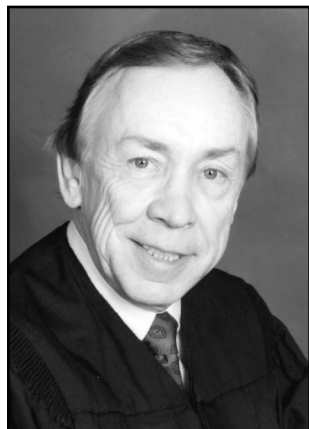


**Temporary Judges:  
 An Overlooked Alternative**

**F**ederal and State courts continue to endorse arbitration as an alternative to litigation, but legislative and judicial inroads into the process have emerged. In *EEC v. Waffle House, Inc.* 122 S.Ct. 754 (2002), the United States Supreme Court permitted the federal administrative agency to file litigation against an employer alleging workplace violations despite



**Hon. L. C. Waddington**

absence of any interest by the employee other than lodging the initial complaint. In *Wright v. Universal Maritime Service Corp.*, 525 U.S. 70 (1998), the Court held that Title VII litigation filed by union members is not within the ambit of collective bargaining agreements and permitted an employee to file a complaint against the employer for an identical grievance. In *Green Tree Financial Corp. v. Randolph*, 531 U.S. 79 (2000), the Justices deferred a definitive ruling on a challenge to arbitration fees imposed on employees who alleged financial inability to vindicate statutory rights, but Circuit

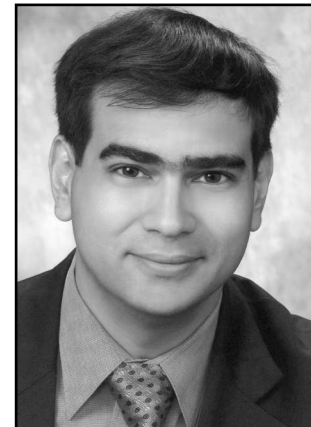
Courts are in disagreement on the scope of the *Green Tree* decision; *Bradford v. Rockwell Semiconductor Systems, Inc.*, 238 F.3d 549 (4th Cir.2000); *Blair v. Scott Specialty Gases*, 2002 WL 389281 (3d Cir.); *Perez v. Globe Airport Security Services, Inc.*, 252 F.3d 1280 (11th Cir. 2001).

At the State level, the California Supreme Court has discovered a right to faux due process in arbitration of employee claims

*(Continued on page 2)*

**How to Research  
 Your Judge**

**T**here are more than thirty United States District Court judges in the Central District of California, more than 180 civil trial court judges in the Los Angeles Superior Court, and more than fifty civil trial court judges in the Orange County Superior Court. This does not include the appellate court judges, magistrates, commissioners and private judges a business litigator may encounter in Southern California. Even the most experienced lawyer is unlikely to have had personal experience with more than a small percentage of these. Yet by taking a little time at the outset, a lawyer can learn a great deal about the judge who has been assigned to hear a case. A large array of print and electronic resources is available to provide information about your judge, ranging widely in price and level of detail. The following are some suggestions about the sources we found most helpful in researching judges.



**Russell I. Glazer**

**The Essentials**

The Los Angeles County Bar Association's web site, lacba.org, is a good place to start research of Los Angeles County Superior Court judges. Most of its contents are free to LACBA members. After logging in, click on "Know Your Judges." The site contains a section called "Judicial Profiles," which provides basic biographical information and courtroom procedures for approximately 300 Los Angeles Superior Court judicial officers. The site also has a section called "Judicial Interviews," consisting of more detailed narrative descriptions of the judges' backgrounds and procedures. So far, only about thirty judges have provided interviews. The LACBA site also contains a link to LexisOne, a free service of Lexis/Nexis, which allows you to see how your judge has fared on appeal in cases from 1997 to the present. (See below for tips on searching Lexis for cases involving your judge.)

In addition to these free services, LACBA's web site also offers a subscription service titled "Superior Court Civil Register." The service provides, in a searchable form, the Superior Court Civil Register for every case filed in Los Angeles County since 1997 (2001 for Van Nuys). Lawyers can use the service, for example, to see how many times a judge has been subjected to a peremptory challenge, to find cases in which a judge has sustained demurrers without leave to amend, and to determine how many times a judge has awarded discovery sanctions. The service can also provide you with the identities of lawyers in these cases. This service

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## Temporary Judges

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against an employer, and mandated discovery to mitigate a perceived economic imbalance between the parties; *Armendariz v. Psychare Services, Inc.*, 24 Cal.4th 83 (2000). Elimination of discovery is one of the hallmarks of arbitration, but *Armendariz* now invites employers and employees to engage in familiar “paper wars” the California Legislature intended to inter. California Courts of Appeal have written decisions resurrecting the contractual doctrine of “unconscionability” to void arbitration clauses in opinions of labyrinthian rhetoric. The Ninth Circuit has found a similar defect in arbitration clauses; *Circuit City Stores, Inc. v. Adams*, 279 F.3d 889 (9th Cir. 2002).

Whether these judicial decisions lack merit or are salutary devices to achieve fundamental fairness in the arbitration process is not the issue. The appeals exemplify a “litigization” of arbitration fostering innumerable quintessential legal issues; *i.e.*, the role of arbitrability, pre-emption, contract interpretation, venue, choice of law, collateral estoppel, and appeal. Differences in procedural rules of the Federal Arbitration Act (9 U.S.C. § 1 *et. seq.*) and the California Arbitration Act (CCP § 1280 *et. seq.*) continue to surface, and California courts are not averse to rejecting Ninth Circuit opinions. Lawyers anticipating an expedited resolution of a dispute in arbitration may despair at constant judicial intervention in a process intended to exclude the courts.

If dissatisfaction with the courts is not enough, the Legislature in California will require arbitrators to undergo intensive scrutiny of their financial, business and social obligations. CCP § 1281.9, enacted only a few years ago, is amended to require stringent disclosure rules, add non-disclosure as a ground for vacating an award (CCP § 1286.2 (a)[6]), and specify grounds for disqualification of an arbitrator (CCP § 1281.91). A newly enacted statute, effective July 1, 2002, requires arbitrators to subscribe to Canons of Judicial Ethics; CCP § 1281.85. No one doubts the importance of an impartial arbitrator and the need for complete disclosure, but the new rules invite potential for additional delay and a basis for expansion of the appeal process.

Despite these developments, arbitration continues to offer an expeditious alternative to litigation in the majority of cases. Except for anecdotal horror stories, lawyers continue to support voluntary arbitration mutually agreed by both parties and not imposed unilaterally. But arbitrators are not bound by statutory and decisional law, and lawyers may prefer a procedure implementing California substantive and procedural law. Or, counsel may desire a mechanism to preserve the right of appeal currently limited in arbitration; CCP § 1294. A California statute permits an alternative and seldom utilized procedure that maintains the structure of a trial, permits discovery, preserves the right of appeal and enjoys some of the advantages of arbitration.

Article VI, Section 21 of the California Constitution permits parties to obtain the services of a “Temporary Judge” to conduct a trial in compliance with California law. The administrative costs are comparable to arbitration and its expeditious advantages preserved. All parties can select any active member of the State Bar or retired judge in whom they repose confidence. A Temporary Judge can hold the trial at the convenience of parties, impose requirements of all Codes, issue an opinion and confirm the decision in a judgment.

Compared to the element of confidentiality inherent in arbitration, the parties may not necessarily achieve a comparable degree of privacy. Recently amended CRC Rule 244(f) requires an accessible and public site for the hearing if requested by “any person,” *i.e.* the media. Temporary Judges must comply with disclosure requirements comparable to arbitrators (CRC 244(c)) and abide by specific Canons of Judicial Ethics. If requested by the parties, a Temporary Judge must write a statement of decision (CCP § 632), thereby preserving the right to appeal and potentially exposing the trial to publication in an appellate court opinion.

If parties agree to a hearing before a Temporary Judge paralleling that of a Superior Court judge, the privacy of arbitration is lost in exchange for an expeditious, but public, trial conducted in compliance with California law. Restrictions on the use of jurors suggests that the principal option for counsel is a court trial; CRC 244(e).

No system of dispute resolution, whether mediation, arbitration, or litigation will universally satisfy participants participating in an adversarial system. Jury trials continue to form the bulwark of the civil caseload but are subject to decision by a panel of strangers. Trials are reviewable on appeal, but cost is often a significant factor for parties in selecting arbitration to achieve finality. Alternatively, arbitration restricts discovery in exchange for a private and swift resolution. In the absence of jurors, a Temporary Judge provides a judicial forum as expeditious as arbitration albeit a public one.

For parties who have completed discovery, are indifferent to concern for a private hearing, and desire a decision in compliance with California law, a Temporary Judge offers an alternative. The process mirrors the advantages of arbitration and litigation for parties who do not labor under economic disadvantage, are oblivious to potential publicity, and agree to potentially fund the cost of appeal. Not only can counsel dispense with time consuming jury selection, jury instructions, side bar conferences, and jury deliberation, the opportunity exists for stipulations to truncate presentation of evidence otherwise necessary for juries.

Use of a Temporary Judge is neither a panacea nor without legitimate concerns for lawyers. If parties elect to attempt settlement, counsel may express reluctance to disclose damages, demands and offers to the judge who will hear the case in the event of an inability to resolve the dispute. Or, should the parties bring their discovery disputes to the judge who will try the case? If one party seeks sanctions and the judge imposes monetary or evidentiary restrictions, the other party understandably contemplates whether the discovery decision augers an adverse decision.

Every method of dispute resolution imports advantages and disadvantages. Temporary Judges are no exception but are another option for counsel.

— Hon. Lawrence C. Waddington (Ret.)

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## How to Research Your Judge

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*Continued from page 1*

is free to law firms in which all Los Angeles lawyers are LACBA members. If at least one lawyer is not a member, then the firm must pay an annual subscription fee to use the service. The fee depends on the size of the firm, and ranges from \$200 per year for sole practitioners to \$7,000 per year for firms with more than 200 lawyers.

The most lengthy and detailed source of judicial biographies we reviewed is The Daily Journal Corporation’s multi-volume set, *Judicial Profiles*. It includes biographies of both state court and federal court judges in California and, unlike most other publications, private judges. The biographies are based on profiles appearing in the *Daily Journal*, but they also contain a section on the judges’ courtroom procedures and the names of attorneys who have appeared before them. The profiles include detailed evaluations of each judge’s abilities and idiosyncrasies. Unfortunately, they are frequently out of date, as they tend to be published soon after a judge takes the bench. The *Daily Journal* has been trying to improve this, and now gives judges an opportunity to update their profiles every year. The *Daily Journal* eventually plans to make sure that no profile is no more than five years old. Subscriptions cost \$336 per year for Northern California or Southern California, or \$460 per year for the entire state. The subscription includes updates four times per year.

*(Continued on next page)*

The profiles are also available on The Daily Journal's web site, [dailyjournal.com](http://dailyjournal.com), at \$15 per search. The Daily Journal web site also provides a wealth of other interesting information. Access to the web site's contents requires a user name and a password, which are free with each subscription to the Daily Journal. (If you are a subscriber, call (213) 229-5300 to get your username and password.) Navigating the web site is not easy, and the contents are not organized consistently, but it is worth the effort. From the home page, click "Login" in the "DJC Law" box on the right hand side of the screen, then enter your username and password. Next, click the "Research" tab at the top of the screen, then click on "Publications." You will be taken to a page labeled "News Publications"; enter your judge's name in the keyword box. This brings you to a list of Daily Journal articles (including articles from the San Francisco Daily Journal) mentioning the judge's name. You can view each article's date, title, and summary for free, but reading each article costs two dollars and it is easy to incur charges by accidentally clicking on an item. To obtain additional information about the judge, go to the top of the screen and click on "Expand Search." This will give you access to appellate decisions, verdict and settlement reports, and articles in Daily Journal publications mentioning your judge. You can view Daily Appellate Reporter decisions for free. Verdict and settlement reports cost three dollars each, but you can view the case title, date and verdict or settlement amount for free.

Official Court web sites can provide an indispensable (and free) resource, and in the future they should contain even more information. The United States District Court for the Central District of California's web site is located at [cacd.uscourts.gov](http://cacd.uscourts.gov). It contains a section on each judge's procedures and schedules, a section on each judge's calendar, and a section on recently issued opinions. The Orange County Superior Court's web site, [occourts.org](http://occourts.org), is especially helpful. It contains contact information for all the court's judges and biographical information for about half of them. In addition, roughly twenty Orange County judges post their law and motion policies and procedures and tentative rulings on the web site. Los Angeles Superior Court's web site, [lasuperiorcourt.org](http://lasuperiorcourt.org), is less helpful. It does not contain judges' biographies and fewer than five judges post tentative rulings on the web site.

### Westlaw and Lexis

Westlaw and Lexis both contain an array of resources for researching judges, but research can be expensive and pricing structures difficult to understand. Westlaw has a "WLD-Judge" directory, which contains basic biographical information on federal and state court judges, including articles the judges have written and "significant opinions" they have authored. Westlaw makes the same information available on a CD-ROM for \$25.50 per month, with a minimum twelve month subscription. The subscription includes updates every three months.

To find decisions relating to your judge on Westlaw, go to the appropriate case law database, such as "allfeds" or "ca-cs." To find opinions your judge has authored, enter the search term "ju," followed immediately by the judge's last name in parenthesis. (The opinions frequently do not mention the judge's first name, so including it will cause Westlaw to omit the vast majority of responsive opinions.) To find opinions reversing or affirming a judge, enter "sy" (for "synopsis") followed by parenthesis containing the judge's name and either "& affirm!" or "& revers!." You can narrow your search to look for decisions involving a particular topic by adding another search term. For example, to find antitrust cases in which Judge Lourdes Baird has been reversed, try "sy(Baird & revers! & antitrust)." Westlaw also contains databases allowing searches for news articles since 1999 mentioning a judge ("All News"), articles written by a judge ("Text & Periodicals"), and settlements and jury verdicts in a judge's cases

(Continued on page 4)

## The Meaning of An Insurance Carrier's Reservation of Rights — Part 2

**T**he first half of this article, published in the last issue, discussed an insurance carrier's reserved rights to deny coverage for any ultimate judgment and to seek reimbursement of settlements. This half of the article addresses two other rights that carriers sometimes reserve — the right to seek reimbursement of defense costs and the right to withdraw from the defense.

### The Right to Seek Reimbursement of Defense Costs

In addition to cases where the carrier reserves the right to reimbursement for any judgment or settlement of a claim that turns out to be uncovered, carriers sometimes also reserve the right to seek reimbursement of defense costs. This right is properly reserved in instances where covered or potentially covered claims or bases for relief are joined with wholly uncovered ones.

*Buss v. Superior Court* (1997) 16 Cal.4th 35, is the prototypical example of just such a case. *Buss* involved a business dispute with some twenty-seven causes of action, only one of which, a defamation claim, was potentially covered. The carrier defended, reserving its right to seek reimbursement of defense expenses attributable to wholly uncovered claims. The carrier spent over \$1 million in defense costs, of which it attributed somewhere between \$21,000 and \$56,000 to defense of the defamation claim. After the insured settled the case, the carrier sought reimbursement of its defense fees.

The California Supreme Court held that although the carrier's duty to defend extended initially to all causes of action, the carrier was free to reserve its right to seek reimbursement of those fees solely attributable to causes of action or claims for which there was never any potential for covered liability or damages. This right is inherent in the nature of the insurance relationship without any express provision to that effect in the policy. The carrier, though, bears the burden of proving the allocation of defense expenses between covered and uncovered charges under a preponderance of the evidence standard.

One case, however, *Prichard v. Liberty Mutual Ins. Co.* (2000), 84 Cal.App.4th 890, 912 & fn. 22, appears to hold that the *Buss* rule does not apply to taxed costs (including prevailing party attorney's fees) allocable to claims for which there never was any potential for coverage and that such costs are solely the carrier's responsibility. That result, though, arguably is at odds with *Buss's* reasoning.

Sometimes the demarcation between covered and uncovered legal services will be clear. For example, drafting a complaint or otherwise seeking affirmative relief or defending against injunctive relief (including preliminary injunctions) may well not be within the duty-to-defend obligation. (E.g., *Crist v. Insurance Co. of North America* (D.Utah 1982) 529 F. Supp. 601, 606 [carrier owed no obligation to pay costs of appealing preliminary injunction as injunctive relief not covered by insurance].) In other circumstances, it may be unclear and a matter of proof as to how



Robert A. Olson

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## *An Insurance Carrier's Reservation of Rights*

*Continued from page 3*

particular services relate to the defense of potentially covered claims.

Although the carrier bears the burden of proof on the issue, the insured and its attorney have no right to intentionally obfuscate billing charges to attempt to get the carrier to pay charges for services that its defense obligation does not cover. The insured owes a contractual duty of good faith to the carrier. Defense counsel, as the insured's agent, is responsible for complying with the insured's good faith obligation. That good faith obligation likely includes segregating charges for covered and wholly uncovered defense expenses where reasonably possible. (See *Center Foundation v. Chicago Ins. Co.* (1991) 227 Cal.App.3d 547, 560 ["the duty of good faith imposed upon an insured includes the obligation to act reasonably in selecting as independent counsel an experienced attorney qualified to present a meaningful defense and willing to engage in ethical billing practices susceptible to review at a standard stricter than that of the marketplace. Conduct arguably acceptable in the ordinary attorney-client relationship where the latter pays the former from his own pocket is not necessarily appropriate in the tripartite context created when independent counsel undertakes to represent the insured at the expense of the insurer," fn. omitted].)

An attorney has no ethical duty to cheat on behalf of his or her client. Indeed, purposefully obfuscating between legal services that address issues potentially covered by the insurance policy and those addressing issues clearly not covered (e.g., defense of a preliminary injunction) might make the attorney a party to insurance fraud. And, the danger exists that a blanket refusal to segregate any charges may waive the attorney-client privilege regarding the attorney's representation under the crime-fraud exception. (See Evid. Code, § 956; *Cunningham v. Connecticut Mut. Life Ins.* (S.D.Cal. 1994) 845 F.Supp. 1403, 1412-1416 [counsel's misrepresentations to insurance carrier to obtain disability insurance payments on behalf of client vitiated attorney-client privilege].)

*Buss* necessarily affects the attention that insureds (at least solvent ones) and their counsel must pay to defense costs where there is a substantial chance that at least some of those costs are attributable solely to claims where there is no potential for coverage. Again, as with reserved rights regarding settlement payments, the most efficient and cost-effective solution for both insureds and carriers is to reach some sort of agreement or accommodation rather than actually litigate reimbursement issues. Oftentimes such an agreement will involve a carrier paying a reduced rate or for only an agreed-upon percentage of the total services. Another alternative is for the defense-fee reimbursement issue to be settled for a lump sum between the carrier and the insured as part of a global settlement of the underlying case.

### **The Right to Withdraw from the Defense**

Finally, sometimes carriers reserve the right to withdraw from the defense. Typically, this is (and should be) done only when the carrier believes either that there is no duty to defend and intends to seek declaratory relief to that effect or if potentially covered and wholly uncovered claims are joined and the carrier expects that the potentially covered claim might be favorably resolved.

*California Union Ins. Co. v. Club Aquarius, Inc.* (1980) 113 Cal.App.3d 243, presents a prime example of such a withdrawal from the defense. There the insured went to trial on both covered and uncovered claims. In a first phase of the trial, the jury found liability only on the uncovered ground and exonerated the insured on the potentially covered ground. The carrier then withdrew from the defense, declining to pay for the damages phase of the trial on the uncovered ground.

*Club Aquarius*, though, was recently questioned in *Prichard v. Liberty Mutual Ins. Co.* (2000) 84 Cal.App.4th 890, 903, fn.

11. Prichard describes Club Aquarius's discussion on withdrawing from the defense as dicta. (*Id.*; cf. *Buss v. Superior Court*, *supra*, 16 Cal.4th at 56, fn. 18 [describing *Club Aquarius* as "holding that a determination after the liability phase of a bifurcated trial that the insured is liable solely for claims that are not covered releases the defending insurer from any duty to defend in the damages phase thereof," emphasis added].) Although disavowing any "one-size-fits-all" rule, *Prichard* held that a carrier could not withdraw from the defense after the close of evidence where the evidence presented indisputably established there was no coverage, although there had been no judicial determination of the issue. (84 Cal.App.4th at 903) In *Prichard's* words: "Why? Because the underlying case was not yet over and it was still possible that [the carrier] might have had some indemnification liability, even after the close of evidence," for example, in the event that the underlying case were appealed, reversed and set for retrial. (*Id.* at 903-904.)

*Prichard*, thus, suggests that a carrier may not withdraw from a defense if there remains some possibility that potentially covered claims might be reinstated after appeal. It leaves open dicey questions whether, for example, a carrier must continue to defend a case even if the only potentially covered claim is judicially eliminated early in the litigation (e.g., by summary adjudication) just because the theoretical possibility exists that such a claim might be reinstated on appeal. (See *Harborside Refrigerated Services, Inc. v. IARW Ins. Co., Ltd.* (11th Cir. 1985) 759 F.2d 829, 830-831 [duty to defend terminates when covered claim is eliminated from action].) Even if the answer to that question is "yes," however, the carrier likely would have a right to obtain reimbursement for any defense expenses incurred during the interregnum when no potentially covered claim was pending. (*Prichard*, *supra*, 84 Cal.App.4th at 908, fn. 19.)

### **Conclusion**

A carrier's reservation of rights is an operative document that has real teeth, not only regarding what the carrier's ultimate liability might be if and when a case goes to trial and judgment, but also affecting how a case is defended and settled. Even in the heat of litigation, counsel should carefully review the rights a carrier reserves and consider them in determining how to handle the case.

— Robert A. Olson

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## *How to Research Your Judge*

*Continued from page 3*

("JV-ALL" or "LRPCA-JV" (for California)).

Lexis provides access to Judicial Staff Directory (published by Congressional Quarterly), which contains basic biographical data on federal judges. Lexis also provides access to Marquis Who's Who, published by Reed Elsevier, which contains similar data on prominent judges. To find news stories on Lexis mentioning your judge, enter his or her name in "News Group File, All" and "Legal News Publications." (Although the files overlap, each contains sources the other does not.) To find articles your judge has written, type "author" followed by his or her name in parenthesis in the "Legal Publications Group File." To find jury verdict and settlement reports for your judge's cases, enter his or her name in "Combined Verdicts, Settlements, and Expert Directories."

Finding opinions a judge has written is more difficult on Lexis than on Westlaw. Enter the appropriate caselaw directory, then type the "judge" followed by the judge's name in parenthesis. (Remember to use connector terms if using the judge's first and last names.) This will produce a list which includes not only the opinions the judge has written, but also opinions written by any member of a panel on which the judge has sat. You can perform a

*(Continued on next page)*

narrower search by typing "writtenby," followed immediately by the judge's name in parenthesis, but the resulting list will not include all of the judge's opinions. To find out how your judge has fared on appeal, type "history" followed immediately by the judge's name in parenthesis, then "and disposition" followed immediately with "affirm!" or "revers!" or "modif!" in parenthesis. As with Westlaw, searches can be narrowed by adding a descriptive term relating to a particular issue. For example, to find cases affirming Judge Baird's grant of a 12(b)(6) motion, type: "history (Lourdes /2 Baird) and disposition(affirm!) and 12(b)(6)."

### Other Resources

There are many other sources available. A particularly helpful one (especially for the computer illiterate) is California Courts and Judges Handbook, published by James Publishing. It is a single print volume listing every state court and district court judge in California, as well as every judge on the Ninth Circuit Court of Appeals and the United States Supreme Court. Each profile provides basic biographical information and many of them, especially for San Francisco and Los Angeles judges, also contain a detailed "attorney comments" section, organized into topics like "temperament," "intelligence," and "proclivities." The Handbook also contains directories of state and federal courts in California, with phone numbers for courtroom personnel. The Handbook costs \$175, which includes a CD-ROM version. A new edition is published every year.

The Almanac of the Federal Judiciary, published by Aspen Law and Business, provides a less detailed profile of each federal judge in the United States. The Almanac also contains tables showing the number of Motions Pending, Bench Trial Submitted and Cases Pending for each judge. In addition, the Almanac also provides "lawyers' evaluations," consisting of strings of short quotes from lawyers (in the style of *Zagat*). The Almanac costs \$375, and it is updated two times every year. It can also be accessed through Westlaw, but Westlaw's version does not include attorney evaluations.

The Federal Judicial Counsel's web site, [air.fjc.gov](http://air.fjc.gov), provides free rudimentary biographical data on every federal district court, federal appellate court and United States Supreme Court judge who has served since 1789. The American Bench, Judges of the Nation, published by Forster-Long, Inc. lists judges in all fifty states and the federal judiciary. The listings are incomplete and often contain nothing more than the judge's position, address, and telephone number. It costs \$380 and is updated annually. Another print resource is the Judicial Yellow Book, published by Leadership Directories, Inc. It lists basic biographical data and contact information for every federal judge in the United States and state court appellate judges. It also includes the names and telephone numbers for each judge's court staff. The book is updated two times annually. Subscriptions cost \$255 per year.

### Conclusion

Researching a judge need not be expensive or time consuming. Oftentimes the most valuable sources of information are anecdotal descriptions of a judge from a colleague who has had a case before him or her. Yet whether the information comes in published form or otherwise, view attorney reviews critically. Lawyers who prevailed in front of a judge are likely to regard him or her as a brilliant jurist, while those who did not fare well are likely to blame the judge's shortcomings. At the same time, going into court armed with whatever information is available can give you an important advantage, and knowing a judge's proclivities and practices can help avoid unpleasant surprises.

— Russell I. Glazer

## Preparing Settlement Agreements to Survive Bankruptcy

When settling commercial litigation there is always the concern that the hard won concessions will evaporate when the defendant later files for bankruptcy. To avoid this problem drafters of settlement agreements invariably take short cuts that undermine their client's case, cause more litigation and may result in a complete discharge of the debt. This article will discuss the traps to avoid and provisions to include in any business settlement agreement when one is concerned that a bankruptcy filing is on the horizon.

### A Debtor Can Never Waive the Right to File Bankruptcy

It is against public policy for a debtor to waive his right to file for bankruptcy. *In re Cole*, 226 B.R. 647 (9th Cir. B.A.P. 1998). Therefore, no matter how one words the provision it will be deemed void as a matter of law.

The recent case of *The Bank of China v. Aiping Huang*, 2002 DJDAR 459, is instructive. The bank, after suing six defendants for twelve causes of action including breach of contract, fraud and RICO violations, settled for \$42,740,813.03 (U.S.) and 572,911,113 Japanese yen plus interest and stipulated to an entry of judgment. There was no hearing before the trial court on the settlement agreement and no mention of fraud in either the settlement agreement or the stipulated judgment.

However, there was a provision that stated "Defendant shall not (i) file any voluntary petition under any Chapter of the Bankruptcy Code Title 11, U.S.C.A. (hereinafter referred to as the "Bankruptcy Code") or in any manner to seek relief, protection, reorganization, liquidation, dissolution or similar for debts under any other local, state, federal or other insolvency law or laws providing relief of debtors in equity..."

The drafters even acknowledged that "...there may be law which holds that such prepetition waivers of relief from stays are unenforceable and agrees that in any bankruptcy, the Defendants will be deemed to have rejected and disavowed such case law."

As one would suspect, one defendant, Huang, filed for Chapter 7 Bankruptcy fourteen months after signing the settlement agreement and entering the stipulated judgment. The Ninth Circuit held that the anti-bankruptcy provision was void and did not act as collateral estoppel. As a consequence the Bank would have to litigate in bankruptcy court whether the debt was non-dischargeable which, depending upon the wording of the settlement agreement, may be impossible.

The appellate court expressed its dismay that even though "the Bank was advised by experienced counsel" and "knew it was running the risk of the waiver being void" the bank through its counsel failed "to secure the one provision that would have led to collateral estoppel, that is, Huang's admission of fraud."

### How to Avoid Discharge — Expert Review

The settlement agreement should be reviewed by experienced bankruptcy counsel or experienced civil trial counsel who are also experienced in bankruptcy litigation. Such review should point out any fatal flaws thereby providing extra protection to the settlement agreement.

The Bankruptcy Code does not recognize a prepetition waiver of the dischargeability of a debt. In fact all debts are dischargeable unless an exception is found in 11 U.S.C. § 523. The only two

*(Continued on page 6)*

waiver exceptions allowed are the post-petition waiver of all debts set forth in writing and approved by the bankruptcy court (11 U.S.C. § 727(a)(10)) and the waiver of a specific debt by a reaffirmation of that debt by the debtor. 11 U.S.C. § 524 (c).

Since the entire purpose of the Bankruptcy Code is to relieve an honest debtor from the burden of an oppressive debt so that the debtor can start afresh any attempt to ignore the underlying rationale of bankruptcy and to avoid strict adherence to the Code will result in an unenforceable settlement agreement.

### Reaffirmation of the Debt

Settlement negotiations should consider emphasizing the back end of the possible bankruptcy such that if the debtor were to file for bankruptcy then the debtor agrees to re-affirm the debt. This



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allows the debtor to seek discharge of those debts not subject to the settlement agreement yet still preserves the settlement. However, strict compliance with 11 U.S.C. § 524 (c) is required.

Reaffirmation of a debt requires a clear and conspicuous writing that does not impose an undue hardship on the debtor, that is entered into and filed with the bankruptcy court before there is discharge of the debt and that contains the following language:

- the debtor may rescind the agreement at any time before discharge or before 60 days has elapsed from the filing of the agreement with the bankruptcy court, whichever is later;
- the debtor is not required to reaffirm the debt under the bankruptcy code or any law or agreement not in accordance with the code;
- the debtor has been fully informed of the consequences of reaffirmation by his own counsel and voluntarily accepts the agreement.

An affidavit or declaration from the defendant's counsel should also be obtained and filed with the agreement, setting forth full disclosure of the consequences and the voluntary acceptance of the agreement by the defendant.

If the defendant has no counsel during the settlement negotiations, then extra caution should be exercised with the wording of the mandatory disclosures.

Notwithstanding full compliance with section 524(c), if the bankruptcy judge considers the reaffirmation to impose an undue hardship on the defendant now debtor, then the reaffirmation may be disallowed. Though no reaffirmation was attempted in *The Bank of China v. Aiping Huang*, it would not be surprising that a bankruptcy judge would find the reaffirmation of a \$42,740,813.03 debt as to an individual as imposing undue hardship unless there were other extenuating circumstances.

The absolute right of the debtor to rescind the reaffirmation agreement may also dampen enthusiasm for employing this method of settlement protection. Yet, this very right may convince a defendant to accept reaffirmation.

Additionally, notwithstanding the rescission provision, reaffirmation may be a worthwhile alternative for a plaintiff who has a doubtful fraud claim.

Since timely filing of the reaffirmation agreement is essential to preservation of the settlement, regular review of bankruptcy filings should be considered. With internet access to bankruptcy filings easily available through the use of the dial up service of Web PACER, this review process is inexpensive and easy assuming the debtor does not use an unknown alias.

Additionally, this review is particularly important since a non asset Chapter 7 filing does not require notice to creditors to effectively discharge all debts. *In re Beezley* (9th Cir. 1993) 994 F.2d 1433.

Consequently, the settlement agreement should contain a provision that if the defendant does file bankruptcy then he must list plaintiff as a creditor and provide notice to plaintiff of the filing. Failure to do so may allow the plaintiff now creditor to re-open the bankruptcy case and seek a fraud claim for failure to notify.

### Fraud

The only certain method to insure the preservation of the settlement is for plaintiff to obtain an unequivocal admission by defendant of fraud at the time of settlement. Fraud is the only basis for avoiding discharge of a otherwise dischargeable debt in bankruptcy. 11 U.S.C. § 523(a)(2)(A), (B); *In re Cole, supra*.

Otherwise, trying to prove fraud to a skeptical bankruptcy judge is considerably more difficult, costly and time consuming.

There are four forms of fraud that will preclude discharge of a debt: actual fraud, false pretense, false representation and making a material false statement. 11 U.S.C. § 523 (a)(2)(A), (B). Negligent misrepresentation is a dischargeable debt since scien-

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ter is not a required element of the claim. *Continental Airlines v. McDonnell Douglas* (1980) 216 Cal. App. 3d 388, 403-404.

To establish fraud plaintiff/creditor must have defendant agree to all of the following factual elements in writing:

- Debtor made the representation;
- Debtor knew that the representation was false when made;
- The representation was made with the intention and purpose of deceiving creditor;
- Creditor relied on the representation; and
- Creditor sustained damages as a result of that reliance.

Failure to establish each of the five factual bases for fraud may nullify the application of collateral estoppel since it is “the point or question actually litigated and determined in the original action” that is dispositive and not “what might have been thus litigated and determined.” *United States v. International Bldg. Co.* (1953) 345 U.S. 502, 505.

Consequently, the original state action should contain a claim for at least one of the forms of fraud as set forth in 11 U.S.C. § 523(a)(2). Absent such a claim in the state action, collateral estoppel may not be available.

Though one would not be precluded from claiming a recently discovered basis for a new fraud claim it would likely be greeted with greater scrutiny by the bankruptcy judge and thus be even more difficult to establish in bankruptcy court.

Nonetheless, fraud is viable if the debtor made a materially false statement in the bankruptcy petition and schedules. If such fraud was established then the entire bankruptcy petition would be dismissed, which would preclude the debtor from re-filing the bankruptcy petition for at least six months if at all. 11 U.S.C. § 727(a)(2)-(7).

In conjunction with the settlement agreement, a stipulated judgment must be prepared that sets forth the five elements of fraud in detail. Whether or not an action has been filed strict compliance with the Confession of Judgment provisions of CCP § 1132, *et seq.*, should be complied with. The certificate of disclosure by defendant’s attorney and the written statement of defendant would insure the viability of the judgment and the application of collateral estoppel.

If no action is filed and if defendant has no counsel then the Confession of Judgment statute is not available. Thus, in this situation an action must be filed and served on defendant so that any stipulated judgment by the *pro per* defendant will have binding effect.

A failure to comply with a properly worded settlement agreement may also form the basis for overturning the agreement due to fraud, thereby allowing the plaintiff to re-litigate the underlying issue of fraud as well.

### Conclusion

Settlement agreements resolving business litigation can be more effective if express consideration is given to the effect of the defendant’s bankruptcy. Expert advice along with the consideration of reaffirmation of the debt and the use of a stipulated judgment for fraud will increase the chances that the debt will not be discharged in bankruptcy.

— Will Jay Pirkey

**Cogitate Then Celebrate**

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## Defending and Taking Depositions: What Practice Guides Neglect

This practice article addresses some rather non-traditional strategies for defending and taking depositions. Many experienced trial attorneys employ one or more of these strategies but rarely discuss the same in writing.

Let us assume that one is defending the deposition of a key witness; *i.e.*, a witness whose testimony is critical to the success of your case whether you represent the plaintiff or defendant. The first rule is that the witness understand the facts and legal theories involved. It is worth taking the time to discuss the details because the witness may be in a better position to advise you about potential problems with his or her testimony.

If at all possible, make the witness review summaries of the testimony of other key witnesses on both sides before you meet to prepare. Next, after you have spent sufficient time discussing the details of the case and legal theories, cross-examine your own witness on critical areas in order to see how the testimony comes out. Obviously, one cannot advise a client to change or misrepresent the facts, but how those facts are expressed can make a significant difference



Larry C. Russ

both in terms of perceptions by a jury as well as providing less ammunition for follow-up cross examination by adverse counsel. For example: **Q:** *Why didn't you terminate the agreement when you found out Abbott Company was diverting business from the joint venture?* [Bad Answers — “I don't know,” “I did not want the agreement to end.”] [Better Answer — “I was hoping to persuade Abbott Company to stop that practice so that the joint venture could continue.”] The first two answers could provide Abbott with an argument that the witness accepted Abbott's performance with knowledge of the diverted sales.

### Cross-Examining Your Own Witness

Another benefit of cross-examining your own witness as a preparation tool is to help the witness practice testifying exclusively about events or conversations he or she has actually observed or heard first hand. It is surprising how often sophisticated individuals testify about matters based upon assumptions and inferences as opposed to focusing exclusively on what someone said. Sometimes this can make all the difference in the world. For example: **Q:** *Did you know that Johnson was paying hospital President a percentage of the consulting fee you were paying Johnson?* **A:** [Where witness believes this happened but no one ever told him so] “I assumed this may have been the case” [Bad answer]. [Better Answer is either “no” or “No one ever advised me that Johnson was paying hospital President any part of the consulting fee I paid Johnson”].

It is important that your witness understand that a deposition is not the time to tell the witness' side of the story. He or she will have plenty of time to tell the full story at trial. The deposition is a dangerous game where the witness should try to focus narrowly on the specific questions asked and answer only the question asked in as few words as possible. The particularly talkative witness should be given 20, five dollar bills during preparation. Every time the witness offers more information than the question

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called for, take away five dollars. Regardless of the denomination of the bills, this exercise is effective in teaching a witness to focus and avoid sometimes harmful excessive chatting.

The next important step in preparing your key witness for deposition is to make sure he or she understands what your objections mean. Most sophisticated witnesses develop an early understanding of objections fairly quickly whether you educate them or not. Give your witness a head start on the process. Here is a shorthand summary of what I tell witnesses about the meaning of my objections. When I object to a question with the phrase “compound”, I mean be careful, the question has more than one part. For example, in connection with the question “*Isn't it true that you were the President of Company “X” and you knew Henderson was stealing Company “Ys” trade secrets?*” If one answers “yes” one is stating that witness was the President and he knew Henderson was stealing trade secrets. Of course...the “yes” answer may not be applicable to both parts. Don't be afraid to ask the lawyer to separate the questions or answer each part of the question separately.

### **The “Foundation” Objection**

The objection “no foundation” means I am not sure you know the answer to this question and the lawyer has not laid an adequate foundation to establish that you have any knowledge in this area. Before you answer this question one way or the other, make sure it relates to subject matter about which you have specific knowledge. An example would be the **Q:** “*Would you agree that independent sales representative Johnson visited Home Depot at least ten times in order to persuade them to raise their prices on flashlights?*” You may have no knowledge about how many times Johnson actually visited Home Depot, even though you know he visited at least a few times. A “foundation” objection forces your witness to evaluate before answering whether he or she has any real knowledge in this area.

The objections “vague”, “ambiguous”, or any combination thereof often means this is a potentially tricky question. Make sure you understand it before you answer. If you do not fully understand the question, ask the lawyer to clarify it. Frequently lawyers inadvertently disclose helpful information during the process of clarifying a question. **Q:** “*Would it be accurate to say that the reason you continued with the joint venture after June 1, 2002, was because you did not want to lose the revenue derived by the Joint Venture relationship?*” **A:** “I am afraid I do not understand your question, could you clarify it?” Clarifying **Q:** “*You testified previously that as of June 1, you knew that Abbott Company had been diverting sales from the Joint Venture, Would it be accurate to say that the reason you did not terminate the Joint Venture at that time was because you were afraid to lose revenue from the Joint Venture relationship?*” The clarifying question now has much more information in it and the witness is much more aware of the point of the question.

At a deposition it is counter-productive to object to every improper question. If one over-objects, the witness will often become immune to the “objection” process and “objections” will lose their utility as educational tools. Only object when it is important. The witness will generally stay with you if he or she appreciates the significance of your objections at appropriate times during the deposition.

It is particularly helpful for your witness to understand your objections where the attorney taking the deposition is rude, obstreperous or is pursuing a deliberate strategy of asking confusing, ambiguous leading questions, hypothetical questions or multi-part questions.

Finally, do not humiliate or criticize your witness during

breaks. If the witness is having a hard time, reassure him or her that things will improve during the next session. Anticipate the next subject areas and remind your witness to follow the simple rules you have been practicing. An overly nervous or humiliated witness is generally an unfocused and therefore dangerous witness.

### **Strategy for the Key Witness**

Taking the deposition of a key witness is quite a different matter. Again preparation is key and strategy is key. While it is typical for one to conduct some rather open ended discovery through a key witness just to get the lay of the land, it is critical that you not squander your opportunity to try out some tough cross-examination with well constructed leading questions. These will ultimately be the most useful to impeach the witness at trial.

I prefer to start key witness depositions by exploring generally, through open ended questions, the witness' general knowledge about the most important subject matter. In advance of the deposition, I will carefully plan an assault on specific subject areas with a series of short leading questions. During the general open-ended questioning, it is typical for a witness to stumble into one of your assault subjects by inadvertently giving you some fact you wanted to get through cross-examination. This is the time to follow up with your assault and take the witness as far as you can based on the first simple inadvertent admission. Like any game of poker, you have to know when to hold 'em or fold 'em. Sample cross-examination: **Q:** *You testified that Johnson knew you were selling to the Joint Venture because he had access to Abbott's warehouse, correct?* **A:** “correct”. **Q:** *Were the doors to the warehouse locked at all times?* **A:** “Yes”. **Q:** *Did Johnson have a key to the warehouse?* **A:** “no”. **Q:** *So Johnson did not have access to the warehouse?* **A:** “yes he did”. **Q:** *How did he have access to the warehouse?* **A:** “We let Johnson in anytime he wanted” **Q:** *Did you personally ever let Johnson into the warehouse?* **A:** “No” **Q:** *Did Johnson ever ask you personally for such access?* **A:** “yes” **Q:** *Why didn't you let Johnson into the warehouse?* **A:** “Cause Abbott's business operations were none of Johnson's business”. **Q:** *So you did not want Johnson to see what was going on in the warehouse, true?* **A:** I guess that's true. STOP RIGHT THERE. It will not get much better.

### **Exploiting the Lying Witness**

The most devastating thing you can do to a key witness is to catch him or her lying at the deposition. If you have the documents to back you up, or the inadvertent statement that exposes or initiates the lie, you must exploit this opportunity in full. Few of us are Perry Mason and surprising a witness with one's stunning cross-examination at trial is overrated. If you find a lie, get in there and exploit it with gusto at the deposition. In the course of doing so, the witness will frequently compound the lie with yet more untrue statements which you can follow up the same way.

Don't make the mistake of following a script. Doing so will hamper your ability to listen to the answers and exploit your assault areas when the opportunity arises. The strategy for taking a key witness deposition must always be an intense, well conceived assault on the witness' credibility at the deposition. You do not want to find out for the first time at trial how good this witness is on cross-examination. Moreover, the traditional practice of saving a good piece of evidence for trial is no longer a good practice strategy. One never knows for sure if the evidence will hold up, the witness will show up, the trial judge will allow the scope of your cross examination, etc...

Finally, if you are very effective in destroying the credibility of a key witness during the course of a deposition, you will significantly increase the likelihood of encouraging a resolution without the necessity of a costly trial.



**Advanced Bionics Corporation v. Medtronic, Inc.**

When Mark Stultz decided to leave Minnesota’s frigid winters for the California sun, he had no idea he’d be taking a detour to the California Supreme Court. But that’s what happened in *Advanced Bionics Corporation v. Medtronic, Inc.* (Supreme Court No. S097308, vacated Court of Appeal decision reported at 87 Cal.App.4th 1235), in which the Court faces a number of issues that arise from employers’ efforts to restrict their employees’ ability to work for competitors.

Minnesota-based Medtronic makes high-tech medical equipment, and it largely controls the market for spinal cord stimulation devices, used for pain control. Stultz worked for Medtronic in Minnesota as a product manager. He left to join Advanced Bionics, a California firm developing a competing device.

That was where the dispute arose. Stultz’s employment agreement with Medtronic contained a post-employment non-competition clause that barred Stultz for two years from working on any kind of product that competed with anything he worked on at Medtronic. But while Minnesota allows courts to enforce those agreements, California does not — they are void under Business and Professions Code § 16660, which states that “[e]xcept as provided in this chapter, every contract by which anyone is restrained from engaging in a lawful profession, trade, or business of any kind is to that extent void.” Attempts to enforce them constitute unfair competition under the Unfair Competition Law, Business and Professions Code § 17200. *Application Group, Inc. v. Hunter Group, Inc.*, 61 Cal.App.4th 881, 906-908 (1998).

Stultz and Advanced Bionics sued Medtronic, seeking to enjoin enforcement of its non-competition agreement. The issues that took the case to the Supreme Court arose from a furious match of litigation ping-pong:

**Minnesota**

- 6/7/00: Stultz resigns from Medtronic

**California**

- 6/7/00: Advanced Bionics and Stultz sue in California state court to enjoin enforcement of non-compete
- 6/8/00: Advanced Bionics and Stultz seek a no-notice TRO, but the trial court requested them to give 24 hours’ notice

**Minnesota**

- 6/9/00: Medtronic sues in Minnesota and obtains a TRO limiting Advanced Bionics’ and Stultz’ ability to obtain California injunctive relief

**California**

- 6/9/00: Medtronic files notice of removal to federal court
- 6/16/00: Federal court remands case to state court, finding that there was no diversity jurisdiction and that Medtronic filed its notice of removal “for the improper purpose of avoiding an unfavorable ruling upon a pending motion before a state court.”
- 6/21/00: Medtronic files *forum non conveniens* motion
- 7/21/00: Court denies *forum non conveniens* motion

**Minnesota**

- 8/3/00: Court grants preliminary injunction limiting Stultz’s work for Advanced Bionics

**California**

- 8/8/00: Court issues TRO barring further prosecution of Minnesota action

**Minnesota**

- 8/16/00: Court amends preliminary injunction *nunc pro tunc* to bar Advanced Bionics and Stultz from seeking relief in California that would limit Medtronic’s prosecution of Minnesota lawsuit, and orders Advanced Bionics and Stultz to move to vacate the California TRO

**California**

- 8/23/00: Court rejects Advanced Bionics’ and Stultz’s request to vacate the TRO

**Minnesota**

- 8/22/00: Advanced Bionics and Stultz appeal TRO

**California**

- 9/22/00: Medtronic appeals TRO

- 3/22/01: Court of Appeal affirms TRO
- 6/13/2001: Supreme Court grants review

**Minnesota**

- 6/26/01: Court of Appeals affirms TRO

In its petition for review, Medtronic asked the Supreme Court to consider (a) the scope of the so-called “first-to-file” rule — *i.e.*, that the court that first acquires jurisdiction (here, the California court) should normally retain it — and (b) the circumstances under which a trial court can issue an “anti-suit injunction” barring the parties before it from litigating elsewhere.

The main focus of Medtronic’s briefing is choice of law: Medtronic urges that California courts should defer to the choice-of-law clause in Medtronic’s non-competition agreement, which chose Minnesota law. Medtronic also argues that principles of comity barred the trial court from issuing its TRO. In response, Advanced Bionics argues that the case’s fulcrum is section 16600, because it is “a clear legislative declaration of public policy against covenants not to compete” and “represents a strong public policy of this state.” *D’Sa v. Playhut, Inc.*, 85 Cal.App.4th 927, 933 (2000). Under this policy, Advanced Bionics argues, trial courts have both the power and the duty to enjoin the enforcement of non-competition agreements, including attempts to enforce them by suing in other states.

Both sides have drawn amicus curiae support, including the Attorneys General of both states. Medtronic’s amici have urged the Court to hold that there is an exception to section 16600 for non-competition agreements where they can prevent the disclosure of trade secrets. The amici also asked the Court to adopt a version of the so-called “inevitable disclosure” doctrine — not yet adopted by any California court and rejected by federal courts sitting in California (*e.g.*, *GlobeSpan, Inc. v. O’Neill*, 151 F.Supp.2d 1229, 1235 (Cal. C.D. 2001) — under which “a plaintiff may prove a claim of trade secret misappropriation by demonstrating that defendant’s new employment will inevitably lead him to rely on the plaintiff’s trade secrets” (*id.*, quoting *PepsiCo, Inc. v. Redmond*, 54 F.3d 1262, 1269 (7th Cir.1995)). In response, Advanced Bionics and its amici argue that neither approach is justified, because there are ample other ways to protect trade secrets without compromising section 16600’s strong policy. They also argue that the version of the doctrine Medtronic and its amici urge is really a doctrine of “possible disclosure” that does not require meaningful proof of any risk of disclosure. One of Advanced Bionics’ amici, Professor Ronald Gilson, further argues that the employee mobility fostered by section 16600 has fueled the overwhelming success of California’s high-technology industries, as compared to those in states more hospitable to non-competition agreements. *See Gilson, The Legal Infrastructure of High Technology Industrial Districts: Silicon Valley, Route 128, and Covenants Not to Compete*, 74 N.Y.U. L.Rev. 575 (1999).

The case took an interesting turn after the Court of Appeal decision in *Walia v. Aetna, Inc.* (Supreme Court No.S103311, vacated Court of Appeal decision reported at 93 Cal.App.4th 1213). Aetna fired one of its employees for refusing to sign a non-competition agreement, and suffered a wrongful termination judgment that included over \$1 million in punitive damages. The Court of Appeal affirmed, holding that the policy embodied in section 16600 supported a *Tameny* tort — *i.e.*, “an employer who discharges an employee for refusing to do something public policy condemns may be subject to a wrongful termination claim.” 93 Cal.App.4th at 1224-25, citing *Tameny v. Atlantic Richfield Co.*, 27 Cal.3d 167 (1980). Aetna sought review, arguing among other things that section 16600’s prohibition against non-competition agreements was neither so strong nor so broad as to permit the wrongful termination claim. It also filed an amicus brief supporting Medtronic in *Advanced Bionics*. The Supreme Court granted review, but deferred briefing pending its decision in *Advanced Bionics*.

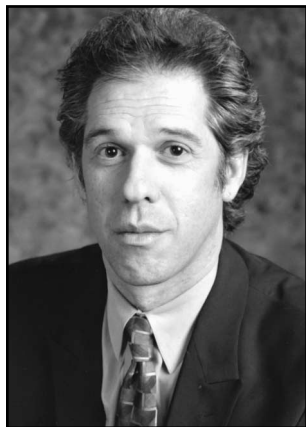
## Protecting Celebrity Names and Images: The Lanham Act versus the First Amendment

A celebrity's name and image is a valuable commodity. Some celebrities go so far as to seek trademark protection for their name and image, for use on t-shirts, mugs, and other merchandise. As one court has held:

"A celebrity has a...commercial investment in the 'drawing power' of his or her name and face in endorsing products and in marketing a career. The celebrity's investment depends on the good will of the public, and

infringement of the celebrity's rights also implicates the public's interests in being free from deception when it relies on a public figure's endorsement in an advertisement."

*Allen v. National Video, Inc.*, 610 F. Supp. 612, 25-26 (S.D.N.Y. 1985).



**Allen B. Grodsky**

But how far can a celebrity go in protecting his or her name and image without running into the First Amendment? While the different circuits articulate different tests, they ultimately say the same thing: the more likely that consumers will (incorrectly) believe that the celebrity has endorsed the use — in other

words, the more likely that consumers will be confused — the less likely the use will be protected by the First Amendment.

### The Ninth Circuit Speaks

The Ninth Circuit examined this issue under the rubric of "fair use" in *The New Kids on the Block v. News America Publishing*, 971 F.2d 302 (9th Cir. 1992), in which two newspapers published "reader polls" about the then-popular band The New Kids on the Block. The polls required readers to call in on a 900 number (thereby making money for the newspapers) and used both the name and image of the band in promoting the poll.

The Ninth Circuit focused on whether the use at issue merely used the name to describe the band or whether it implied sponsorship or endorsement:

"For example, one might refer to 'the two-time world champions' or 'the professional basketball team from Chicago,' but it's far simpler and (more likely to be understood) to refer to the Chicago Bulls. In such cases, use of the trademark does not imply sponsorship or endorsement of the product because the mark is used only to describe the thing, rather than to identify the source."

*Id.* at 306.

Ultimately, the Ninth Circuit determined that the user of the celebrity mark was entitled to a "nominative fair use" defense if three requirements could be met:

"First, the product or service in question must be one not readily identifiable without use of the trademark; second, only so much of the mark or marks may be used as is reasonably necessary to identify the product or service; and third, the user must do nothing that would, in conjunction with the mark, suggest sponsorship or endorsement by the trademark holder."

*Id.* at 308 (emphasis added).

The last element is, again, the critical one: is the public confused into believing that the trademark holder has sponsored the use? If so, "fair use" considerations will take a back seat. *See also Downing v. Abercrombie & Fitch*, 265 F.3d 994, 1009 (9th Cir. 2001) (reversing summary judgment on Lanham Act claim involving image of famous surfers because "[t]here is a genuine issue of material fact as to whether...[defendant] did nothing that would in conjunction with [plaintiff's] names and pictures suggest sponsorship or endorsement by [plaintiffs]").

### Misleading Names and Images

Courts using a more traditional First Amendment analysis also focus on whether or not the use of the name or image is misleading. For example, *Parks v. LaFace Records*, 76 F. Supp. 2d 775 (E.D. Mich. 1999), involved the use of Rosa Park's name as the title of a rap song by the band Outkast. While the court gave lip service to the overriding principles of the First Amendment (*i.e.*, that the Lanham Act does not ordinarily apply at all to "expressive works in which First Amendment concerns are paramount"), it ultimately rested on the conclusion that the song title was sufficiently connected with the content of the song that "it is abundantly clear that the title does not 'explicitly' mislead as to source or content." *Id.* at 782. Where the title did "blatantly" or "explicitly" mislead, "the consumer's interest in avoiding deception might warrant application of the Lanham Act." *Id.*

No matter whether you call it "fair use" or "First Amendment," the issue remains the same: does the use of the celebrity name and image deceive the consumer into believing that the celebrity has sponsored or endorsed the use? If so, the Lanham Act will trump the First Amendment and restrict the deceptive use. If not, free speech principles will prevail.

— Allen B. Grodsky

## Cogitate Then Celebrate

*abtI Report* will celebrate its 25th anniversary this fall.

Our silver anniversary issue, Volume XXV, Number 1, will publish a selection of articles highlighting the twists and turns of business trial practice over the past 25 years in various legal specialties.

Fortunately, there is no shortage of specialties in a legal community as widespread and diverse as Los Angeles County. So anyone who wishes to contribute his or her 67 cents (2 cents, in 1977, adjusted for inflation) is invited to send our Editor, Denise Parga, a brief proposal for an article not to exceed 1,100 words.

Queries should be received by July 19, 2002. The deadline for manuscripts will be September 10, 2002.

Cogitate and then help us celebrate this historic anniversary in the life of our profession in this city.

We welcome all comers.

— dparga@wrslawyers.com

### Anti-Injunction Act

In *Bennet v. Medtronic, Inc.*, 285 F.3d 801 (9th Cir. 2002), the Ninth Circuit held that the Anti-Injunction Act, 28 U.S.C. § 2283, precluded the district court from enjoining an action pending in Tennessee state court. The Tennessee action had been brought by Medtronic, to prevent NuVasive from hiring several former Medtronic employees who had signed non-compete agreements with Medtronic. The former employees sued Medtronic in California state court, arguing that the non-compete agreements were unenforceable under California law. That action was removed to the Southern District of California. The district court temporarily enjoined the Tennessee action and enjoined Medtronic from attempting to enforce the non-compete agreements in any court other than the district court. On appeal, the Ninth Circuit held that, although not identical, the two actions were intimately linked, which was enough to invoke the Anti-Injunction Act. Further, none of the three recognized exceptions to the Act (express authorization by Congress, aid of federal court's jurisdiction, and protection of federal court's judgment) applied. In so holding, the Ninth Circuit noted that the "in aid of jurisdiction" exception applied to *in rem* actions and rejected the notion that the employees' rights were "analogous to a *res*," such that the action could be considered *in rem*.

### Voluntary Dismissal

In *Groth Bros. Oldsmobile, Inc. v. Gallagher*, 96 Cal. App. 4th 60 (2002) review filed 5/1/02, the court held that a trial court should have vacated a plaintiff's voluntary dismissal that was filed in the face of the trial court's tentative ruling on a pending demurrer and instead enter an order sustaining the demurrer and a judgment of dismissal. The action was brought by a corporate shareholder against the corporation and certain officers and directors, including defendant Gallagher. Gallagher demurred to the plaintiff's first amended complaint. The plaintiff did not file an opposition to the demurrer, unsuccessfully trying, instead, to file a second amended complaint. After learning of the court's tentative ruling to grant the demurrer without leave to amend, the plaintiff voluntarily dismissed Gallagher from all claims without prejudice. The trial court accepted the voluntary dismissal and refused to grant the demurrer and enter a judgment of dismissal. When Gallagher sought indemnity from the corporation for his defense costs, that claim was denied on the grounds that a voluntary dismissal did not amount to "success on the merits" under California Corporations Code section 317(d). Thus, Gallagher was not entitled to permissive indemnification. On appeal, the court held that under the circumstances, the plaintiff did not have the right to dismiss Gallagher. The court found that while the plaintiff had probably followed the procedure for contesting a tentative ruling, as provided for in the local rules, the plaintiff really had no intention of contesting the ruling. Instead, he wrongly "used the window of opportunity presented by the tentative decision to 'buy time' to voluntarily dismiss his action after learning of the court's ruling, but before it could become final."

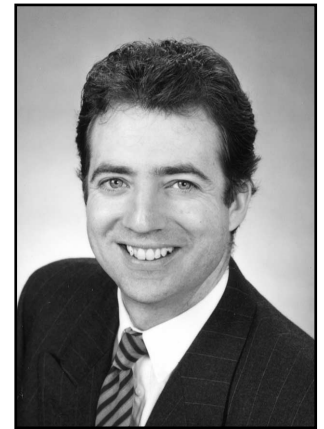
### Arbitration Clauses

The fourth district court of appeals held, in *Szetela v. Discover Bank*, 97 Cal. App. 4th 1094 (2002) review filed 5/31/02, that an arbitration agreement between a bank and its credit card customers was unconscionable and unenforceable insofar as it precluded class actions. The arbitration agreement was not part of the plaintiff's original account agreement, but was included as a "notice" in one of the plaintiff's subsequent billing statements. Among other things, the arbitration agreement provided that neither party could assert claims against the other in a representa-

tive capacity or as a member of a class. In analyzing the enforceability of the clause, the court determined that the clause was procedurally unconscionable because it was presented to the plaintiff on a take it or leave it basis, without any opportunity for meaningful negotiation. There was substantive unconscionability because, although it was mutual by its terms, it was not practically mutual. It was unlikely that the bank would ever have occasion to sue its customers as a member of a class. Further, the anti-class provision effectively prevented card holders from pursuing small claims against the bank. Notwithstanding these concerns, the court determined that enforcement of the arbitration agreement was still appropriate, but without the provision precluding representative or class actions.

### Federal Securities Law

Applying the heightened pleading requirements of the Private Securities Litigation Reform Act, the Ninth Circuit, in *DSAM Global Value Funds v. Altris Software*, 288 F.3d 385 (9th Cir. 2002), held that allegations of a badly botched audit did not adequately plead federal securities fraud. In this suit, investors sued Altris' auditor for securities fraud. The auditor had certified the company's 1996 financial statements as complying with GAAP. A year later, the same auditor determined that certain items should not have been reflected as income in the 1996 financial statements. As a consequence, the company's 1996 earnings were restated and the company's stock price fell. The Ninth Circuit acknowledged the auditor's concession that the 1996 audit did not comply with GAAP, but held that as pled, the facts established nothing more than professional negligence. Absent were any factual allegations establishing that the auditor consciously or even recklessly disregarded information that proved the impropriety of its 1996 audit. Accordingly, the district court properly dismissed the complaint without leave to amend.



Aaron C. Gundzik

### Protective Orders

Public access to discovery produced pursuant to a protective order was at issue in *Phillips v. General Motors Corp*, 2002 DJDAR 5203 (9th Cir. May 13, 2002). The district court had ordered the parties to turn over to a newspaper, settlement-related documents that had been filed with the court under seal and were arguably covered by a protective order that governed discovery produced in the litigation. The Ninth Circuit noted that absent "good cause," the "fruits of pre-trial discovery" are "presumptively public." Here, however, the district court had failed to explain why there was "good cause" to turn over the discovery materials to the newspaper. The district court's conclusion that the materials did not contain trade secrets or other information covered by Fed. R. Civ. P. 26(c)(7) was not a sufficient analysis, as district courts have "broad latitude to grant protective orders to prevent disclosure of many types of information." If, on remand, it is determined that good cause exists, the district court must also address the newspaper's argument that it has a common law right of access to the materials. In ruling on that issue, however, the newspaper will have the burden of demonstrating "sufficiently compelling reasons why the document should be released."

— Aaron C. Gundzik

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## Letter from the President

Ask any number of Los Angeles business litigators to list what separates ABTL from the rest of the alphabet soup of voluntary bar associations and the quality of our dinner, lunch and annual seminar programs will be the top of everyone's list. Year in and year out, ABTL continues to provide those who practice in our local courts with superb programs led by leading practitioners and insightful judges on cutting edge topics. Whether it's litigating in the post-Enron world or hearing from the judges in the Complex Courts shortly after its creation, ABTL prides itself on presenting the most useful and topical continuing education for those who litigate and try business cases. The historically strong turnout by our local judiciary is a testament to the quality of our programs.



**Seth Aronson**

But ask what benefits you get for the \$75 annual dues and other than the *ABTL Report* people struggle for an answer. Over the years I have followed the principle that it is incumbent upon all lawyers to support their local bar association, even if the tangible benefits do not equal the monetary amount of the dues. And I put ABTL in that category of well deserving local bar organizations, along with the Los Angeles County Bar Association, to name another. But if it's tangible benefits you want for your \$75, you should count the dinner, lunch and annual seminar programs in your calculus. The economic reality of our times is that the registration fees we charge for our programs barely cover our costs to present our programs.

Add to that the cost to administer our association, including having a talented Executive Director to make sure everything runs on time (the lawyers who serve on our Board and panelists have and continue to so do without pay), plus paying the hotels and the occasional cost of flying in a nationally known speaker and you will easily see that your membership dues provide necessary financial support for our programs. To me, the hallmark of ABTL is and will continue to be unparalleled top notch programs. To those of you who receive this issue of the *ABTL Report* as a member, thank you for your support. To those of you who are not members but who value our programs, we ask for your support and that you sign up for ABTL membership.

The price of the programs, which for most is picked up by your firms, is not enough for us to continue providing the quality programs in the ABTL tradition.

— **Seth Aronson**

### Contributors to this Issue

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