ASSOCIATION OF BUSINESS TRIAL LAWYERS

abtl REPORT

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Attorneys' Fee Awards: Watch Out For the New Sheriff in Town

In an apparent effort to discourage civil litigation among parties with marginal claims, state court judges are more and more often doing the unthinkable: awarding significant attorneys' fees in favor of defendants where the plaintiffs' claims have been dismissed prior to trial or a judgment has been entered against them after trial on the merits.

Larry C. Russ

Before yawning with indifference, let me warn you that I am not just referring to standard breach of contract cases with provisions for attorneys' fees to be awarded to the prevailing party. I am referring to a full plethora of civil cases where counsel for the plaintiff has alleged multiple claims against multiple defendants and in the process has pleaded some theory for the recovery of attorneys' fees. This theory usually begins with some contractual claims but is asserted against party defendants who never signed the subject contract. Once the defendants prevail, they use plaintiffs' attorneys' fee recovery theory as a sword. The discussion below will likely open your eyes to risks you may not have previously considered.

In an unpublished decision (due to settlement) a Superior Court judge recently awarded about $200,000 in attorneys' fees in favor of defendant Bank in an environmental pollution case. Bank obtained summary judgment. The plaintiffs had contended that the Bank concealed knowledge of contamination on real property that plaintiffs purchased from a customer of the Bank.

(Continued on page 5)

INSIDE

Actual Injury: The Second Half of the Malpractice Statute of Limitations Analysis

If you think a legal malpractice claim would be barred one year after discovery, you may be unpleasantly surprised by recent California Supreme Court decisions. Those decisions make clear that the statute of limitations will not start to run when the client discovers malpractice unless the client has also suffered actual injury. What is less clear is what is necessary to satisfy the actual injury requirement.

Robert W. Stone

Consider a hypothetical case, inspired by the facts of *ITT Small Business Finance Corporation v. Niles*, 36 Cal.Rptr.2d 552 (1994). An attorney, call him Hapless Jones, prepared the loan documentation for a client's loan to a manufacturing company. Under the loan agreement, the client received a first security interest in machinery, inventory, and accounts receivable. Unfortunately, the borrower filed for bankruptcy three years later and contended that the loan documents were inadequate to secure the loan. Mr. Jones's client blamed him and hired new counsel to litigate the sufficiency of the security interest.

After his client hired new counsel, Mr. Jones calendared the one-year statute of limitations for malpractice claims based on California Code of Civil Procedure §340.6. The year passed without a word from his former client. Almost three years later, the client settled with the borrower and sued Mr. Jones for malpractice. Although Mr. Jones showed discovery of the claim and payment of fees to new counsel, the trial court and the Court of Appeal both rule *against* him, concluding that the statute had not run. On top of that, his malpractice carrier disputed coverage because he failed to report a potential claim that he thought was barred by the one-year statute.

This hypothetical presents two crucial issues for the statute of limitations analysis. First, a client must sustain an "actual injury" before the statute will begin to run. Although this requirement is well-settled case law, and is codified by CCP §340.6(a)(1), it is often overshadowed by a focus on the "discovery" of the claim. Many lawyers take steps necessary to inform the client of any mistakes or errors which may lead to a malpractice claim as a way to start the running of the statute. This may be of little assistance to the lawyer if the client has not sustained actual injury.

(Continued on page 2)

Continued from page 1

Actual Injury Occurs Upon Termination of the Underlying Proceedings

The hypothetical also presents a second issue which the California Supreme Court has recently addressed in several factual settings: At what point does a client sustain actual injury? In situations where the alleged malpractice occurs during the attorney's work in underlying litigation, the Supreme Court established a bright-line rule in 1992. A client does not sustain actual injury, and thus the malpractice statute does not begin to run, until termination of the underlying proceeding at the *trial* court level. Actual injury occurs with the trial court's final determination even if the determination is later appealed, and, apparently, even if it is later overturned on appeal. *See Laird v. Blacker*, 2 Cal.4th 606, 611 (1992).

After *Laird*, the lower courts took different approaches when applying the *Laird* bright-line rule to different facts. As a result, the Courts of Appeal reached seemingly contrary decisions in factually similar cases. According to some Court of Appeal decisions, the client in the hypothetical above suffered actual injury when it paid fees to the new counsel in the Bankruptcy Court proceeding. Other appellate courts, however, ruled that actual injury was not incurred until the Bankruptcy Court proceedings were terminated at the trial level.

In an apparent attempt to resolve the inconsistency among the opinions of the lower courts, the California Supreme Court accepted for review five professional malpractice cases. Two have been decided. In all five cases, a central issue is determining when a client sustains actual injury sufficient to commence the running of the statute of limitations for either an attorney or accountant malpractice claim.

We now know that "actual injury" in an attorney malpractice claim does not arise in a *transactional* setting until the entry of a judgment in or settlement of an underlying action in which the transaction is at issue. *ITT Small Business Finance Corp. v. Niles*, 36 Cal.Rptr.2d 552, 559 (1994). Similarly, a malpractice plaintiff sustains actual injury due to an accountant's negligent tax advice only after the Internal Revenue Service is entitled to assess a final tax deficiency, either by issuing a notice of deficiency or by entering into an agreed assessment. *International Engine Parts v. Feddersen and Company*, 9 Cal.4th 606(1995).

The *ITT Small Business Finance Corp.* and *International Engine Parts* decisions have established certainty and predictability in two factual settings. Under different circumstances, such as in the undecided cases, there may remain some room for creative lawyering. This article briefly examines the "actual injury" requirement as it has been developed by the landmark cases of *Budd v. Nixen* and *Laird v. Blacker* and codified in CCP §340.6. It then explores the different facts and holdings of the Supreme Court's two recent opinions on the statute of limitations issue: *ITT Small Business Finance Corp. v. Niles* and *International Engine Parts, Inc. v. Feddersen and Company*.

The Origin of the Actual Injury Requirement

The California Supreme Court first announced the actual injury requirement in *Budd v. Nixen*, 6 Cal.3d 195 (1971). In *Budd*, the Court addressed the statute of limitations under CCP §339, which then imposed a two-year limitations period on all professional negligence actions. Current CCP §340.6 had not yet been enacted. The Court held that "a cause of action for legal malpractice does not accrue until the client suffers damage and that the determination of that date raises an issue of fact." *Budd*, 6 Cal.3d at 198.

In *Budd*, a corporation and its president, Budd, were sued for breach of contract. Attorney Nixen represented both the corporation and Budd. When filing an answer to the complaint on behalf of Budd, Nixen failed to include any allegation that Bu only acted in his capacity as corporate president. As a result Nixen's alleged negligence, Budd was found personally liable for a portion of the judgment. *See Budd*, 6 Cal.3d at 198.

After the action had been taken under submission but prior to entry of judgment, Budd fired Nixen and retained another attorney. After entry of the judgment, Budd's motion for a new trial was denied. Consequently, Budd filed an action against Nixen for malpractice. The Supreme Court held that the lawsuit was not time-barred on the ground that the limitations period for legal malpractice did not begin to run until the plaintiff had suffered appreciable harm. *Budd*, 6 Cal.3d at 201.

When Nixen negligently filed the answer, Budd had not been harmed because he had not received an unfavorable judgment in the contract action yet. "The mere breach of a professional duty...or the threat of future harm — not yet realized — does not suffice to create a cause of action for negligence." *Budd*, 6 Cal.3d at 200. The determination of when the plaintiff sustained an actual injury raised an issue of fact. Therefore, the Court remanded the case.

Trial Courts Have Reached Diverse Results

The *Budd* rule has been codified in CCP §340.6(a)(1), which tolls the statute of limitations during that period in which the plaintiff has not suffered an actual injury. Neither the *Bu* Court nor CCP §340.6(a)(1) defines when an attorney's c duct actually harms the client. As a result, the case-by-ca inquiry required in *Budd* has led to diverse results in the lower courts. The Supreme Court addressed an aspect of this problem in *Laird v. Blacker*, 2 Cal.4th 606 (1992).

The specific question in *Laird* was whether an appeal of the underlying case tolled the limitations period in attorney malpractice actions based on alleged attorney negligence in the course of an underlying action. In addressing this question, the Supreme Court determined when the client sustained actual damage in this factual setting: upon entry of an adverse judgement or final order of dismissal by the trial court in the underlying case. In so doing, the Court established a bright-line rule based upon the requirement announced in *Budd* that damages should not be speculative.

In *Laird*, the plaintiff hired a law firm to sue a defendant for misappropriating her idea for a television series. The attorney failed to prosecute the action and was fired by the plaintiff. Plaintiff then hired a second lawyer. The second attorney also failed to pursue the case. As a result, the trial court granted the defendant's motion to dismiss. The plaintiff paid the second attorney to oppose this motion. Plaintiff then pursued an appeal of the dismissal *in propria persona*. Ten months later, plaintiff settled with the defendants and dismissed her appeal. After another eight months, plaintiff pursued both the first attorne and the second attorney for legal malpractice. *See Laird Blacker*, 2 Cal.4th at 610. The plaintiff settled with the fi attorney, but went to trial against the second attorney.

In the malpractice action, the second attorney argued that the action was barred by the one-year statute of limitations because the action accrued when the trial court first dismissed the underlying case. Plaintiff did not bring the malpractice action until approximately 15 months after the trial court's dismissal. Plaintiff contended that the limitations period was tolled until her appeal was voluntarily dismissed. Only then, she argued,

(Continued next page)

Malpractice Statute of Limitations Analysis

Continued from page 2

's it affirmatively determined that she suffered damage. The lifornia Supreme Court affirmed the Court of Appeal's decision in favor of the attorney. The Court found that her malpractice action accrued upon termination of the underlying proceedings before the trial court because that was the date upon which the client suffered damage. *Id.* at 611.

The Actual Injury Requirement In Transactional Malpractice

Litigants and the lower courts have taken different approaches in applying *Laird* to cases where the malpractice does not arise out of underlying litigation. Plaintiffs' counsel typically have taken the position that *Laird* establishes a bright-line rule that the statute of limitations does not start until entry of an adverse judgment determining the extent of injury from the malpractice. This position is that, until a plaintiff has concrete damages to take in front of a jury, the limitations period does not start to run.

Defense counsel, such as in *ITT* and *International Engine Parts*, have disagreed. They have argued that *Laird* was limited to its facts and, at most, held that the statute of limitations is not tolled during an appeal. Thus, at the latest, accrual would start upon the trial court's determination. Defense attorneys have argued that actual injury occurs with any payment of professional fees to get a client out of the problem the lawyer's malpractice allegedly created. This argument no longer works.

Court has flatly rejected any argument that attorneys' fees d while defending the lawyers' conduct is an actual injury. *ITT Small Business Finance Corp.*, 36 Cal.Rptr.2d at 555.

In *ITT Small Business Finance Corp.*, the Supreme Court held that "actual injury" for purposes of CCP §340.6 does not arise from transactional malpractice until entry of judgment in or settlement of an underlying action in which the transaction is at issue. *ITT Small Business Finance Corp.*, 36 Cal.Rptr.2d at 559. In that case, ITT hired attorney Niles to draft certain loan documents. Four years later, the debtor in the transaction filed for bankruptcy. The debtor filed suit in Bankruptcy Court two years later against ITT alleging that the loan documents prepared by Niles were insufficient to secure the loan. After two years of litigation, ITT entered into a settlement agreement with the debtor for less than the full value of the security. Only two months after the settlement, ITT sued Niles for malpractice. The trial court, however, granted Niles' motion for summary judgment on the basis that the statute of limitations had run. *ITT Small Business Finance Corp.*, 36 Cal.Rptr.2d at 554.

Relying on *Laird*, the Court of Appeal reversed. Niles argued that ITT sustained actual injury when it incurred legal fees to defend the adversary proceeding in Bankruptcy Court brought by the debtor. ITT argued that its cause of action did not accrue until the flawed loan documentation caused it to settle with the debtor for less than face value. The Second District found that settlement at the trial court level was the functional equiva- t of the trial court dismissal in *Laird*. "Until that moment, it was entirely possible ITT could have prevailed in those proceedings by establishing the loan documentation was sufficient and then suffered no actual injury just as the plaintiff in *Laird* suffered no actual injury until the moment the trial court dismissed her complaint." *ITT Small Business Finance Corp.*, 36 Cal.Rptr.2d at 554. This was the rationale accepted by the Supreme Court. ITT's malpractice action did not accrue until ITT settled for less than the full value of the security.

(Continued on page 9)

Law Firm Secrets

Most law firms would not willingly disclose to the public their partners' draws, firm revenue, associate salaries or bonuses, client names, client projects, or billing practices. A law firm may be forced, however, to reveal this information — perhaps even broadcast it on nationwide Court TV — to defend itself against claims of wrongful termination, discrimination, or unfair competition.

In this article the author argues that law firm records are trade secrets. The public should be excluded from a courtroom when such evidence is presented, the record should be sealed, and the court should prohibit disclosure.

Alice A. Seebach

Law Firms Have Trade Secrets

Information that a competitor may value and that an owner has tried to keep secret is a trade secret:

> "Trade secret" means information, including a formula, pattern, compilation, program, device, method, technique, or process, that:
>
> (1) Derives independent economic value, actual or potential, from not being generally known to the public or to other persons who can obtain economic value from its disclosure or use; and
>
> (2) Is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

Cal. Civil Code §3426.1(d)(1) and (2).

Client lists, client projects, billing practices, revenue, partnership draws, associate pay, and staffing are all trade secrets. This information (1) derives independent economic value because it is not generally known to the public and (2) is the subject of reasonable efforts to maintain its secrecy.

Law Firm Records Have Independent Economic Value

A client list is a trade secret where it has potential economic value. *MAI Systems Corp. v. Peak Computer, Inc.*, 991 F.2d 511, 521 (9th Cir. 1993) (applying California law) (customer database has potential economic value). A client list compiled through substantial time, effort, and expense has potential economic value. *Courtesy Temporary Service, Inc. v. Camacho*, 222 Cal. App.3d 1278,1288 (1990). A client list also has value where the clients are in the market for "goods or services which the competitors sell." *ABBA Rubber Co. v. Seaquist*, 235 Cal. App.3d 1, 19 (1991). If the list were disclosed, a competitor could specifically target customers in the market for a particular service. *American Credit Indem. Co. v. Sacks*, 213 Cal. App. 3d 622, 631 (1989).

In *American Credit*, the Second Appellate District held a list of policyholders was an insurance company's trade secret. The list had "potential economic value" because a competitor could target individuals that had a "predisposition to purchase" insurance. *Id.* The list was an "elite compilation...deserving of protection." *Id.* at 632. The Second District noted that California law protects many kinds of customer lists. *Id.* at 631.

(Continued on page 4)

Law Firm Secrets
Continued from page 3

Law firm client lists are included. *See* the Second District's opinion in *Haight, Brown & Bonesteel v. Superior Court*, 234 Cal. App. 3d 963 (1991) (law firm client list has value). A law firm's client list has economic value because the firm invests substantial time, effort, and expense to develop clients. The practice of law is highly competitive. If a competitor had the list, he or she could specifically target clients with a "predisposition to purchase" particular legal services. The client list is an "elite compilation" that deserves trade secret protection.

Client Projects

California has long protected information about business transactions. In *Ingrassia v. Bailey*, 172 Cal. App.2d 117 (1959), the Second Appellate District held that the details of a food vendor's transactions were protected. The food vendor's trade secrets were: (1) where he parked at industrial plants; (2) when he arrived; (3) how long he stayed; (4) how many employees worked at each plant; and (5) what food he supplied. *Id.* at 120. This information might disclose customers' "peculiar likes and fancies and other characteristics" and "may well spell the difference between success and failure." *Id.* at 122.

For the same reasons, California courts protect information about an insurance company's transactions with its policyholders. In *State Farm Mut. etc. Ins. Co. v. Dempster*, 174 Cal. App.2d 418, 422 (1959), the court protected as trade secrets "amounts and types of insurance purchased...due dates of premiums and the amounts thereof, the character, description and location of insured property, the make and model of insured automobiles and personal information as to the insured." Disclosing this information would "open[] the company to competitive attack." *Id.* at 423.

Disclosing information about clients' projects could open a law firm to "competitive attack." Such information would disclose clients' likes, dislikes, needs, or fancies — all protected trade secrets under California law. *Ingrassia v. Bailey*, 172 Cal. App.2d at 122 (affirming preliminary injunction protecting trade secrets). As in *State Farm*, disclosing such details as (1) the type of legal services, (2) the entities that a firm helped its clients acquire, (3) the clients' decisions about reorganizing or making a public offering, or (4) the clients' plans to expand or contract, would allow other law firms to pitch their services precisely to client needs. Finally, source of supply (which lawyers gave advice), techniques (how the firm structured a transaction), and recommendations (advice given) may also be trade secrets. *Ungar Electric Tools, Inc. v. Sid Ungar Co., Inc.*, 192 Cal. App.2d 398, 403 (1961), *rev'd on other grounds*, 62 Cal. 2d 598 (1965) (source of supply, techniques, and processes are trade secrets: "The character of the secrets, if peculiar and important to the business, is not material").

Financial And Personnel Records.

Financial records are trade secrets. Billing rates are trade secrets. *Courtesy v. Camacho*, 222 Cal. App.3d at 1288. Markups are trade secrets. The information is "irrefutably of commercial value." *Id.* Prices, costs, and volume are all trade secrets. R. Milgrim, Milgrim on Trade Secrets §2.09[8] at 2-291 *et seq.* (1993).

Personnel records are trade secrets. Analysis of employees' performance and value are trade secrets. *Id.*

Like the protected information in *Ingrassia v. Bailey*, 172 Cal. App.2d at 123, financial and personnel records are the "foundation upon which [a law firm's] success, indeed, its very existence, is built." Some law firms match lawyers' talents and billing rates to clients' needs to deliver the most appropriate legal services at the best prices. The firm's success depends, among other things, on fitting lawyers to tasks, providing mo etary and other incentives to motivate the lawyers, and bill clients to realize the highest possible recovery for the firm's services. Information about the firm's finances, billing practices, and ways of evaluating and compensating lawyers is the firm's asset, "irrefutably of commercial value." *Courtesy v. Camacho*, 222 Cal. App.3d at 1288.

Law Firms Keep Their Records Secret

A law firm must take "efforts that are reasonable under the circumstances to maintain [the] secrecy" of law firm records. *See* Cal. Civil Code §3426.1(d)(2). The efforts need not be "heroic," only reasonable under the circumstances. *Surgidev Corp. v. Eye Technology, Inc.*, 648 F. Supp. 661, 692 n.15, 693, 694 (D. Minn. 1986) *aff'd*, 828 F. 2d 452 (8th Cir. 1987) (applying California law).

Reasonable efforts to keep records secret include limiting access to a building, putting employees on notice that a matter is secret, restricting visitors, separating sensitive documents from other papers, keeping materials in locked files, distributing information on a "need-to-know" basis, and using code names. *Id.* An employer need only "signal[] to its employees and others that certain information is secret and should not be disclosed." 828 F.2d at 455. *See also Courtesy v. Camacho*, 222 Cal. Ar 3d at 1288 (controlling plant access, advising employees t information is confidential, and disclosing it "as needed" are reasonable efforts to maintain secrecy); R. Milgrim, Milgrim on Trade Secrets §2.04 at 2.72 (1993) (using code names is a reasonable effort to maintain secrecy).

In litigation, a protective order that information is confidential establishes reasonable efforts to maintain secrecy. *American Credit Indemnity Co. v. Sacks*, 213 Cal. App.3d 622, 632 (1989).

Where a law firm limits access to its offices, puts employees on notice that matters are secret, restricts visitors, separates sensitive documents, keeps papers in locked offices, files, and safes, distributes information on a "need-to-know" basis, and uses code names, it takes reasonable steps to maintain secrecy. Most law firms can show that they have taken efforts that are "reasonable under the circumstances to maintain [the] secrecy" of their partners' draws, firm revenue, associate pay, client names, client projects, and billing practices. Cal. Civil Code §3426.1(d)(2).

A Hobson's Choice

In *Standard & Poor's Corp. v. Commodity Exchange*, 541 F. Supp. 1273, 1278 (SDNY 1982), the public was excluded fr segments of a trial during which Standard & Poor's trade secre were disclosed. Otherwise, Standard & Poor's would have had a "Hobson's choice of not suing...or suing and losing forever all proprietary value of that [S&P] Index." *Id.*

Faced with a Hobson's choice of disclosing sensitive information to the public at trial or proffering an incomplete defense, a law firm should vigorously argue that such information is trade secret, and that the court should not force the firm to reveal its trade secrets to the public.

—Alice A. Seebach

Continued from page 1

ncurrent with the sale of the property to plaintiffs, customer signed the note and trust deed it held on the property to Bank. By successfully arguing that it was a holder of the note in due course, Bank managed to avoid responsibility for the alleged sins of its customer/assignor as well as its own failure to disclose material facts.

Now For the Scary Part

The plaintiffs' case started as an action to enjoin a foreclosure sale based upon its inability to refinance an industrial property with groundwater contamination. The seller of the property (Bank's customer) provided purchase money financing and then assigned its note and trust deed to Bank. Based upon the attorneys' fee provision in the purchase and sale agreement between plaintiffs and the seller, plaintiffs sought to recover their attorneys' fees from Bank even though Bank was not a party to the contract.

Once plaintiffs' claims were dismissed via summary judgment, Bank successfully obtained an award of its attorneys' fees on the theory that, since plaintiffs pleaded that they should recover attorneys' fees from Bank based upon a contract Bank did not sign, Bank should be able to recover attorneys' fees against plaintiffs. What is astounding about the court's decision is the fact that, even had plaintiffs prevailed, it is doubtful that the attorneys' fee provision in the purchase and sale agreement between plaintiffs and the seller (Bank's customer) could have en enforced against Bank.

Bank's Legal Argument

The purchase and sale agreement between the plaintiffs and the seller expressly limited the attorneys' fee provision to the "buyer, seller, and brokers...concerning this transaction."

Bank argued that this limitation was immaterial as was the fact that Bank was not a signatory to the purchase and sale agreement. Bank further asserted that its rights arose out of the assignment of the note and deed of trust from the customer to Bank.

In support of its argument, Bank primarily relied upon Civil Code §1717(a) which provides:

> "In any action on a contract, where the contract specifically provides that attorneys' fees and costs, which are incurred to enforce that contract, shall be awarded either to one of the parties or to the prevailing party, the party who is determined to be the party prevailing on the contract, *whether he or she is a party specified in the contract or not, shall be entitled to reasonable attorneys fees in addition to other costs.*" [Emphasis added.]

Bank further cited *Reynolds Metals Company v. Alperson*, 25 Cal.3d 124 (1979), for the proposition that "Section 1717 [should] be interpreted to further provide a reciprocal remedy for a non-signatory defendant, sued on a contract as if he were a party to it, when a plaintiff would clearly be entitled to attorneys' fees should he prevail in enforcing the contractual obligation against the defendant."

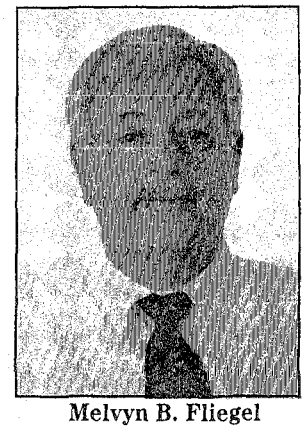
The court in *Reynolds* stated that, "since defendants would have been liable for attorneys' fees pursuant to the fees provision *had plaintiff prevailed*, [defendants] may recover attorneys' fees pursuant to Section 1717 now that [defendants] had prevailed." *Id.* at 129 [emphasis added]. (For a comprehensive analysis of Civil Code §1717, see the California Supreme Court's decision in *Chia-Lee Hsu v. Maher J. Abbara*, 9 Cal.4th 863 (1995).)

(Continued on page 8)

Not So Compelling Arbitration Clauses: Recent Decisions on Arbitration

Arbitration has increasingly been favored as a method to resolve disputes, and over the last 20 years courts have compelled arbitration with increasing frequency. Arbitration is thought to be less expensive, speedier, and less formalistic than court proceedings.

Of more importance to substantial clients is the characteristic that, if arbitration can be compelled, the arbitrator will likely be a lawyer, a retired judge or some other trained professional. Such a "judge" will less likely be subject to the impassioned rhetoric of plaintiffs' lawyers who have, in court trials, motivated some juries to render multi-million dollar verdicts as messages to the defendant's Board of Directors for the "nefarious" conduct of the defendants' employees. Moreover, court trials of some claims, such as employer-employee disputes, result in public washing of a party's dirty linen and one blessing of arbitration is that it is off-the-record, ordinarily private and less likely to produce embarrassing notoriety.


Melvyn B. Fliegel

This article discusses recent decisions regarding arbitration of importance to business litigators. In one such case, the California Supreme Court concluded that arbitrators can impose extraordinary remedies which would not be available from a court, judge or jury, so long as the remedy is rationally related to a disputed contract and breach. *Advanced Micro Devices Inc. v. Intel Corp.*, 9 Cal.4th 362 (1994). Meanwhile, the Ninth Circuit has denied arbitration in its three most recent cases, *The Prudential Insurance Co. of America v. LAI, et al.*, 42 F.3d 1299 (9th Cir. 1994); *Tracer Research Corp. v. National Environmental Services Co.*, 42 F.3d 1292 (9th Cir. 1994); and *Graham Oil Co. v. Arco Products Co.*, 43 F.3d 1244 (9th Cir. 1994), amended, 1995 WL 101832 (9th Cir. Mar. 13, 1995). In these cases, the Ninth Circuit emphasized how important it is that (i) the writings evidence *real* agreement between the parties to arbitrate their disputes, (ii) the arbitration agreement use the right words if it is to cover all disputes, and (iii) the arbitration agreement not overreach and eliminate statutory remedies afforded to various specifically "protected groups."

Creative Solutions Allowed If Rationally Connected

The California Supreme Court's decision in *Advanced Micro Devices Inc. v. Intel Corp.* was widely reported in the financial and public press. It is noteworthy in part because it demonstrates how implacable adversaries can frustrate the speed, economy and privacy advantages of arbitration.

The arbitration lasted 4½ years and included 355 days of hearings. The arbitrator made extensive findings and rendered an extraordinary award, granting AMD the right to use certain Intel intellectual property embodied in AMD's reverse-engineered microprocessor. (So much for economy, speed and privacy.)

AMD sought to have the award confirmed in court, while Intel sought to have it altered under Code of Civil Procedure §1286.6. That statute allows a court to "correct" an award without affect-

(Continued on page 6)

Continued from page 5

ing the merits of the decision. The Superior Court confirmed the arbitrator's award; on appeal, the Court of Appeal reversed; and the Supreme Court reinstated the award by a vote of four-to-three, a significant dissent being filed by the minority.

The issue before the Court was whether the extraordinary remedy awarded by the arbitrator exceeded his powers. The arbitrator found AMD had been damaged by Intel's bad faith conduct, but that actual damages were immeasurable and nominal damages would be inequitable. The arbitrator thus concluded that the proper remedy was to relieve AMD from Intel's "legal harassment" by granting AMD a permanent and royalty-free license to use Intel's intellectual property.

In summarizing its own holding, the majority concluded the award was within the arbitrator's powers, albeit not relief a court might award.

> "[I]n the absence of more specific restrictions in the arbitration agreement, the submission or the rules of arbitration, the remedy an arbitrator fashions does not exceed his or her powers if it bears a rational relationship to the underlying contract as interpreted . . . by the arbitrator and to the breach of contract found, expressly or impliedly, by the arbitrator." 9 Cal.4th at 367.

The Court fleshed out its analysis by stating:

> "In general, arbitrators enjoy greater flexibility than juries and courts in fashioning remedies. . . ." 9 Cal.4th at 384.

The dissent by Justice Kennard may have concisely characterized the resulting state of the law, as follows:

> "In *Moncharsh v. Heily & Blase* (1992) 3 Cal.4th 1, a majority of this court held that an arbitrator's error in deciding the merits of a claim cannot be judicially reviewed or corrected, even when the error is manifest on the face of the arbitrator's decision and causes substantial injustice. In this case, the majority takes another major step in the direction of turning arbitration into a game of chance and an instrument of injustice. With Moncharsh having removed all protection against the arbitrator's errors...the majority in this case in turn abolishes any meaningful limitations on the scope of the remedies that an arbitrator may award in deciding a contract dispute...." 9 Cal.4th at 391.

The saving grace in the majority's decision may be its permission for parties to write their own rules. The court held that parties may limit an arbitrator's power by agreeing in advance to such limitations.

It should be obvious from *Advanced Micro Devices Inc. v. Intel Corp.* and *Moncharsh v. Heily & Blase* that every contract providing for arbitration should consider the limits to be imposed. Otherwise there may not be any.

No Arbitration Without Real Agreement

In the first of three recent Ninth Circuit cases which refused arbitration, *The Prudential Insurance Co. of America v. LAI, et al.*, a three-judge panel concluded that the defendant employer (The Prudential) really had not obtained arbitration agreements from the plaintiff employees covering discrimination and sexual harassment claims. The employees had each signed a Form U-4 (of the Standard Application for Securities Industry Registration) which contained an agreement "to arbitrate any dispute, claim or controversy that...is required to be arbitrated under the rules, constitutions, or bylaws of the organizations with which I register," and later registered with the NASD. The NASD requires that disputes "arising in connection with the business" of its members be arbitrated. The employees contended that they were unaware that they signed any document that contained an arbitration clause and further contended that, even if they had known that they were agreeing to NASD arbitration provisions, its language did not cover employment disputes. Given the pervasive use of the arbitration form which has been employed by the NASD for most of its history, it seem highly unlikely that the employees did not in fact know that any dispute would be arbitrated. This general knowledge in the securities industry, however, did not find its way into the court's opinion.

Instead, the court agreed with the employees, saying:

> "Even assuming that [Plaintiffs] were aware of the nature of the U-4 form, they could not have understood that in signing it, they were agreeing to arbitrate sexual discrimination suits....[or] Title VII claims. That provision did not even refer to employment disputes...." 42 F.3d at 1305.

The teaching of *The Prudential* appears to be that an agreement to arbitrate controversies, particularly those which may involve specific statutorily granted rights such as are provided by Title VII, must be explicit and clearly evidence the agreement of the parties (or at least put the parties on notice) that any controversies or claims will be subject to arbitration rather than court proceedings.

There is not complete agreement among the courts on this issue, however. *In Gilmer v. Interstate/Johnson Lane*, 500 U.S. 20 (1991), the U.S. Supreme Court held that the same clauses in the same form required arbitration of an age discrimination claim under the Age Discrimination in Employment Act of 1967, 29 U.S.C. §621 ("ADEA"). Why this language was sufficient to evidence agreement to arbitrate an *employment claim* regarding age discrimination under ADEA but not one asserted under Title VII is difficult to conceive.

Practice Tip: draft a free standing arbitration agreement be signed by employers and employees to eliminate this type of risk.

Broad Clauses, Narrow Clauses: Skirting the Issue

In another case decided almost at the same time as *The Prudential*, a different panel of the Ninth Circuit found an agreement to arbitrate existed, but wasn't broad enough to cover all the plaintiff's claims and denied arbitration. In *Tracer Research Corp. v. National Environmental Services Co.*, the court held that an arbitration clause in a technology licensing agreement that purported to cover claims "arising out of this agreement" was not broad enough to include tort claims which arose from the parties' relationship.

The plaintiff had licensed certain technology to the defendant under an agreement which plaintiff subsequently terminated. Despite the termination, however, the defendant licensee allegedly continued to use the technology and the plaintiff sued on a variety of tort theories, including misappropriation of trade secrets, unfair competition, and trademark infringement. The court held that the language of the arbitration agreement covered breach of contract claims arising under the agreement but not tort claims because the parties had omitted reference to claims "relating to" the agreement. The Ninth Circuit then sent the tort claims back to the trial court, saying:

> "The misappropriation of trade secrets count of [plaintiff's complaint] is a tort claim. [Citation omitted.] The fact that the tort claim would not have arisen 'but for' the parties' licensing agreement is not determinative. [Citation omitted.] If proven, defendants' continuing use of [Tracer's] trade secrets would constitute an independent wrong from any breach of the licensing and non-disclosure agreements....Therefore, it does not require interpretation of the contract and is not arbitrable....On remand that claim should be tried in the district court."

(Continued on page 7)

Not So Compelling Arbitration Clauses

Continued from page 6

Tracer demonstrates, if demonstration is needed, that arbitration will not be obtained if the parties do not use all the magic words (*i.e.*, if the language used is too narrow as the words have been interpreted by courts in earlier cases.) Of course, Tracer's counsel might have intended to exclude from arbitration tort claims arising from the relationship, but if that was intended, a specific statement to that effect would have saved considerable litigation.

Practice Tip: Include "relating to" in arbitration agreements if you want tort claims to be subject to arbitration.

Arbitration Clauses Overreach

In yet a third case decided by the Ninth Circuit, the arbitration clause was specific enough, and it was broad enough, but it waived some specific statutory remedies Congress intended plaintiffs to have and the Court refused to enforce it. In *Graham Oil Co. v. Arco Products Co.*, the court had before it an appeal by an Oregon petroleum products distributor. Arco terminated the plaintiff which had been a distributor for branded Arco products for approximately 40 years and had most recently entered into a distribution agreement which contained an arbitration clause. When the plaintiff sued, Arco protested that the dispute should be arbitrated under the agreement. The court found that Arco had sought to obtain too great an advantage by its arbitration clause and refused to enforce it.

The offending arbitration clause included three provisions undoubtedly intended to protect Arco: (1) it provided that each party was to bear its own attorneys' fees; (2) it provided that arbitrators could not assess punitive damages; and (3) it provided that an arbitration had to be initiated within 90 days after the occurrence of the facts giving rise to the claim or be barred. However, these provisions conflicted with rights guaranteed to franchisees under the Petroleum Marketing Practices Act ("PMPA"), 15 U.S.C. §§2801-2806.

The Court said that the PMPA was intended to give franchisees remedies for arbitrary or discriminatory termination of their franchises. Among other things, the protections included "exemplary damages, reasonable attorney's fees, and a one-year statute of limitations,...not only designed to compensate for injury, but also to deter unfair conduct." With respect to the clause, the court said "because the arbitration clause employed by Arco compels Graham Oil to surrender important statutorily mandated rights afforded franchisees by the PMPA, we hold that the clause contravenes the Act."

In this decision, however, there was a partial dissent by Judge Fernandez who argued that the contractual limitations on the arbitrator's power were severable from the arbitration clause and that the arbitration clause should have been enforced without those provisions which contravened the PMPA.

The situation in which a statute specifically protects a class and grants identified remedies may be distinguishable from situations in which generally available remedies, e.g., the right to a jury, may be waived if the waiver specifically identifies the right or remedy to be waived and then waives that right or remedy in prominently printed plain language.

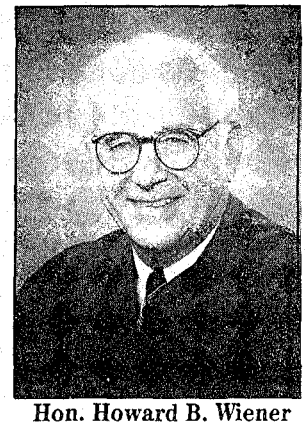
Practice Tip: *Graham Oil v. Arco* certainly cautions that those who seek too much from an arbitration clause may wind up with nothing.

—Melvyn B. Fliegel

ADR on Appeal

"ADR! ADR! ADR!" — a popular refrain. To some, retired judges included, it's music to the ears. To others, including some lawyers who still prefer to prove their case in court, it's a dissonant chord.

Regardless of the tune and how one hears it, many see alternative dispute resolution as the cure for the litigation ills of the 90's. Like the properly timed flu shot, many perceive the carefully selected mediator as being able to ward off the disease of continued litigation, allowing the patient to recover nicely with only a minimum of discomfort.



Hon. Howard B. Wiener

Yet just as the doctor knows newly discovered drugs will not eliminate every physical ill, lawyers and judges understand ADR is not the cure-all for every litigated matter. A host of factors, including policy concerns, favor certain cases remaining in the public justice system. A judicially-controlled adversarial process with a jury deciding liability and damages still is consistent with our sense of justice.

Putting aside the question of whether some form of ADR is appropriate for every case, it is interesting that, in the hyperbole discussing ADR at the trial level, little has been said about using similar techniques to resolve cases after trial. Should we assume that parties become immunized to the ADR drug following the filing of the notice of appeal? Does the party who prevails at trial become convinced that the wisdom of the trial court will be replicated on appeal so that compromise is a poison? Or does the losing party become committed to showing prejudicial error by the trial court to explain away what must have been a miscarriage of justice? Perhaps the simple answer is that both parties prefer focusing on their respective legal arguments as if their myopia will permanently deflect the appellate opinion with its inevitable message of affirmance or reversal.

Undoubtedly there are many reasons which add to the post-judgment malaise infecting counsel and their clients. The important question is whether that malaise is justified. Are the benefits of pre-judgment ADR available post-judgment? In my view, the answer to this question is a resounding yes.

Included among ADR's most commonly cited benefits are considerations of efficiency, cost, creativity, confidentiality, flexibility and control. Anyone who has ever been involved in litigation fully understands the meaning of the saying "that no one should ever watch law or sausage being made." Law is not a science and, fortunately, judges and juries are not scientists. The outcome of litigation is uncertain and the costs of trial are considerable.

In this context parties generally are motivated to eliminate the risks of trial and to control the costs by negotiating a resolution that will allow them to satisfy their needs. With respective needs satisfied, formerly feuding parties frequently can resume their commercial relationships. Thus, settlement is efficient because it allows the parties to control the outcome of their dispute, but it also permits the parties to do so in a manner which avoids the all-or-nothing result of a trial.

Nothing in the foregoing statement of ADR's benefits applies

(Continued on page 8)

ADR on Appeal

Continued from page 7

only to trial court litigation. A party wanting to eliminate further litigation expense has the same option following trial as before or during trial. After trial, both parties are still at risk. The party who prevailed at trial should recognize that appellate victory is never a sure thing. Even where reversal is a probability, the appealing party gains little if the ultimate judgment in the retrial is the same unsatisfactory result as the first. Even if the original judgment is eventually reversed, the road to victory is a long, risky and expensive one. There is no logical reason why following trial the parties and their counsel should not carefully evaluate the advantages of settlement rather than continuing with the litigation.

The California Supreme Court in *Neary v. Regents of University of California*, 3 Cal.4th 273 (1992), expressed favor for settlement because it reduced "the expense and persistency of litigation" and the "benefits of settlement do not evaporate when judgment is entered." *Id.* at 277. There is an efficiency associated with a post-judgment settlement "because it will preclude the need for future expenditures of time and money by the parties and the judiciary." *Id.* The appellate courts generally recognize the importance of appellate settlement. Virtually every appellate court has some form of settlement procedure. It is a fundamental principle that even a belated settlement saves resources. *Id.* at 278.

Obviously, some of the factors that one must consider in evaluating the terms of an appellate settlement are different than those that are weighed before or during trial. Absent a prejudicial evidentiary ruling, a completed trial establishes the factual record. Debates over a witness's credibility are no longer meaningful. The judge or jury has decided which witnesses are truthful.

Nonetheless there can be legitimate debates on questions of law and objective discussions on a number of legal issues ranging from trial court error to jury misconduct. Counsel must also evaluate the prejudice associated with alleged error to determine whether the error was prejudicial.

Appellate settlement should be limited only to those cases where the potential for reversal is great. A stipulation to reverse or modify a judgment may be particularly appropriate where a client wishes to have an on-going relationship with the adverse party and restructuring the judgment works to their mutual benefit. In other cases, the prevailing party may be concerned over the precedential effect of its case, and would rather agree to a discounted judgment than risk creating a rule of law which will be costly in other respects.

In *Neary*, the California Supreme Court recognized that absent extraordinary circumstances, it is only fair to the parties for an appellate court to defer to the litigants when they have decided on the terms of a settlement. In reaching this conclusion, the high court expressly rejected the argument that post-judgment settlement results in a waste of the time and expense of trial. *Neary* at p. 281. Counsel should note, however, that notwithstanding this judicially crafted presumption in favor of settlement, appellate courts must still examine the settlement terms to determine whether circumstances exist which warrant rejecting the settlement as not being in the public interest. *See, e.g., Krug v. Praszker*, 22 Cal. App.4th 1814, 1819-1823 (1994).

Admittedly, a strong and independent public justice system with the appellate courts deciding civil cases is essential for the development of our common law. Nonetheless, at a time where the emotional and financial costs of litigation are becoming increasingly burdensome, conscientious advocates should consider appellate settlements as a viable alternative to the appellate opinion. In doing so, they allow their clients a cost-effective means of participating in drafting the opinion itself. This may be an opportunity which is too valuable to pass up.

—Honorable Howard B. Wiener

Attorneys' Fee Awards

Continued from page 5

Related Non-Contractual Claims

The court in *Xuereb v. Marcus & Millychap, Inc.*, 3 Ca App.4th 1338, 1342-1344, 5 Cal.Rptr.2d 154 (1992), review denied, extends the notion that a non-party to an agreement can recover attorneys' fees as a prevailing party to causes of action other than strictly contractual claims. In *Xuerev*, the court awarded attorneys' fees to a non-party to the underlying agreement based upon non-contractual claims. The following quote needs little explanation. The language in the subject contract provided:

> "That the prevailing party would recover its attorneys' fees and costs in any lawsuit or other legal proceeding to which this agreement gives rise."

In a broad interpretation of this language, the Court concluded:

> "The language of this provision does not limit an award of attorneys' fees to actions brought on a breach of contract theory, or to actions brought to interpret or enforce a contract. Neither does it limit attorneys' fees to the buyer and the seller, the principal parties to the real estate action. *The language is broad enough to encompass both contract actions and actions in tort;...that this interpretation accords with the intention of the parties is evidenced by the respondent's inclusion in their complaint of a request of attorneys' fees from all the defendants, including appellants*...despite the fact that their breach of contract cause of action was essentially dropped from the litigation, respondents never abandoned their demand for attorneys fees under the purchase agreement until after trial, when it became clear that they were not to be the prevailing party." [Emphasis added.]

The Court of Appeal seems to have retreated somewhat from the expansive position taken in the *Reynolds* case in its opinion in *Super 7 Motel Associates v. Wang*, 16 Cal. App.4th 544, 20 Cal.Rptr.2d 193 (1993), *review denied*. In that case, a purchaser sued the vendor and broker in a real estate transaction alleging fraud for failing to disclose certain information about real property, seeking rescission or, alternatively, damages. The defendant broker ultimately prevailed on the fraud claims asserted against it. The *Super 7* court held that, although the subject purchase and sale agreement contained a provision for attorneys' fees, a broker was not a party to the contract, was not a third party beneficiary of the contract, and was not entitled to attorneys' fees after prevailing on the plaintiff's fraud claims. The court went out of its way to emphasize that the plaintiff in the underlying action could not have obtained rescission of the purchase agreement as to the broker who was not a party to the contract. The court distinguished those cases which provide that a non-signatory to a contract can be entitled to attorneys' fees on the basis that those cases involve non-signatories who could, in fact, have been held liable on the asserted claims. 16 Cal. App.4th at 547 (distinguishing *Reynolds Metal Company v. Alperson*).

Given the Superior Court's failure to adopt the court's a proach in the *Super 7 Motel* case in favor of the expansi approach in *Reynolds* in the unpublished case discussed above, the lesson to be learned is that it is becoming increasingly difficult to predict when a court may fashion a rationale to award attorneys' fees to a prevailing defendant. In fact, the trend seems to favor such awards. Accordingly, plaintiffs should beware of pleading theories for recovering attorneys' fees against marginal defendants or on the basis of marginal claims. The unwary plaintiff may risk paying a defendant's substantial attorneys' fees.

—Larry C. Russ

Malpractice Statute of Limitations Analysis

Continued from page 3

The Actual Injury Requirement and Tax Accountants

The Supreme Court applied the rationale of *ITT Small Business Finance Corp.* in the tax context in *International Engine Parts, Inc.*, 95 Daily Journal D.A.R. at 2771. There, the Court found that a malpractice plaintiff sustained actual injury from an accountant's actions when the IRS was entitled to assess a final tax deficiency by entering into an agreed assessment. All plaintiffs were affected by the status of subsidiary IEPO as a "Domestic International Sales Corporation" ("DISC"). To remain entitled to the tax benefits afforded a DISC, IEPO had to attach documentation of "producer loans" and intercompany pricing agreements to its tax returns. Plaintiffs hired the defendant accounting company to prepare IEPO's 1983 and 1984 tax returns. Defendant, however, failed to attach the necessary documentation.

In 1984, the IRS began an audit of IEPO's returns. Plaintiffs retained the defendant accounting firm to represent them. In 1986, IRS personnel advised plaintiff that they probably would recommend disqualification of IEPO as a DISC. At this time, the accounting firm admitted to the plaintiffs that it had forgotten to provide the necessary documentation. In 1987, plaintiffs received an audit report from IRS audit personnel indicating that they intended to disqualify IEPO as a DISC, with resulting tax deficiencies, interest, and penalties. In 1988, plaintiffs and the IRS settled the tax dispute, resulting in additional taxes for plaintiffs well in excess of $300,000. The plaintiffs filed their malpractice complaint against the tax accountants within two years of the settlement.

The Court of Appeal concluded that the two-year statute of limitations for professional negligence set forth in CCP §339 began to run before plaintiffs and the IRS signed their final agreement. The court ruled that plaintiffs had previously sustained damage when, among other things, they incurred professional fees to fight the IRS.

The Supreme Court reversed. The Court determined that, under IRS procedures, "the preliminary findings of the tax examiner are *proposed* findings that are subject to negotiation prior to any determination of tax deficiency." *International Engine Parts, Inc.*, 95 Daily Journal D.A.R. at 2768 [emphasis in original]. A taxpayer does not sustain actual harm until finality of the audit process, which occurs either by the taxpayer's consent to a deficiency assessment or the issuance of a final deficiency notice. *Id.* The assessment of the tax deficiency is

(Continued on page 12)

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A Thumbnail Sketch of Intellectual Property for Generalists

More and more litigators these days are dealing with intellectual property, either as the main cause of action or as an ancillary claim. That's because clients often feel that they need top litigators to plan strategy and present the issues in plain English to a judge or jury, and that they can obtain substantive input from an IP specialist.

What these litigators are discovering is that intellectual property is enormously complex, with many different possible claims, all involving different elements and defenses. The purpose of this article is to outline some of the principal areas of IP law so that litigators who consider themselves generalists will gain some insight into the types of claims that might apply to their particular cases.

Katherine L. McDaniel

Trademark — Protection of Brand Names

Trademark law protects brand names for goods and services. This includes words, symbols, occasionally colors, and more recently fragrances, which are used to identify the source and quality of the goods or services. Examples include the labels on goods, the hang tags on garments, and the names of retail stores. The first person to use a trademark is its owner, but rights can be altered by registration. A trademark infringement is found if there is a likelihood of confusion among consumers between the two trademarks at issue. However, some trademark infringements are really counterfeiting if a substantially indistinguishable trademark is used. This is important to identify at the outset because a counterfeit case can result in treble damages and attorneys' fees. Trademark rights last forever so long as the trademark continues to be used as a brand name for goods or services. Curiously, trademark law is primarily common law, but is bolstered by state and federal statutes which provide additional protection to registered trademarks.

Copyright — Protection for Original Expression

Copyright law is entirely federal and protects the original expression of an idea that is fixed in a tangible medium. Examples include fictional and non-fictional books, computer software, advertising copy, advertising jingles and fabric designs. However, copyright law only prevents *copying*, and if actual copying cannot be shown, the owner must show access to the original work resulting in the production of a substantially similar work. If the other party produced his work without reference to the owner's work, copyright affords no protection whatsoever. Also, the federal Copyright Act has been amended a number of times, so it is necessary to review the whole history of the creation and publication of the original work, whether the original work was ever registered or renewed, and whether the copyright notice was appropriately used. The length of copyright protection varies depending on when the work was created, but for recent works generally exists for 50 years after the death of the author or for 100 years if the author is a corporation.

(Continued on page 10)

Continued from page 9

Patent Law — Protection for Inventions and Designs

Patent law also is entirely federal and protects inventions and designs which are new, useful and not obvious. Examples include new computer chips, computer software that includes an innovative process, and all kinds of new devices, designs and appliances. However, a patent application must be filed within one year of "publication" of the invention, or all rights to patent that invention in the United States will be lost. In addition, the applicant must make a thorough search and disclose all prior inventions (known as "prior art") that may impact whether a new patent can be issued. A patent infringement is found when someone other than the patent owner makes, uses or sells a product that comes within the scope of a validly issued patent that has not yet expired. Patents expire 17 years after the date of issuance, but that is changing with GATT and NAFTA, and soon patents will expire 20 years after the date of filing. Design patents are different and have only a 14-year term, even under GATT and NAFTA.

Trade Secrets — Protecting Confidential Information

The law of trade secrets protects information and know-how that is kept secret and confidential. Trade secret rights can last forever so long as the information continues to be kept confidential. Examples include customer lists, recipes and production processes. A lot of trade secret litigation has involved employees who left their employment with the employer's customer list, or the designs for new product, or a detailed understanding of exactly how the business is conducted, only to set up a competitive business. Trade secret law is primarily common law which has been codified in a number of states, including California. In addition, there is considerable overlap between patent and trade secret law because there often is information relating to the use of patented technology that may not be patentable but may be protected if it is kept secret. The owner's rights in this trade secret information may survive the term of the patent.

Trade Name Infringement

The name of a business entity or its fictitious business name is generally protected by state statutes which give a person who first files articles of incorporation or a fictitious business name statement the exclusive right to use that name or any confusingly similar name. It is important to distinguish between the infringement of a trade name (the name of the business entity) and a trademark (the brand name for the goods or services), because of the different legal requirements for pursuing these claims. An example of this would be the (fictional) ABC, Inc. dba ACME Wigit, which might have a problem when another business is incorporated as the "ACME Wigit Company, Inc."

Trade Dress

Trade dress is an evolving area of law that initially started as a cause of action against a competitor who "dressed" his product the same — for example, the competitor might use green and white packaging in order to mimic the leading brand's green and white packaging. Trade dress protection now has been expanded to cover the design features of products, particularly clothing and footwear but also unusual applications such as restaurant formats, that are not purely functional and have become distinctive of a product by long and exclusive use. Trade dress claims tend to overlap and often are filed in conjunction with claims for infringement of a design patent. Trade dress law is common law, but now that the new Federal Circuit Court of Appeals is considering all patent appeals and many such cases involve related trade dress claims, the Federal Circuit has been prolific in establishing precedent in the trade dress area as well.

Right of Publicity

The right of publicity is a relatively new area of law which is being established primarily by state statutes which hold that the right to commercially use the voice, likeness and other physical attributes of a person belong to that person and to his estate for a period of (usually) 50 years after his death. This area became publicized largely through the efforts of Priscilla Presley, who felt that Elvis' estate was entitled to the revenues from exploiting his likeness after his death. This body of law also has proven useful for other types of claims, such as enjoining the use in commercials of "sound-alike" celebrity voices.

Commercial Misappropriation

The right against commercial misappropriation is a tort that can be pursued if a famous person's name or likeness is placed on a commercial product. In California, it has all of the elements, defenses and remedies of a typical tort claim.

Right of Privacy

An individual who is not a public figure has a right of privacy as to his personal affairs. This right expires on death and is not assignable. But deciding who is a "public figure" is a difficult issue in an age where the news media is aggressively reporting on all manner of issues, many of which would have been considered private by past generations.

Defamation

Although not technically an area of intellectual property law, defamation claims (libel and slander) arise when an untrue statement is published, spoken or repeated. This typically generates inquiry into what substantiation was obtained at the time, as punitive damages can be awarded in California upon a showing of malice.

Deceptive Advertising

Deceptive advertising protects the public against untrue or misleading statements about a particular product or service. Examples include false claims that one laundry soap is better than another, and even the implication, if untrue, that a particular model of car will get superior gas mileage. Since the law protects what the average, ordinary person might understand from the advertisement, consideration must be given to more than the precise meanings of the words used. This area involves both federal and state law, and there are a number of administrative agencies, such as the Federal Trade Commission and the state Attorneys General, that are active in protecting consumers. However, only a competitor can sue for deceptive advertising under the federal Lanham Act, which primarily protects trademarks. Persons other than competitors generally must pursue their claims under state unfair competition laws.

Unfair Competition

Unfair competition law is unusual because it recognizes that no statute or case can possibly define all of the devious ways in which one can unfairly compete. This means courts are constantly considering whether new business tactics constitute unfair competition.

Historically, unfair competition cases involved "passing off" goods as those of a better known competitor, but in recent years other types of business activities also have been held to consti-

(Continued on page 11)

Thumbnail Sketch
Continued from page 10

te unfair competition. For example, unfair competition was found in a wine company's practice of downgrading grapes in order to pay a lower price for them and in a news broadcaster's use of film clips in reporting a celebrity's death, which competed with a movie biography planned by the copyright owners.

Unfair competition is largely common law, but in a number of states, including California, statutes have been enacted. As a result, there appear to be separate causes of action for statutory unfair competition and for common law unfair competition. Among other things, the cause of action selected can impact the calculation of damages.

Turning to a Specialist

Hopefully, this outline will assist in evaluating the types of claims involved in a particular case. Of course, no outline can substitute for the advice of a specialist, but this should help in determining what kind of specialist to call.

—Katherine L. McDaniel

abtl REPORT

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Cases of Note

Insurance

In a murky decision, the Ninth Circuit ruled that a D&O insurer was required to pay the entire amount of a securities fraud settlement under the facts and circumstances presented in *Nordstrom, Inc. v. Chubb & Son, Inc.*, No. 9335495, 95 Daily Journal D.A.R. 4691 (9th Cir. Apr. 14, 1995). The *Nordstrom* court construed Washington law and attempted to narrow the potential impact of its decision, saying that it was not deciding "whether any given rule is generally applicable to all settlement agreements under D & O insurance policies." Nevertheless, the decision is expected to have an immediate impact on the settlement of securities fraud litigation and the issuance of D&O insurance policies throughout the Ninth Circuit. Chubb is seeking *en banc* review.


Denise M. Parga

The *Nordstrom* case arises from underlying securities litigation against Nordstrom, Inc. and its officers and directors. Federal Insurance Company, a member of the Chubb Group of Insurance Companies, agreed to pay half of the amount necessary to settle the underlying litigation because it insured only the officers and directors, not the corporate entity which was also a defendant. Nordstrom filed suit claiming that the policy covered the entire settlement sum. The district court granted Nordstrom's motion for summary judgment and the Ninth Circuit affirmed.

Federal argued that the settlement amount should be allocated according to the relative exposure of the respective parties, in keeping with Ninth Circuit law, enunciated in *Slottow v. American Casualty Co.*, 10 F.3d 1355 (9th Cir. 1993). The court attempted to distinguish *Slottow* with the curious pronouncement that it did not really concern an insurer's right to allocation based on a corporation's direct liability. Thus sidestepping established Ninth Circuit precedent, the court relied on the Seventh Circuit in holding that allocation should be in accordance with the "larger settlement rule." Under this rule, the Court said that "responsibility for any portion of the settlement should be allocated away from the insured party only if the acts of the uninsured party are determined to have increased the settlement." In *Nordstrom*, the court concluded that the corporate defendant's potential liability had not increased the settlement amount.

In *Ohio Casualty Ins. Co. v. Hartford Accident and Indemnity Co.*, 33 Cal. App.4th 1556 (1995), the Fourth Appellate District of the Court of Appeal adopted the manifestation trigger for third party insurance coverage in progressive property damage cases, finding that there is no distinction between first-party policies and third-party liability policies for purposes of determining the trigger for coverage. This issue is currently before the California Supreme Court.

An insurer's rights against *Cumis* counsel were discussed in *Assurance Company of America v. Haven*, 32 Cal. App.4th 78 (1995). The Court of Appeal held that a liability insurer may sue its insured's *Cumis* counsel for negligence based on breach of statutory duty (Civil Code §2860) for failing to disclose to the insurer all known nonprivileged information, failing to inform and consult with the insurer in a timely manner, and failing to

(Continued on page 12)

Cases of Note

Continued from page 11

cooperate in exchanging information with the insurer-provided counsel where these failures precluded the insurer from timely asserting a complete defense to an entire action or to a cause of action brought against the insured. The Court of Appeal also held that *Cumis* counsel cannot be held negligently or statutorily liable to the insurer for failing to investigate, prepare, assert, establish or perform similar functions regarding that complete defense.

Recovery of Costs and Attorneys' Fees

In *National Information Services, Inc. v. TRW, Inc.*, 95 Daily Journal D.A.R. 4583 (April 11, 1995), the Ninth Circuit reversed the trial court's denial of costs to the prevailing defendants. The trial court premised its denial of costs on the ground that the plaintiffs brought their case in good faith and without vexatious purpose. On appeal, the Ninth Circuit held that this was not a sufficient reason to justify the denial of costs to the prevailing party under Rule 54(d)(1) of the Federal Rules of Civil Procedure.

The California Supreme Court addressed the issue of when the trial court may determine that there is no prevailing party on a contract for purposes of recovery of attorneys' fees under Civil Code §1717 in *Chia-Lee Hsu v. Abbara*, 9 Cal.4th 863 (1995). The Court acknowledged that Civil Code §1717 vests the trial court with discretion in making the prevailing party determination but that discretion does not extend to denying attorneys' fees when a party clearly prevails on the only contract claim in the action. Accordingly, the Court held that the trial court is to compare the relief awarded on the contract claim or claims with the parties' demands on those claims and their litigation objectives as disclosed by the pleadings, trial briefs, opening statements and similar sources. The trial court has discretion to find no prevailing party only when the results of the litigation are mixed.

Compulsory Cross-Complaints

In *Carroll v. Import Motors, Inc.*, 95 Daily Journal D.A.R. 4418, 33 Cal. App.4th 1429 (1995), the Court of Appeal held that Code of Civil Procedure §426.30, relating to compulsory cross-complaints, prevents a plaintiff who voluntarily dismisses a complaint without prejudice from filing a new action based on claims arising from the same transaction that served as the basis for the cross-complaint in the original action. The court held that the claims the plaintiff tried to assert as a new action should have been filed as a compulsory cross-complaint in the first action.

Venue

In *Lebastchi v. Superior Court*, 33 Cal. App.4th 1465 (1995), the Court of Appeal held that, for purposes of venue, an alter ego allegation places the individual in the same position as the corporation. Therefore, in a breach of contract claim, the individual defendant cannot transfer the action to the county of his or her residence when the action has been properly brought in a different county as to the corporate defendant.

Civil Procedure

According to the Court of Appeal in *Jordan-Lyon Productions, Ltd. v. Cineplex Odeon Corporation*, 29 Cal. App.4th 1459 (1994), a lien under Code of Civil Procedure §491.410, *et seq.*, does not apply to an arbitration award that has not been brought before the court for confirmation because contractual arbitrations are not "actions" or "special proceedings."

—Denise M. Parga

Malpractice Statute of Limitations Analysis

Continued from page 9

the equivalent of the settlement in ITT.

In a similar case involving attorney defendants, the Court Appeal ruled that the statute of limitations was tolled pending a final decision by the Tax Court. *Henry v. Monaghan*, 95 Daily Journal D.A.R. 5731, 1995 WL 257859 (May 3, 1995). Unlike the plaintiff in *International Engine Parts* who consented to a deficiency assessment and allowed the IRS to collect amounts due, Henry disagreed with a tax examiner's proposed findings that he owed more than $6.8 million in taxes. The IRS issued a 30-day letter and Henry filed a protest. When no agreement was reached, the IRS issued a statutory notice of deficiency and Henry filed a tax court petition. Under Internal Revenue Code §6213(a), the IRS was prohibited from assessing any deficiency or attempting to collect any amount due until the decision of the tax court became final. The Court of Appeal concluded that it could not be determined whether Henry would suffer actual injury as a result of his attorneys' alleged malpractice until the conclusion of the tax court proceeding.

These recent decisions establish bright-line rules which promise certainty and predictability in applying the malpractice limitations period. The prudent practitioner will consider these cases and not calendar the running of the limitations period until a client suffers damages.

The inquiry is not over, however. The Supreme Court has only established bright-line rules in the three factual settings illustrated by *Laird*, *ITT*, and *International Engine Parts*. Taken together, these cases suggest that there must be a determination of damages before the limitations period for attorney and accountant malpractice will begin to run. Additional issues may arise in other factual settings and still more rules are likely to emerge from cases presently before the California Supreme Court.

—Robert W. Stone