to documents of title, “bearer,” “bill of

lading,” “delivery,” “holder,” and “warehouse receipt,” have all been revised to incorporate this new definition of “document of title.” Importantly, the definitions of “bearer” and “holder,” which are currently terms that refer to persons in possession of paper documents of title, have been expanded to include persons in control of electronic document of title. Likewise, the definition of “delivery” adds the voluntary transfer of control of an electronic document to the existing definition of delivery, which is the voluntary transfer of possession.

Article 7 also adds the definition of “sign,” which includes the use of both written signatures and electronic authentication methods. The Article 7 definition of sign includes the definition of “electronic signature” from the Pennsylvania Electronic Transactions Act and the federal E-Sign Act.

**Relation to Other Law:** Revised §7103, “Relation of Article to Treaty or Statute,” deletes references to tariffs and classifications that no longer track modern commercial practice, and includes additional references to the federal E-Sign Act and the Pennsylvania Electronic Transactions Act that are pertinent to electronic document of title systems. Although the textual language in Revised Article 7 differs substantially from existing law, the changes are unobjectionable. In short, Revised Article 7 provides: (i) that it is subject to treaties, federal law and relevant state law and regulation; (ii) that it does not modify or repeal any law imposing requirements on the form or content of documents of title; (iii) that it modifies E-Sign; and (iv) that Revised Article 7 prevails to the extent there is a conflict between the Pennsylvania Electronic Transactions Act and Revised Article 7.

**Negotiable and Non-Negotiable Documents of Title:** Revised §7104, “Negotiable and Nonnegotiable Document of Title,” incorporates changes for style, trade practice and medium neutrality and adds a new subsection. The changes are not important substantive changes. Under both the existing and revised versions of Article 7, a negotiable document of title is one by whose terms the goods are delivered to bearer or to order of a named person. A document of title that does not meet the foregoing prerequisites is nonnegotiable. A document of title, whether tangible or electronic, may be negotiable if the document meets the requirements of this section. Subsection (c) of Revised §7104, which is new, derived from §3104(d), provides that a document of title is not negotiable if, at its issuance, an issuer places a legend on the document that it is not negotiable. Once issued as negotiable, a document of title cannot be changed to a non-negotiable document of title. Likewise, once issued as nonnegotiable, a document of title cannot be changed to negotiable by placing a notation on the document that it is negotiable.

<sup>15</sup> The Uniform Electronic Transactions Act is codified in Pennsylvania as 73 P.S. §2260.101 et seq., and Revised Article 9 of the Uniform Commercial Code is codified in Pennsylvania as 13 Pa.C.S. §9101 et seq.

**New Provisions Relating to the Use of Electronic Documents of Title:** Revising Article 7 to encompass electronic as well as paper documents presented two new issues that are dealt with in new sections in Article 7. The first question was how to deal with documents of title that were created in one medium, *e.g.*, paper, and were later converted to another form, *e.g.* electronic media. Revised §7105, “Reissuance in Alternative Medium,” is a new article that pertains to electronic documents of title, which did not exist when the existing law was adopted. As explained above, Revised Article 1 changes the definition of document of title so that the document of title is required to be in a “record” as opposed to a “writing,” in order to accommodate electronic documents of title. The definition of “record” in Revised §1201 provides for two formats, electronic and tangible. An electronic document of title is a document of title evidenced by a record consisting of information stored in an electronic medium. A tangible document of title is a document of title evidenced by a record consisting of information inscribed on a tangible medium. Although the issuer of the document of title determines the initial format of the document of title, Revised §7105 allows for a tangible document of title to be converted to an electronic document of title or vis versa. Pursuant to §7105, a person entitled under the document of title may request the issuer to reissue the document of title in the alternative medium. In connection with the reissue, the person entitled under the original document of title must surrender possession or control and warrant that he was the person entitled under the original document of title. The substitute document of title must contain a notation stating that it was issued in substitution of the original document of title.

The second question was how to construct the electronic equivalent of “possession” of tangible documents of title. Revised Article 7 does this through the concept of “control” of electronic documents of title, a concept that is drawn from the Uniform Electronic Transactions Act and Revised Article 9 of the U.C.C. Revised §7106, “Control of Electronic Documents of Title,” is the new section that defines the concept of control as the substitute for possession and indorsement of a tangible document of title. Revised §7106 sets out a standard for control and a set of criteria that, if met, means a person has control. The essence of the control definition is that the system employed must reliably establish that the person to whom the electronic document of title was issued or transferred has control of that document. Third party registration systems satisfy this requirement. However, Revised Article 7 does not preclude the development of different systems, so long as the system meets the requirements of Revised §7106. Other sections

were amended to integrate the control concept of §7106 for electronic documents of title in the same way that possession is important for tangible documents of title. Examples include Revised §7303 (consignee in possession or control of document of title giving directions regarding the goods), Revised §7305 (surrendering possession or control of a document of title in order to procure a substitute document), Revised §7403 (surrendering possession or control of a document of title when receiving delivery of the goods), Revised §7502 (rights of due negotiation when person deprived of possession or control of negotiable document of title), Revised §7601 (court orders issuance of substitute documents when possession or control of original document not surrendered), and Revised §7602 (judicial process when possession or control of negotiable document of title not surrendered to bailee).

### *Part 2: Warehouse Receipts: Special Provisions*

Several of the sections in Part 2 of Article 7 were revised to reflect style changes only. The remaining changes in Part 2 fall into two categories: changes made to incorporate the use of electronic documents of title and changes made to reflect modern practices in the industries in which documents of title are used.

**Changes Made to Accommodate Electronic Commerce:** Two provisions within Part 2 were revised to eliminate paper-based references. Existing §7202 sets forth a number of terms that must be in a warehouse receipt and requires that a warehouse receipt contain a “consecutive number.” Revised §7202 adapts that requirement for the electronic world and instead requires that a warehouse receipt contain a “unique identification code.” This unique identification code can include any combination of letters, numbers, signs and/or symbols and thus accommodates the use of electronic documents of title.

Existing §7210 sets forth requirements with which a warehouse must comply in order to enforce its warehouse lien. Before enforcing its lien, the warehouse must deliver notification to all persons known to have an interest in the goods subject to the lien. Under the existing provision, this notice must be delivered in person or by registered or certified mail. Revised §7210 eliminates this requirement. As a result, notification may be sent by any reasonable means as provided in Revised §1202, including electronic means of notification.

**Changes Made to Reflect Modern Practices:** Existing §7204 allows a warehouse to limit its liability for breach of its duty of reasonable care if the warehouse sets forth the limitation in a warehouse receipt or storage agreement per article or per unit of weight. This require-

ment has been deleted as it is inconsistent with modern industry practice. Therefore, while Revised §7204 continues the standard of reasonable care, the warehouse can limit its liability without stating the limitation per article or per unit of weight.

Existing §7209 provides for a warehouse lien in goods covered by a warehouse receipt. Revised §7209 recognizes a warehouse lien when there is a storage agreement between the bailor of the goods and the warehouse. This change reflects the fact that in the modern warehouse, the bailor and bailee may enter into a master contract governing the bailment with the bailor and bailee keeping track of the goods stored pursuant to the master contract by notation on their respective books and records. In such an arrangement, the parties send notification by electronic communication as to what goods are covered by the master contract and warehouse receipts are not issued.

### *Part 3: Bills of Lading: Special Provisions*

The changes made to Part 3 of Article 7 were made primarily to reflect modern commercial practices. For example, terminology in Revised §§7301 and 7302 reflects international practice. As a result, Revised §7301 replaces the word “freight” with the word “goods” to conform with domestic and international land transport usage in which “freight” means the price paid for carriage of goods and not the goods themselves. Therefore, this is a clarifying change. In addition, Revised §7302 modifies the language of Existing §7302 to conform with recent proposals of the United Nations Commission on International Trade Law and the Organization of American States concerning transportation and through bills of lading. The change in terminology is not substantive.

The one substantive change to Part 3 is in Revised §7307, which provides that a carrier’s lien extends to the proceeds of the goods covered by the bill of lading. Existing §7307 provides only that the carrier has a lien on the goods. Under Existing §7307, a carrier, to preserve and enforce its lien, may be forced to refuse to release goods to the consignee, even where the proceeds of the goods would be sufficient to satisfy the carrier’s unpaid charges. The proposed section facilitates the conduct of commercial transactions where the carrier’s charges are in dispute by providing a mechanism by which the carrier’s interest in payment for its services is protected, without disrupting the flow of commerce.

### *Part 4: Warehouse Receipts and Bills of Lading: General Obligations*

All of the changes in this part accommodate electronic documents of title and conform to modern drafting style. The definition of “person entitled under the document” has been moved from Existing §7403 to Revised §7102.

### *Part 5: Warehouse Receipts and Bills of Lading: Negotiation And Transfer*

Most of the changes in this part accommodate electronic documents of title. Significantly, Existing §7501 sets forth the requirements for negotiation of documents of title. Revised §§7501 and 7502 continue the rules applicable to due negotiation and its effects, except that they comprehend electronic documents of title. In general, a transferee may obtain greater rights than its transferor if the purchase is made for value, in good faith and without notice of defenses or claims unless the negotiation is not in the regular course of business. Part 5 also contains references to Article 2A of the UCC governing leases of goods, references that are not contained in Existing Article 7.

### *Part 6: Warehouse Receipts and Bills of Lading: Miscellaneous Provisions*

The only substantive change in Part 6 is to §7601, relating to lost, stolen or destroyed documents of title. When a document of title is lost, stolen or destroyed, a court may order delivery of the goods or delivery of a substitute document of title. Under Existing §7601, a claimant under a missing document of title is required to post security to indemnify any person who may suffer loss as the result of non-surrender of the document. Revised §7601 provides an exception to this requirement when other possible claimants are adequately protected. This provision gives courts flexibility similar to that provided to courts by §3309, governing lost, stolen or destroyed negotiable instruments.

### *Part 7: Miscellaneous Provisions*

This Part is new. It provides an effective date and specifies that the Act will apply only to a document of title that is issued or a bailment that arises on or after the effective date of the Act.