

# abtl REPORT

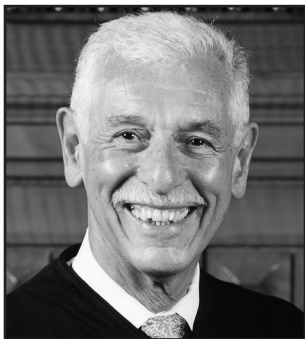
NORTHERN CALIFORNIA

Volume 15 No. 2

SPRING 2006

## Bettering Your Chances for Ninth Circuit Rehearing En Banc

In the Fall 2005 issue of the *ABTL Northern California Report*, I explained the process by which the Ninth Circuit works on your appeal or petition for review. Let's say you followed the advice but still lost the appeal before the three-judge panel — and you think the panel got it wrong. What to do? You can file a petition for rehearing *en banc* ("PFREB").



Hon. Carlos T. Bea

### Some Preliminary and Technical Matters

Because a panel has already put in much work on the case, it is difficult to change that panel's decision with a petition for panel rehearing ("PFR") unless the panel missed some crucial piece of evidence in the record or a new Ninth Circuit or Supreme Court case has come out. A PFREB gives you the opportunity to tell the other judges on the Ninth Circuit why you think the three-judge panel's analysis is wrong. But you should know we receive about

1,000 PFREBs each year and we grant rehearing *en banc* in only 15 to 20 of the cases. Most counsel combine the PFR with the PFREB.

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## Judicial Reference: A Better ADR Alternative?

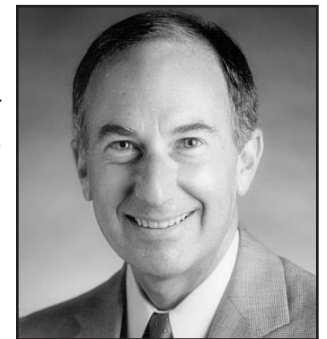
When drafting agreements, business lawyers often provide for alternative dispute resolution ("ADR"). Typically, these ADR provisions provide for binding arbitration of disputes arising from the agreement. Some practitioners, however, dislike arbitration and will not provide for it. Many concerns have been voiced, but the most frequent objections are that the arbitrator is not required to follow the law and/or the limits on appellate review make arbitration too risky.

Lawyers who oppose arbitration will frequently not provide for any form of ADR at all. Rather than foregoing ADR altogether, practitioners may wish to consider judicial reference. Judicial reference (or "reference") operates within the court system. Once a lawsuit has been filed, the court appoints a referee to hear the case or otherwise assist in handling it. Referees are subordinate judicial officers. As such they are required to follow the law, and their decisions, unlike those of arbitrators, are subject to judicial review.

Some kinds of reference (referred to as a "consensual reference") require the agreement of the parties while others do not. A general reference authorizes the referee to hear the entire case; a special reference is limited to specific issues. A consensual general reference can serve as an alternative to binding contractual arbitration. Special references, on the other hand, do not generally result in a binding decision by the referee.

Before deciding to use judicial reference, counsel should understand how it compares to arbitration and should also be familiar with the various kinds of reference that a court can make. This article begins by focusing on

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Michael P. Carbone

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## Judicial Reference

consensual general reference, normally provided by contract. It then turns to the other forms of reference that become available after litigation has commenced.

### Consensual General Reference

Judicial reference is made under the authority of Code of Civil Procedure section 638 or section 639. Section 638 provides for general reference and section 639 provides for special reference. In a general reference, the referee will decide all issues of fact and law, and his or her decision will stand as the decision of the court. Judgment may be entered thereon, and the judgment may be reviewed on appeal in the same manner as if it had been made by the court. The parties may jointly agree to a general reference either pre-dispute or post-dispute.

### General Reference Compared to Arbitration

Consensual general reference and contractual arbitration both require that the entire case be tried outside of the normal processes of litigation. However, before a lawyer chooses between contractual arbitration and general reference it is necessary to understand both the similarities and the differences between the two.

Both processes offer convenience, privacy and the opportunity to choose a decision maker with expertise in the subject matter. Jury trials are avoided. The process should normally be speedier and less expensive than litigation. However, the speed and economy depend upon how the process is conducted. Arbitrators and referees are paid by the parties. Some parties and neutrals allow ADR to be turned into “private litigation” replete with extensive motion practice, discovery and lengthy hearings. Counsel who wish to avoid these problems should consider drafting their reference provision to preclude or at least limit such abuses. For example, counsel should consider limiting the number of depositions and the amount of written discovery. Some limitations, however, may be unrealistic — such as limiting the hearing to a single day for a potentially complex dispute. Limitations of this kind will likely prove unworkable and may result in qualified neutrals refusing to hear the case unless the limitations are removed.

A pre-dispute agreement to use ADR, whether it is an agreement to arbitrate or to use a referee, may be challenged as unenforceable. The most frequent objection is that the ADR provision is unconscionable, particularly in the context of a consumer or employment agreement. There is a plethora of published cases that discuss the enforceability of pre-dispute arbitration agreements. See, e.g., *Abramson v. Juniper Networks, Inc.*, 115 Cal. App. 4th 638 (2004); and *Crippen v. Central Valley RV Outlet, Inc.*, 124 Cal. App. 4th 1159 (2004). However, there are comparatively few cases in which courts have considered the enforceability of pre-dispute agreements providing for judicial reference.

In California, there are four recent cases. All of them involved construction defect claims brought against home-

builders in which there was a standardized agreement of purchase and sale that provided for judicial reference. In *Pardee Construction Co. v. Superior Court*, 100 Cal. App. 4th 1081 (2003), the court refused to enforce the reference agreement; but in *Woodside Homes of California, Inc. v. Superior Court*, 107 Cal. App. 4th 723 (2003); *Greenbriar Homes Communities, Inc. v. Superior Court*, 117 Cal. App. 4th 337 (2004), and *Trend Homes, Inc. v. Superior Court*, 131 Cal. App. 4th 950 (2005), the agreements were all upheld. The cases are somewhat difficult to reconcile, but it appears that the courts may be more inclined to uphold an agreement for reference as opposed to arbitration.

When drafting an arbitration or a judicial reference provision, counsel should keep in mind factors which may limit enforceability. They include: making the reference provision inconspicuous; failing to point out that the parties are giving up their right to a trial by jury; precluding punitive damages; requiring an inconvenient forum; and failing to state explicitly (if it is the case) that the consumer will be responsible for a share of the referee's fees.

The differences between arbitration and judicial reference lie primarily in the applicability of substantive and procedural law to the decision-making process. In California “an arbitrator's decision is not generally reviewable for errors of fact or law, whether or not such error appears on the face of the award and causes substantial injustice to the parties.” (See *Moncharsh v. Heily & Blase*, 3 Cal. 4th 1, 6 (1992).) Likewise, the rules of evidence and civil procedure that apply to litigation do not apply to arbitration. Arbitrators normally will admit any evidence that is material; evidentiary problems go to weight not admissibility. Referees, on the other hand, should conduct the proceedings in the same manner as a court.

Judicial reference also avoids new Judicial Council rules governing arbitration disclosures. See Appendix to California Rules of Court, Division VI. These requirements are stringent. Neutrals may inadvertently fail to make all required disclosures of prior dealings with the parties and attorneys, and nondisclosure requires *vacatur* of the award, even if no one was prejudiced. (Code of Civil Procedure § 1286.2(a)(6).)

Referees, on the other hand, are subject to rules of disclosure and disqualification that are similar to those which apply to judges. Failure on the part of the referee to comply with these requirements may provide grounds for a motion for new trial if the nondisclosure prevented a party from receiving a fair trial. But so long as a fair trial was had, the referee's decision will stand.

### Special Reference

A special reference can be made without the agreement of the parties as specified under section 639. These situations include complex accounting issues or other matters that require special expertise and extraordinary amounts of time to review. In a special reference, the referee will make advisory findings of fact or recommendations, and will submit a report to the court. The court may adopt the report in whole or in part. The referee is

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not authorized to opine on questions of law nor to report on any issues outside the scope of the reference.

Consensual special references have limited value because the findings and conclusions of a referee appointed under section 639 are almost always advisory. A special reference should not be viewed as a potential substitute for binding arbitration, even as to specific issues.

Special references are frequently used for hearing discovery matters. However, under Rule of Court 244.2(c), a discovery referee may not be appointed at the expense of the parties unless the court makes a finding either that no party has established an economic inability to pay a *pro rata* share of the referee's fee, or that one or more parties has established an economic inability to pay a *pro rata* share of the referee's fees and that another party has agreed voluntarily to pay that additional share of the referee's fee. (For a more detailed discussion of discovery referees see Quinn, *How to Succeed with Discovery Referees*, *ABTL Northern California Report*, Fall 2004, [www.abtl.org](http://www.abtl.org).)

#### Complex Litigation: The Referee as Special Master or Settlement Officer

Under the Judicial Council Standards for Complex Litigation, courts have inherent power to manage complex litigation in the most efficient manner possible. This power includes the use of a referee. Case law holds that courts have the power to appoint referees in complex cases to assist in resolving discovery matters, even in the absence of a pending discovery dispute. *Lu v. Superior Court (Grand Lincoln Village Homeowners Ass'n)*, 55 Cal. App. 4th 1264, 1269 (1997).

There is no statutory authority in California for the appointment of a special master. Nevertheless, using the reference power of section 639 and borrowing from federal practice, state courts will sometimes appoint special masters in complex litigation. The special master assists the court in the orderly management of a complex case. In addition to managing discovery, the special master's responsibilities may include keeping the case moving toward the scheduled trial date, and otherwise assisting the court with enforcement of the case management order. Under the *Lu* case, courts may also appoint a referee to conduct mandatory settlement conferences.

#### The Referee as Mediator

California Rule of Court 244.1(b) prohibits the court from appointing a referee to conduct a mediation. Nevertheless courts will sometimes make such appointments under Rule 222 by characterizing the mediation as a mandatory settlement conference. An order of this nature has the effect of compelling the parties to mediate and is a transparent attempt to get around Rule 244.1(b). It also runs contrary to the nature of mediation. Mediation is a voluntary process in which the mediator facili-

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## Drafting and Challenging Section 2019.210 Statements in Trade Secret Litigation

In today's economy with its constantly shifting workforce, employers are frequently forced to initiate litigation against departing employees who happen to leave — sometimes inadvertently and sometimes not — with company trade secrets. The business reality, however, is that trade secret lawsuits can also be used by companies to drive competitors out of business, to conduct fishing expeditions into their competitors' files, or to prevent departing employees' efforts to start a competing business by causing them to engage in litigation they are ill-equipped to afford.

In order to address such abuses, the California Legislature enacted Code of Civil Procedure section 2019.210 (renumbered from Section 2019(d) in July 2005 with no substantive modification). Section 2019.210 requires a plaintiff to identify its claimed trade secrets with "reasonable particularity" before it is entitled to obtain any discovery from defendants. *Computer Economics, Inc. v. Gartner Group, Inc.*, 50 F Supp. 2d 980, 988 (S.D. Cal. 1999).

To the extent Section 2019.210 can, in the extreme case, prevent a plaintiff from ever proceeding with its discovery in a trade secrets case, Section 2019.210 is a powerful tool that defendants should not underestimate. For the plaintiff, on the other hand, Section 2019.210 designations can present a significant quandry, particularly insofar as even after the recent decision in *Advanced Modular Sputtering, Inc. v. Superior Court*, 132 Cal. App. 4th 826 (2005), there is still no bright line rule as to what constitutes "reasonable particularity."

This article discusses the issues presented by the Section 2019.210 requirement for both plaintiffs and defendants in trade secret litigation, notes the more significant authorities interpreting and applying Section 2019.210, and provides pointers for drafting as well as challenging trade secret designations.

#### Plaintiffs' Challenges

Perhaps the most common issue faced by plaintiffs in trade secret litigation is that, even though they may be able to define their trade secrets, they are unable to determine at the outset of the litigation exactly which of their trade secrets were misappropriated. This is especially true given the proliferation of computer fraud: plaintiffs must file suit quickly to prevent or limit the use of the data as well as to preserve evidence of the theft. Because plaintiffs are required to file a Section 2019.210 statement



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## Trade Secret Statements

before discovery can commence, it is often difficult, if not almost impossible, for them to know the extent of the defendants' theft at the outset of the lawsuit, and therefore difficult to determine what trade secrets to designate in the Section 2109.210 statement.

Another problem faced by plaintiffs in trade secret litigation is not having a trade secret designation timely prepared. Plaintiffs in trade secret litigation generally seek, and obtain, expedited discovery. However, an order granting expedited discovery is rendered virtually useless if the plaintiffs do not have a Section 2019.210 statement ready to be served along with their initial discovery, or if the Section 2019.210 statement is repeatedly, and successfully, challenged by the defendants as insufficient.

Finally, of course, there is the significant challenge presented by the "reasonable particularity" language of the statute, which lacks any definite and clear guidance from the relatively few cases that have interpreted and applied it.

### Defendants' Concerns

Defendants in a trade secret case, on the other hand, face serious concerns that the plaintiffs may conduct a fishing expedition into the defendants' business either to gain a competitive advantage, or to identify trade secrets possessed by the defendants that the plaintiffs otherwise would not have identified. See *Computer Economics*,

*Inc. v. Gartner Group, Inc.*, 50 F. Supp. 2d 980, 985 (S.D. Cal. 1999) (a purpose of Section 2019.210 "is to prevent plaintiff from conducting 'fishing expeditions' into competitors' business files by unfounded claims of trade secret misappropriation.") (citation omitted). In addition, unduly broad trade secret designations by the plaintiffs may hinder the defendants' ability to form complete and well-reasoned defenses before trial. *Id.*; *Del Monte Fresh Produce Co. v. Dole Food Co.*, 148 F. Supp. 2d 1322, 1325 (S.D. Fla. 2001). Therefore, defendants have a vested interest in confining the plaintiffs to a specific list of trade secrets as early as possible.

### The Standard

California's Uniform Trade Secrets Act, Cal. Civ. Code section 3426.1(d), is based on the Uniform Trade Secrets Act, which has been enacted with slight modifications in most states. However, California "appears to be the only state with a statutory rule that postpones discovery pending a plaintiff's identification of its trade secrets." *Computer Economics*, 50 F. Supp. 2d at 984, n.3. Federal courts considering California state law misappropriation of trade secret claims apply Section 2019.210. *Id.* at 992; *Pixion, Inc. v. Placeware, Inc.*, 2005 WL 88968 (N.D. Cal. Jan. 12, 2005).

The difficulty in complying with Section 2019.210 is the lack of guidance in the case law as to the meaning of

"reasonable particularity." The court in *Advanced Modular Sputtering*, *supra*, explained that the phrase "is not addressed by the statutes or the case law...for good reason." *Id.* at 907. The law needs to be "flexible enough for the referee or the trial court to achieve a just result depending on the facts, law, and equities of the situation." *Id.* "Reasonable particularity" does not mean that "every minute detail of [the] claimed trade secret" must be alleged; nor does it mean that the court must conduct "a miniature trial on the merits" of the claim. *Id.* at 908. Adopting the *Black's Law Dictionary* definition of reasonable, the court held that "reasonable particularity" means a showing that is "reasonable, *i.e.*, fair, proper, just and rational[,]...under all of the circumstances to identify [the] alleged trade secret in a manner that will allow the trial court to control the scope of subsequent discovery, protect all parties' proprietary information, and allow them a fair opportunity to prepare and present their best case or defense at a trial on the merits." *Id.*

The *Advanced Modular Sputtering* Court goes on to provide some further guidance. In cases where the trade secrets are "incremental variations on, or advances in the state of the art in a highly technical field," the plaintiffs must specify the trade secrets with a "more exacting" degree of particularity. *Id.* Further, trial courts may consider expert witness testimony, and where "credible experts declare that they are capable of understanding the designation and of distinguishing the alleged trade secrets from information already known to persons in the field, the designation should, as a general rule, be considered adequate to permit discovery to commence." *Id.*

### Cases Discussing Specific Trade Secret Terminology

While the definition of "reasonable particularity" remains fluid and ill-defined even in the wake of the *Advanced Modular Sputtering* decision, a few state and federal court decisions offer guidance as to what terms are deemed specific enough for purposes of a Section 2019.210 statement.

In *Whyte v. Schlage Lock Company*, the California Court of Appeal for the Fourth District held that terms such as "composite material process technologies," "[f]inishing processes for new and existing Schlage products," "strategic plans" and "marketing research" were specific enough for purposes of Section 2019(d). 101 Cal. App. 4th 1443, 1453 (2002). The court also observed that "technical 'know-how' is the quintessential trade secret." *Id.* at 1456. Although the court held that the phrase "[i]nformation about Schlage's new products" was too broad, it did so on the grounds that it might include product information that had been publicly disclosed. *Id.* at 1455. Plaintiffs should therefore specify in their Section 2019.210 statement that the trade secrets relate only to non-public information.

A California federal district court, applying California trade secret law, held that "software design and specifications," "the technical know-how of its engineers," and "various marketing materials and strategies" were sufficiently identified as trade secrets at the preliminary injunction stage. *Cinebase Software, Inc. v. Media Guaranty Trust*,

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## Trade Secret Statements

*Inc.*, Civ. No. 98-1100, 1998 WL 661465, \*7 (N.D. Cal., Sept. 22, 1998). The court stated that “plaintiff has identified, albeit in fairly general terms, the categories of trade secrets it seeks to protect.... Although plaintiff will have to identify its alleged trade secrets with much greater particularity in order to prevail on this claim, plaintiff has stated a claim of trade secret misappropriation.” *Id.* at \* 8.

However, some courts have come to different conclusions. In *Imax Corp. v. Cinema Techs., Inc.*, 152 F3d 1161 (9th Cir. 1998), the court held that an alleged trade secret describing the dimensions and tolerances of the plaintiff’s projectors was not identified with sufficient specificity. Also, in *IDX Sys. Corp. v. Epix Sys. Corp.*, 285 F3d 581, 583-84 (7th Cir. 2002), the court held that a 43-page description of methods and processes underlying software did not separate trade secrets from non-trade secrets. Further, in *Luigino’s, Inc. v. Peterson*, 317 F3d 909, 912 (8th Cir. 2003), the court held that “research and development information,” “financial information,” and “income statements reflecting volume and sales margins” were insufficient.

### The Special Problem of Source Code

Defendants frequently challenge claims of trade secret protection for the entirety of a plaintiff’s source code. See *IDX Sys. Corp.*, 285 F3d at 583 (assertion “that all information in or about its software is a trade secret” is “not plausible” and exceeds UTSA). However, with respect to source code, there appears to be a judicial consensus that it is a trade secret, even if elements of it are in the public domain. See, e.g., *Trandes Corp. v. Guy F. Atkinson Co.*, 996 F2d 655, 662-64 (4th Cir. 1993) (“source code can and does qualify as a trade secret...[because] the unique set of computer instructions...is information that (1) is not generally known...and, (3) if acquired by competitors would improve their ability to compete with [plaintiff]”); *Cybertek Computer Prods, Inc. v. Whitfield*, 203 U.S.P.Q. 1020, 1024 (Cal. Super. Ct., App. Dept. 1977) (“while general concepts are not protectable, the specific implementation involving a particular combination of general concepts may well amount to a trade secret.”); *Fabkom, Inc. v. R.W. Smith & Assocs.*, 1996 WL 531873, \* 7 (S.D.N.Y., Sept. 19, 1996) (“even if the components of the system are public, courts have found that the architecture, or organization and structure, of a program may itself be protectable as a trade secret, even when the component information is not.”)

### Tips for Drafting and Challenging Trade Secret Statements

While some of the authorities cited above seem to suggest that a Section 2019.210 statement identifying general concepts such as “technical know-how,” “marketing strategies,” and “source code” may be sufficient, the more prudent course for the practitioner wishing to avoid a prolonged delay in discovery caused by challenges to the sufficiency of a Section 2019.210 designation is to draft a

statement that is detailed and specific enough that it warrants protection pursuant to a protective order. See Cal. Code Civ. Proc. § 2019.210 (stating that trade secrets are to be identified with “reasonable particularity subject to any orders that may be appropriate[.]”)

Similarly, plaintiffs should have a protective order ready to be submitted to the court at the same time as the application for a temporary restraining order. In this way, the Section 2019.210 statement can be served immediately upon entry of the protective order and discovery can proceed on an expedited basis. If the plaintiffs are not certain which of their trade secrets have been misappropriated at the outset of the litigation, the Section 2019.210 statement should err on the side of being over-inclusive so as to encompass all possible trade secrets the defendants may have misappropriated. And if plaintiffs can hire a “credible expert” to opine that the designation distinguishes plaintiffs’ trade secrets from the prior art, then the court should allow discovery to proceed. *Advanced Modular Sputtering*, 132 Cal. App. 4th at 908.

Defendant also may want to employ experts to challenge plaintiffs’ designations, although they should be aware that “reasonable particularity” does not mean a “level of specificity that even [defendants] are forced to agree [that] the designation is adequate.” *Id.* One thing that *Advanced Modular Sputtering* does make clear is that Section 2019.210 does not require the trial court or discovery referee “to conduct a miniature trial on the merits of a misappropriation claim before discovery may commence.” *Id.* Especially in technical cases, defendants should focus on demonstrating that the alleged trade secrets are not distinguishable from prior art.

Defendants’ counsel should bear in mind that trade secret designations included in a temporary restraining order will likely be deemed specific enough for purposes of a Section 2019.210 statement. Thus, defendants should ensure that any trade secrets sought to be covered by a proposed temporary restraining order are designated with as much “particularity” as they would be in a Section 2019.210 statement. The defendants should also commence offensive discovery as early as possible, since the Section 2019.210 discovery stay does not extend to defendants’ discovery requests. Early discovery may give defendants increased leverage in defending against plaintiffs’ trade secret designations.

### Conclusion

Section 2019.210 statements are powerful tools in trade secret litigation that, in the extreme case, can prevent discovery from ever going forward and ultimately may lead to the dismissal of the plaintiffs’ case. Counsel for plaintiffs are best advised to carefully plan the scope and timing of their trade secret designations. The defense needs to carefully, and aggressively, plan its strategy for challenging a trade secret designation which, by itself, may win or lose the case.

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tates communication between the parties for the purpose of helping them reach an agreement. By compelling parties to mediate, the court ignores the voluntary nature of the process.

A further problem with “mandatory mediation” is the loss of confidentiality since Evidence Code section 1115(b) states that a mandatory settlement conference is not to be considered a mediation. Here, again, courts that appoint referees as mediators ignore the nature of mediation in which confidentiality is essential.

Courts sometimes appoint the same person to act as both a mediator and discovery referee, without actually mandating mediation. These appointments are ill-advised. Confidentiality still can be jeopardized because the mediator is required to wear two hats. Parties to complex litigation may not always understand when they are mediating and when they are involved in another activity. Controversies can arise as to whether statements that were made on a particular occasion should be treated as part of the confidential mediation, or whether the mediator was actually acting as referee.

A further problem is that a mediator operates under legal constraints which make it impossible to perform the reporting functions of a referee. In *Foxgate Homeowners Ass'n v. Bramalea Cal., Inc.*, 26 Cal. 4th 1 (2001), the Supreme Court held that under Evidence Code section 703.5 a mediator may not report to the court on the conduct of any participant in a mediation. Thus the “mediator/referee” may not inform the court of a party’s refusal to comply with a discovery order. Court appointed mediators are also subject to ethical standards that are inconsistent with the duties of a referee. These standards require a mediator to respect the voluntariness of the process and the right of the participants to self-determination. A mediator may not attempt to coerce a party to make any decision or even to continue to participate in a mediation. Referees, on the other hand, are appointed to make rulings and to conduct hearings in which the parties are required to participate.

There also are pragmatic considerations which may make it inadvisable for a referee to attempt to act as a mediator. A referee may at times have to act as a policeman. But a referee who must also mediate may be reluctant to “come down on” a party out of concern for the impact such action will have later during the settlement process.

#### Conclusion

The use of consensual general reference can be highly effective and should be considered as an alternative to contractual arbitration in any kind of dispute. Referees can also be used to hear specific issues, even if the parties have not provided in advance for a reference, although their decisions are only advisory.

**I**n complex litigation there are special considerations to be kept in mind. It may be necessary to have a referee appointed as a special master, with responsibility

for enforcing the case management order, resolving discovery disputes, and conducting mandatory settlement conferences. Parties should not attempt, however, to have the same person act as both a referee and as a medi-

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### Ninth Circuit Rehearing En Banc

The *en banc* process is governed by Federal Rules of Appellate Procedure 35 and 40, the Ninth Circuit Rules regarding FRAP 35 and 40, and Chapter V of the Ninth Circuit General Orders. The Federal Rules of Appellate Procedure, the Ninth Circuit’s Rules and the Ninth Circuit’s General Orders are all available on the Ninth Circuit’s Website (<http://www.ca9.uscourts.gov/>). The status of pending *en banc* cases is also available on the Website.

The grounds on which reconsideration *en banc* can be requested are: (1) the panel decision conflicts with decisions of the Supreme Court or the Ninth Circuit and *en banc* consideration is necessary to maintain uniformity of the law; or (2) the proceeding involves questions of exceptional importance, such as when a Ninth Circuit opinion conflicts with the law of another circuit or a statute. Fed. R. App. P. 35. A memorandum disposition almost never meets this standard.

In considering what constitutes Ninth Circuit law, remember that under Ninth Circuit jurisprudence, a conflict in the law can be created by “well-reasoned” dicta. *United States v. Johnson*, 256 F3d 895, 916 (9th Cir. 2001) (*en banc*) (“Where...it is clear that a majority of the panel has focused on the legal issue presented by the case before it and made a deliberate decision to resolve the issue, that ruling becomes the law of the circuit and can only be overturned by an *en banc* court or by the Supreme Court”); *United States v. Weems*, 49 F3d 528, 532 (9th Cir. 1995) (holding that when a court hears evidence and argument from both parties and specifically rules on an issue, the court’s ruling has binding effect even if not logically essential to the case’s determination).

#### Write for your Audience

With nearly 16,000 cases filed per year and 900 opinions published, don’t expect that all the 24 active and 23 senior judges have read the panel’s decision you are requesting be reheard *en banc*. Put yourself in the shoes of a judge new to the case, who is already busy with his or her own upcoming cases. You must convince the reviewing judge that the panel not only got it wrong, but that the opinion is so wrong it will wreak havoc on the Republic (or at least the Ninth Circuit).

Start by telling your client’s story, but don’t recite abstract legal principles. Put the reader into your story in

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KATE WHEBLE

## On TRADEMARKS

In *Metro-Goldwyn-Mayer Studios, Inc., et al. v. Grokster, Ltd., et al.* (“*Grokster*”), 125 S.Ct. 1605 (2005), the U.S. Supreme Court reinstated a copyright infringement suit against file-sharing software companies Grokster and StreamCast. *Grokster* received much attention, in part because of the popularity of personal music and movie downloading, and in part because it addresses the tension in intellectual property law between protection that promotes creativity, and that which stifles innovation. *Grokster* also provided the Court with its first opportunity to revisit its 1984 decision in *Sony Corp. of America v. Universal City Studios, Inc.*, 104 S.Ct. 774 (1984), which established the legality of VCRs and their use for the personal recording of television programs. Many believed the *Sony* Court’s notion of “substantial non-infringing uses” immunized new technologies from charges of copyright infringement.

In 2001, Grokster and StreamCast (collectively “Grokster”) introduced file-sharing software that used a decentralized user network to avoid the copyright liability that brought down the infamous Napster service. It did not take long for a group of motion picture studios, recording companies, song writers, and music publishers to bring a copyright case against Grokster. Both sides moved for summary judgment. The trial court held that even though the users of the software directly infringed plaintiffs’ copyrights, Grokster could not be held liable for secondary infringement because Grokster’s file-sharing software did not give Grokster actual knowledge of specific acts of infringement. 269 F.Supp.2d 1213 (2003). Without such knowledge, Grokster had not violated copyright law, even though there was evidence that the overwhelming percentage of users committed massive infringement, illegally downloading billions of files.

The Ninth Circuit affirmed. 380 F.3d 1154 (2004). It held, based on *Sony*, that Grokster could not be held liable for secondary copyright infringement because Grokster’s software was “capable of substantial noninfringing uses,” and did not give Grokster actual knowledge of specific acts of infringement.

The Supreme Court accepted review. A diverse group of more than 50 “friends of the Court” — from the National Venture Capital Association to the Christian Coalition — filed briefs. The entertainment industry argued that robust intellectual property protection that rewards hard work and creativity is the only way to foster innovation. Grokster’s supporters argued that overbroad copyright protection to prohibit file-sharing software would stifle technological advance and scare off investment.

The Supreme Court reversed the Ninth Circuit and reinstated the infringement claims, by focusing on Grokster’s conduct, not its technology. The Supreme Court held that the Ninth Circuit’s reading of *Sony* to provide broad immu-

nity from almost any secondary liability was incorrect. The *Sony* “substantial non-infringing use” test only applies where liability is based *solely* on the distribution of a product that has both lawful and unlawful purposes, not where the “evidence...shows statements or actions directed to promoting infringement.”

The Court’s decision shows a keen awareness of the questions at the heart of much intellectual property protection: how much protection is enough, and how much is too much? The Court noted the tension between the values of “supporting creative pursuits through copyright protection” and “promoting innovation” by limiting occasions of liability for copyright infringement. By holding that evidence of the defendants’ acts precluded summary judgment on inducement, the Court attempted to provide protection against a powerful engine for infringement, while at least theoretically, not dampening future technological advances.

The Court developed an “inducement rule.” Secondary liability may be based on the distribution of a device, which is promoted to infringe copyrights, in a manner that demonstrates “purposeful, culpable expression and conduct,” but “mere knowledge of infringing potential or of actual infringing uses” is not enough. The Court identified several “active steps to encourage infringement” taken by defendants: services identified as Napster successors; derivation of Grokster’s name from Napster; promotion of an expanded body of copyright-protected music; use of a business model that gave away file-sharing software and then sold advertising, the value of which increases with usage; and refusal to filter use of copyright protected material.

The Court pointed to advertising, solicitations, demonstrations, instructions, and recommendations as examples of conduct that could be the basis for inducement liability.

The *Grokster* decision gave the entertainment industry’s enforcement activities a boost. After the decision, Grokster settled for \$50 million and re-configured its services to permit only legal downloading. The case continues against StreamCast. Though lawsuits have been filed against individual downloaders, it is more efficient to challenge enablers of the infringement. Grokster’s competitors may be targets after *Grokster*. Only time will tell.

However, *Sony*’s protection of new products with “substantial non-infringing uses” remains intact, at least until the Supreme Court revisits the delicate balance it has tried to maintain between intellectual property protection and the freedom to innovate. Although the exact contours of liability are uncertain, the chance of liability can be reduced by prudent action. Companies should consider a full compliance review. A careful preparation and control of business, marketing, and advertising plans will reduce potential exposure.

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Kate Wheble



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## Ninth Circuit Rehearing En Banc

a way that makes him comfortable with the facts. For example, would you rather read: “In violation of the law of California regarding the burden of proof regarding presumptions in the field of negligence, the district court erroneously instructed that *res ipsa loquitur* applied to a derailment proximately caused by a third party;” or “On a stretch of railroad track in the Mojave desert 100 miles from the nearest town, terrorists blew up the track 10 minutes before a train arrived. The train derailed. The court below instructed the jury they should presume it was the railroad’s fault.”

Write like a good Associated Press reporter. Give the judges a strong lead that will hook them on the importance of the issues presented. Do not begin with a boring recitation of the standard for granting the PFREB, which the judges have read hundreds of times.

### What Happens to Your PFREB

Your PFREB will be delivered to each judge of the Circuit. Make sure you attach a copy of the panel’s decision to your PFREB. If the PFREB catches the attention of a judge, a law clerk may be asked to write a brief memorandum assessing whether and why the case is “*en banc* worthy.” Since the judges know an *en banc* call involves a significant investment of resources, judges are understandably reluctant to make them. So make the law clerk’s job easy: right after your strong lead into the important facts, lay out why the panel’s decision conflicts with existing law.

### 5.4(b) Notice Requests

If a judge is thinking about calling a case *en banc*, he or she will usually first request that the three-judge panel issue a notice under General Order 5.4 — a “5.4(b) notice.” Although a request for a 5.4(b) notice is not required before a judge makes an *en banc* call, such notice is almost always made to give the panel notice that an off-panel judge thinks the panel’s decision may be wrong. A request for a 5.4(b) notice requires the panel to give the full court notice of its vote on the PFREB. This gives the panel an opportunity to modify its decision to address the points raised in the 5.4(b) request. If the panel decides to grant the PFREB and withdraw its original disposition, then the process begins anew when the new disposition is filed. If neither a 5.4(b) request nor an *en banc* call are made, once the time for a 5.4(b) request has passed, the panel can simply deny the PFREB on behalf of the entire court without notice.

A 5.4(b) request also requests that the panel issue a stay of the mandate and order a response to the PFREB. The winning party is not allowed to respond to the PFREB unless the panel orders a response filed. If no PFREB is filed, an off-panel judge who is interested in the case may request that the panel order the parties to brief whether the case should be heard *en banc*.

Your first hint that a judge has taken notice of your PFREB may well be an order that your opponent, the win-

ning party, should file a response. But just because a response has been ordered to your PFREB, don’t think you’re going to get a rehearing *en banc*; you’re just getting started. Sometimes an off-panel judge will request a 5.4(b) notice simply to request that the panel modify the decision to conform with Ninth Circuit law as viewed by that judge. This may or may not affect the end result. Once accommodated, the judge may withdraw the 5.4(b) notice request.

When the response to the PFREB has been filed, the panel will vote to grant (seldom) or deny (most likely) the PFREB. The panel then gives notice of its action to the entire court. This fulfills the request for notice under G.O. 5.4(b). This notice starts the time running in which an off-panel judge can make an *en banc* call.

### En Banc Calls

If a judge is not satisfied with a panel’s resolution of a PFREB, the judge can call for a vote as to whether the case should be reheard *en banc*. If no PFREB was filed, a judge can still make a *sua sponte en banc* call. The panel will then order the parties to file supplemental briefs as to whether the case should be reheard *en banc*.

After an *en banc* call is made, all interested judges exchange memos, beginning with the judge who made the *en banc* call. Although only active judges are eligible to vote on an *en banc* call, both active and senior judges can make an *en banc* call and circulate memos regarding the call.

A simple majority of the active judges who are not recused is required to take the case *en banc*. In an ordinary case, if a judge does not vote, it counts as a vote against rehearing *en banc*. In a death penalty case where an execution has been scheduled, it is the opposite — when a judge does not vote it counts as a vote in favor of rehearing *en banc*.

If fewer than a majority of the active judges vote to hear a case *en banc*, the vote fails and the original panel issues an order denying the PFREB.

### After a Case Goes En Banc

If a majority of the active judges vote to hear the case *en banc*, the case is turned over to the Chief Judge, who issues an order stating that the case has “gone *en banc*” and that the panel’s decision is vacated.

The Chief Judge automatically sits on all *en banc* panels, unless he or she is recused. Fourteen additional active judges of the court are drawn by lot to sit (along with the Chief Judge) as the limited *en banc* court. The fourteen judges are drawn from an old-fashioned “bingo” tumbler. A senior judge is eligible to sit on an *en banc* court only if that judge was a member of the original three-judge panel, and requests to sit on the *en banc* court if his or her name is drawn from the tumbler.

An *en banc* court can overrule any prior decision made by a three-judge panel or a prior *en banc* decision. Accordingly, an *en banc* court may go beyond the decision in the case at issue and change entire lines of authority. The court holds oral argument in *en banc* cases one

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CHIP RICE

## On LITIGATION SKILLS

**D**efending depositions is harder than it looks because almost all of the work should be done before the deposition begins. If you prepare the witness for what to expect and what to do, you can sit back and listen after the witness is sworn.

### Telling the Truth

Start by explaining to your deponent how important it is to tell the truth. It's not just an ethical obligation; it's good strategy. Your mother was right when she told you that we weave a tangled web when we try to deceive. By trial, your opponent will probably have the evidence necessary to cut through the tangled web and damage the witness' credibility on cross-examination.

There seem to be two schools of thought, however, about how much truth the deponent should be prepared to tell. Many lawyers seem to think that ignorance is the best defense and that opposing counsel will not be prepared, so they do nothing before the deposition to help their deponents remember what happened. Others, including me, believe that such an approach is short-sighted. At trial, if not before, someone will have to explain the bad documents and other bad facts in the case. A witness who did not remember most of them during a deposition will have a very hard time doing that.

In other words, if you want your witnesses to be effective at trial, it is not enough to simply tell them to be honest. You have to help them by showing them what the documents and other evidence will show. Almost no one can remember all of the details of a complicated deal that closed years ago. We can't simply play back a memory tape in our heads. We have to reconstruct events like birds building nests with twigs and scraps.

So, when I prepare witnesses for deposition, I try to show them every important document that relates to their testimony and tell them as much as I can about what other witnesses will say. Otherwise, the deponent may reconstruct a facile but faulty version of events that can be conclusively contradicted. That will be very disconcerting to the witness if confronted with the contrary evidence in "real time" during a deposition, and it can erode his or her credibility, especially if it's caught on videotape. By contrast, if a witness knows about all of the important evidence before the deposition, he or she will naturally "connect the dots" in a way that will stand up better under cross-examination. The process of going over evi-

dence takes time, so try to have more than one preparation session and spread them over a few days or even weeks so that the witness has time to mull over what happened.

### Don't Volunteer

Everybody knows that a deponent is not supposed to volunteer information, but almost every deponent does. Here again, it is not enough to simply tell the witness what to do.

Most people want to be liked and understood, and many of our clients and their employees are very good at getting what they want. People who have made a career out of explaining themselves (and talking themselves out of trouble) find it very hard to break old habits. That was recently reinforced for me when I was a deponent. My lawyer had to "woodshed" me more than once for being too chatty and eager to please.

Start preparing your deponent by explaining that they are playing defense and should not try to score. They are not there to help. The purpose of the deposition is for the other side to get admissions or other grist for cross-examination — not for your side to make points. As one of my partners says, "When you are explaining, you are losing." The deponent has to answer each question well enough to be able to testify effectively at trial, period. Anything more — such as trying to speed up an unfocused examination or even making a joke — is just asking for trouble.

Answering questions truthfully without volunteering more information than required takes practice, so spend some time role-playing. Try to get someone else to ask the tough questions so that he or she can get confrontational without upsetting your relationship with the witness. Practice also helps the witness understand the rules. You may be surprised how many witnesses will flub even the easy questions the first time around. Ask them if they have talked to anyone about their deposition, and many of them will freeze and say "no." You have to remind them to just say "yes" and then wait for the next question. You then can object and instruct them not to answer that next question if it calls for the substance of any privileged conversation with you.

**I**f you are like me, you will still find the deposition itself a little nerve-wracking. At that point, your ability to influence events has diminished substantially, so your primary comfort will be the work that you have already done.

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**Chip Rice**



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## Ninth Circuit Rehearing En Banc

week every three months. Usually each side is allotted thirty minutes for oral argument. After oral argument, the en banc court issues a decision in the same manner as a three-judge panel.

If your case does not go *en banc*, you will get an order that the *en banc* vote has failed, and perhaps

there will be a dissent from the denial of a rehearing *en banc*. Sometimes those dissents provide ammunition for your possible next step — at even greater odds — a petition for *certiorari* to the United States Supreme Court.

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## How to Calculate En Banc Deadlines

### If No PFREB Is Filed

The last day for a judge to make a *sua sponte en banc* call if no petition for rehearing *en banc* (“PFREB”) is filed (or if only a petition for rehearing (“PFR”) is filed) is either: (a) 21 days after the panel’s decision is filed; or (b) in civil cases where the U.S. or one of its agencies is a party (including immigration cases), 52 days after the panel’s decision is filed. Fed. R.App. P. 40(a)(1); G.O. 5.4(b)(3), 5.4(c)(3).

### If a PFREB Is Filed

A PFREB must be filed within: (a) 14 days after the panel’s decision is filed; or (b) in civil cases where the U.S. or one of its agencies is a party (including immigration cases), 45 days after the panel’s decision is filed. Fed. R. App. P. 40(a)(1).

If a party wishes to file a motion for reconsideration of an order entered by a motions and screening panel, the motion must be filed within: (a) 14 days after the order is filed; or (b) 28 days after the order is filed, if the movant is a *pro se* prisoner. 9th Cir. R. 27-10.

Once a PFREB is filed, the last day for an off-panel judge to request notice from the panel of how the panel will vote on the PFREB (the “5.4(b) notice”) is 21 days from the date the PFREB is circulated to the court. G.O. 5.4(b)1.

There is no deadline for how long the original panel can take to consider the PFREB and circulate its 5.4(b) notice to the rest of the court.

Once the panel circulates its 5.4(b) notice to the court, any off-panel judge who wishes to call for an *en banc* vote must do so by the latter of: (a) 14 days after panel circulates the 5.4(b) notice; (b) 21 days after circulation of the last-filed PFREB; or (c) 14 days after the response to the PFREB is circulated. G.O. 5.4(b)(2).

### Procedures Following an En Banc Call

Once an *en banc* call has been made, if the call was *sua sponte* and no PFREB has yet been filed, the panel will order the parties to file supplemental briefing on whether the case should be taken *en banc* within 21 days.

The judge who made the *en banc* call must circulate a memorandum in support of the call within the latter of: (a) 14 days after the *en banc* call is made if the response to the PFREB was already circulated to the court prior to the call being made; or (b) 7 days after supplemental briefing by the parties is circulated to the court if the call was *sua sponte*.

The last day for judges to circulate memoranda in response to the *en banc* call is 21 days after the conclusion of all supplemental briefing by the parties. G.O. 5.5(a).

Voting begins one day after the last day for the judges to circulate memoranda in response to the *en banc* call, and ends 14 days later. G.O. 5.5(b).

Any judge may “stop the clock” once per case. This extends the next deadline by 14 days, whether it is making a 5.4(b) request or an *en banc* call. Once one judge has used this procedure, no other judge may use it in the same request. G.O. 5.4(e).

TRENT NORRIS

## On ENVIRONMENTAL LAW

**Y**ears ago, a senior environmental lawyer pulled me aside and, re-playing the poolside scene from *The Graduate*, whispered these simple words of career advice: “Proposition 65.” His point was that the future of environmental law in California rests in this one powerful statute. He was right.

Today, at least 15 years since Congress or the California legislature has enacted any major environmental legislation, the future of environmental law continues to emerge from the field pioneered by Proposition 65: toxics regulation. And, as in almost everything, California will be out front.

The reasons involve both politics and science. On the political side, new groups of activists, many touched personally by cancer and other illnesses, have been organizing. They are linking arms with environmentalists while also enlisting the support of medical and health advocates and civil rights groups to engage in a broad-based effort to fundamentally alter toxics regulation. As one activist group puts it: “Breast cancer is not just a personal tragedy; it is a public health crisis that requires political will to change the status quo.”

On the scientific side, these activists are alarmed by statistics showing, for example, a steady climb in breast cancer rates. They are frustrated by scientists’ inability to understand the increasing occurrence of autism. And they believe — sometimes based on scientific indications — that synthetic chemicals in everyday products from cosmetics to cleaners to medicines are to blame for various maladies. For example, Breast Cancer Action recently issued a report claiming that “a significant body of scientific evidence links exposure to radiation and synthetic chemicals to an increased risk of breast cancer.” Adding to the alarm is the detection of synthetic chemicals in the tissues of healthy people — a discovery made possible by advances in analytical chemistry.

Those concerned find current federal and state efforts at toxics regulation inadequate. They note the lack of toxicological information on some industrial chemicals and product ingredients. They point out that low-dose exposures at critical periods can cause health problems, and that — because studies are performed on individual chemicals — very little is known about interactions. They decry the Food & Drug Administration’s limited authority to regulate cosmetic ingredients and dietary supplements. And they are frightened by the lack of attention to the potential health effects of new nano-materials.

Their message reaches a public that, although inured to such calls, is primed to believe them. It also reaches policymakers, who have responded by proposing revolutionary programs of chemical regulation. For example, the California legislature passed a bill last year (which the Governor vetoed) stating: “Cancer, asthma, birth defects, developmental disabilities, endometriosis, and infertility

are becoming increasingly common, and mounting evidence links incidence and severity of these diseases to exposure to environmental toxicants.”

The fundamental shift proposed is the adoption of the precautionary principle to guide chemical regulation policy. At its extreme, this principle calls for government to prohibit all chemicals that are not proven safe in addition to those that are proven unsafe. Lawyers will recognize this as a shift in the burden of proof, a simple move with profound effects in any dispute and certainly in any policymaking effort. Indeed, California Proposition 65 already shifts to industry the burden of showing a listed chemical’s use is below threshold levels once it is detected in a product.

Of course, a fundamental question is the definition of “safe.” The answer is a policy choice, preferably informed by science, possibly incorporating notions of risk-benefit analysis, and ultimately having to be decided in the context of scientific uncertainty. This has always been the question, but the precautionary principle would require regulators to answer this question before the chemical is used.

Europe’s REACH program (Registration, Evaluation and Authorisation of Chemicals) is explicitly premised on the precautionary principle. It will require companies to register approximately 30,000 chemicals and make safety data public. It will require pre-market approval of a variety of chemicals and may lead to greater regulation of all chemicals. It has been touted as a model for California.

And in California, the Governor recently approved Senate Bill 484, which will require companies that sell over \$1 million a year in cosmetics worldwide to publicly report all chemicals contained in their products that are listed as carcinogens or reproductive toxicants under Proposition 65 or meet the criteria of other national and international bodies, regardless of the amount of the chemical contained in the product. In other words, even if such ingredients are used in quantities deemed safe through scientific research, they still must be reported. That information, in turn, seems destined to be used to pressure manufacturers into avoiding such chemicals all together.

Other legislation in California — which was vetoed by the Governor — would have studied the “body burden” of chemicals, *i.e.*, the amount of synthetic chemicals that are detected in the fluids and tissues of people. The scientific value of the information that would have been collected by the Healthy Californians Biomonitoring Program (Senate Bill 600) was questioned, although its political value to activists was apparent.

**M**ore activity is undoubtedly ahead, both before legislatures and in the courts. Today, for California environmental lawyers, the word to whisper in the ear of a recent law school graduate is “toxics.”

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Trent Norris

## Letter from the President

I am delighted to write to you as the 2006 President of the ABTL's Northern California Chapter. Our Chapter has accomplished remarkable things since its inception 15 years ago.

We have had unprecedented growth. Although the ABTL originated with our Los Angeles Chapter, today the Northern California Chapter is the largest of the five ABTL Chapters (including the Los Angeles, Orange County, San Diego, and San Joaquin Chapters), boasting over 1700 lawyer members.

We have a talented and dedicated group of Officers and Governors. Our Board includes Northern California federal and state judges, both at trial and appellate levels. And, although the ABTL has its roots in the private sector

defense community, our Northern California board, like our membership generally, includes leading representatives from the plaintiff and defense bars, and governmental agencies.

Your ABTL Northern California Chapter has bold objectives for the coming year. Principal among these is our drive to inspire the younger, more junior lawyers in our community to get involved in the ABTL. Our junior civil trial lawyers — those with ten or fewer years of experience — face challenges that many of us who began practicing in the 1980's or before never faced. The number of civil trials has steadily diminished over the last 20

years, giving newer litigators less of an opportunity to hone their trial skills. The maturing of the global legal market and the emphasis firms place on the holy grail of law firm economics — the profits per partner metric — have driven firms to impose ever higher billable hour requirements on all lawyers, including the most junior lawyers.

As a result, many young litigators see the cases on which they are working and their daily time sheets as the only relevant facets of their professional lives. This is tragic. Involvement in the ABTL is enormously rewarding for junior trial lawyers. They observe the best of the best practicing at the highest level of the profession. They see a case dissected, to discover what works and what doesn't work in the art of persuasion. They learn cutting edge techniques in all areas of civil trial practice, from jury selection to demonstrative evidence. They learn to see the case from the eyes of the sitting judge, the seasoned trial lawyer, the expert and the juror. Most importantly, they get the chance to meet and speak openly with other local lawyers and judges throughout California, to share experiences and learn from one another, thereby making the courtroom a more familiar place.

The ABTL's fellowship adds an important dimension to the civil trial lawyer's practice, especially for those who are in the early stages of their career. In 2006, the Northern California Chapter will offer programs uniquely directed to the junior lawyers in our community,

with the goal of promoting their inclusion in the ABTL community for years to come. For example, our newly organized ABTL Leadership Development Committee will offer several "brown bag" lunches and other informal get-togethers with local judges, with attendance limited to our more junior members. We hope you will attend these important programs.

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