

When Do Trade Secrets Trump the First Amendment?

by Anthony M. Stiegler, Esq. and Andrea Bitar, Esq. of Cooley Godward, LLP



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On August 25, 2003, the California Supreme Court decided *DVD Copy Control Assn., Inc. v. Bunner* (2003 WL 21999000). This case raised an important constitutional issue, addressing the tension between First Amendment free speech rights and the rights of a trade secret owner to protect its information through injunctive relief. The Court held that a party's trade secret rights can trump an adversary's First Amendment free speech rights when an injunction is necessary to prohibit a publication of those trade secrets on the Internet. The decision will have far-reaching effects in trade secret litigation.

Background

The digitization of movie and music content opened a new technological era in the storage and distribution of virtually perfect copies on DVDs (digital versatile discs) and DVD enabled computers. DVDs are capable of storing more than 4.7 gigabytes of data and easily hold full-length motion pictures. The

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VIEW FROM THE BENCH

From Pleading Through Verdict with the Hon. Ronald S. Prager

Judge Ronald S. Prager has served on the San Diego Superior Court bench since 1989. He is an independent calendar judge handling solely civil litigation matters. He was gracious enough to offer the ABTL Report the following thoughts on his approach to cases, from pleading challenges through trial.



Hon. Ronald S. Prager

How would you describe your approach to demurrers and other pleading challenges?

Much of what I can and can't do is, obviously, controlled by the law. Generally speaking, though, I prefer not to have the case get bogged down at the pleading stage. It usually doesn't do the parties a lot of good to be having third and fourth amend-

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President's Column

by Hon. J. Richard Haden

In September, legendary trial attorney James Brosnahan spoke to us on the four key components of a trial: jury selection, cross-examination, demonstrative evidence, and final argument. He prepared an outstanding pamphlet with his "list of reminders" on each topic. We are proud to republish that list in this issue.



Hon. J. Richard Haden

Our third ABTL/Litigation Section "Brown Bag Lunch with a Judge" was with Federal Magistrate Leo Pappas, and the next is scheduled with Ninth Circuit Court of Appeal Circuit Judge Margaret McKeown on

October 28. Our Vice President, Charles Berwanger, has more information on this event. More of these informative and enjoyable lunches are planned for the future.

On October 28, a panel of Superior Court Judges, chaired by our Presiding Judge Rick Strauss, will discuss what is happening in the civil courts downtown. Judge Mike Bollman will answer questions about his settlement program; and Judges Janis Sammartino, Bill Nevitt and I will talk about our Independent Calendar Departments.

November 1 is the Red Boudreau Dinner which ABTL cosponsors. This year, our longtime Board member Chuck Dick will receive the Broderick Award. This is a great evening for a worthy cause and we hope you can attend.

Mark your calendars for "John and Abigail Adams" on December 8. Spouses and older children might enjoy this program and are welcome. For next year, our Program Chair Robin Wofford has already scheduled a program on Bias (just in time for MCLE) with prominent consultant Jacob Herring, and a fascinating evening with distinguished trial attorney Carol Handler.

As our year draws to a close, we begin to nominate next year's Board of Directors. If you have a nominee, please let any of our Board members know.

We look forward to seeing you at our next meeting.

Jury Instructions Meet Plain English

by London Meservy, Esq. of Paul Hastings Janofsky and Walker LLP

California's civil jury instructions have been completely overhauled in an effort to demystify and modernize arcane language. Partly in response to widespread criticism of the verdict in the O.J. Simpson double murder trial, a Blue Ribbon Commission on Jury System Improvement was created by the California State Judicial Council. The Commission recommended that new civil and criminal jury instructions be created that accurately reflect the law in a more easily understood manner.



London Meservy

On July 16, 2003, the Judicial Council adopted a court rule strongly encouraging the use of the new Judicial Council of California Civil Jury Instructions ("CACI") and making the CACI the official civil jury instructions of the State of California. Before this rule was adopted, the Book of Approved Jury Instructions ("BAJI") had been the standard jury instructions used in California state courts since the 1940's. In contrast to the legalese-riddled BAJI instructions, the CACI instructions emphasize plain, straightforward language.

The CACI instructions were drafted by a 29-member task force appointed by the Judicial Council in 1997. The goal of the task force was to ensure that juries understand and apply the law correctly when deliberating. To meet this goal, the CACI instructions were written in "plain English" designed to make the law easier for juries to understand. Rather than simply revising the BAJI instructions, the task force began their work from scratch.

Judge Michael B. Orfield, a member of the task force, commented that the new jury instructions eliminated double negatives and focused on maintaining a consistent style throughout the 800 new civil jury instructions. The instructions were also drafted in a manner that facilitates the use of the

(See "Plain English" on page 12)

Enforcing Pre-Dispute Arbitration Clauses: When Are They Unconscionable?

by Charles Evendorff, Esq. of Morrison & Foerster

It is no secret that many businesses prefer to arbitrate disputes, while many plaintiffs would rather tell their story to the jury and hope for a large monetary verdict. As a result, businesses who often find themselves as defendants-employers, telephone and credit card companies, contractors-often insert arbitration clauses in their contracts. But, when a plaintiff sues in court anyway, the court is faced with the question: Is this arbitration clause enforceable?

The answer to that question depends partly on whether the clause is unconscionable. In the last couple of years, a number of California state and Ninth Circuit cases have examined pre-dispute arbitration agreements to determine unconscionability. These decisions demonstrate that arbitration is most often compelled where businesses seek merely to direct disputes to arbitration – rather than obtain other advantages, such as limiting remedies or barring class actions. Additionally, giving the presumptive plaintiff a meaningful opportunity to opt-out of the arbitration agreement can serve to insulate it from a finding of unconscionability.

One of the most important California decisions on unconscionability in pre-dispute mandatory arbitration clauses is *Armendariz v. Found. Health Psychcare Serv., Inc.*, 24 Cal.4th 83 (2000). In *Armendariz*, the California Supreme Court analyzed an arbitration clause that required employees, as a condition of employment, to bring all claims related to termination of employment to arbitration, while permitting the employer to bring suit in court. The clause also excluded damages that would otherwise be available under the California Fair Employment and Housing Act (“FEHA”). In reversing an order compelling arbitration, the California Supreme Court found the clause unconscionable and refused to enforce it.

The California Supreme Court noted that unconscionability under California law has both a procedural and substantive element. Procedural unconscionability focuses on oppression or sur-

prise due to unequal bargaining power, while substantive unconscionability relates to whether the terms of the agreement are “overly harsh” or “one-sided.” See *Armendariz*, 24 Cal.4th at 114. “Both [must] be present in order for a court to exercise its discretion to refuse to enforce a contract or clause under the doctrine of unconscionability.” See *id.* But substantive and procedural unconscionability need not be present in the same degree, “the more substantively oppressive the contract term, the less evidence of procedural unconscionability is required to come to the conclusion that the term is unenforceable, and vice versa.” See *id.*

Charles Evendorff

While this analysis might seem simple, it is often extremely fact intensive. As a result, review of recent precedent is instructive in determining whether a given clause will be held enforceable. Because generally applicable state-law contract defenses, such as unconscionability, may render arbitration clauses unenforceable under the Federal Arbitration Act (“FAA”), the following Ninth Circuit decisions analyze California law.

One important caveat – a number of the most important decisions relating to unconscionability occur in the employment context. But the applicability of these cases to many employment disputes may soon be called into question, because California Assembly Bill 1715 is waiting for the governor’s signature. AB 1715 would invalidate arbitration clauses in agreements between employers and employees that relate to employment practices covered by the FEHA, and that are required as a condition of employment or continued employment. Regardless, the decisions have broader applicability, and often are (and still will be) cited as precedent by courts analyzing unconscionability in non-employment related disputes, where the parties to the agreement have unequal

(See “Pre-Dispute” on page 10)

Trial Reminders

by James J. Brosnahan, Esq. of Morrison & Foerster LLP

The following lists of trial reminders are taken from materials distributed by James J. Brosnahan at his September 8, 2003 presentation to the Association of Business Trial Lawyers (San Diego). They are reprinted here with the kind permission of Mr. Brosnahan.

Jury Selection

1. Assemble and read materials, including newspapers, from the area where the case will be tried.
2. Pay attention to conversations with people in the venue.
3. Consider a survey of public opinion.
4. Be absolutely sure you have determined the precise procedures to be used by this judge in the process of jury selection.
5. When you are visiting the courthouse on pre-trial motions, take the time to go down the hall and look at some juries.
6. Read jury verdicts within the venue for results.
7. Most important, do a case analysis to determine what kind of jurors should be eliminated or retained. Who are the parties in the case? Who are the key witnesses? What are key issues? From this analysis, you can then determine what kinds of people are likely to be favorable or unfavorable.
8. Consider using a questionnaire, which the prospective jurors fill out in their own hand. Judges much more frequently allow such questionnaires now.
9. Be sure you understand the procedures for eliminating a juror for cause and the exercise of peremptory challenges. A particular judge can modify both.
10. Never use the last challenge.

Cross-Examination

1. Use short, simple, leading questions with four to six words. "You wrote the letter, didn't you?"
2. Refrain from using open-ended questions such as, "Why?"

3. When impeaching a witness with a prior inconsistent statement, consider using the phrase, "Did you give this answer to this question?" You then read the question, the answer and stop. Simplicity is the essence of good impeachment. Breaking the questions to their smallest parts very often will increase chances of success and add to the dramatic flow.

4. Before trial, make a thorough personal search of the case files looking for cross-examination material.

5. As a general rule, impeach on major points. An exception would be the cross-examination of an accountant, where precise detail work is important.

6. Impeach with a prior inconsistent statement only when the chances of success are good. A prior statement in the handwriting of the witness would be a prime example.

7. Foreclose all explanations that the witness might give before confronting with the main point or impeaching material.

8. Plot out possible responses that may be given during the key areas of the cross-examination and frame questions that can be used depending on the answer.

9. Don't overestimate the impact of a felony conviction because jurors sometimes discount them.

10. Once you have impeached the witness and gained a major advantage, stop and sit down.

Demonstrative Evidence

1. Consider preparation of large charts with boxes and arrows for cases involving business transactions and the flow of money.

2. Give careful consideration to what colors you want to use in your demonstrative evidence, quiet subdued pastels or inflammatory primary colors.

3. Consider presenting your documents on power point.

4. Consider using an ELMO, which allows you to put any document or photograph on the face and will project the image onto a screen in the courtroom.

5. If you use blow ups of key documents, try not to let the number exceed seven or eight to facilitate ease of handling in the courtroom.

6. The practice of giving copies to the jury, while less used than in former years and actually not allowed by some judges, is still helpful when dealing with a key document.

7. Keep experiments in the courtroom to an

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Prager

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ed complaints. Although there are certainly some demurrers that deserve to be granted without leave to amend, I generally don't like to take a hypertechnical view of pleadings. I am inclined to give the plaintiff the benefit of the doubt at the pleading stage, and to await the development of the evidence and possible disposition, if appropriate, at the summary judgment stage.

How do you like to handle discovery disputes?

I don't allow parties to file discovery motions without first meeting and conferring among themselves and appearing before me *ex parte*. I find that, between meeting and conferring and the *ex parte* process, about 98 % of discovery disputes can be resolved. Not only does this approach get faster results, but I feel that the quality of decision I can render on discovery disputes is better if I get a chance to see the attorneys face to face in an *ex parte*. *Ex partes* offer a good forum for me to learn about a case, and to try to get a feeling for the true burdens of discovery and for possible practical solutions. For example, if a party is seeking documents going back 10 years, I might order that documents for 3 years be produced, without prejudice to the party asking for additional years later upon a reasonable showing. I genuinely enjoy working face to face with attorneys, and find that doing so allows the court and the parties to find practical ways to streamline the proceedings for the benefit of all concerned. I find that written motions tend to be useful mostly in particularly complex situations, such as complex privilege issues. Even in complex cases, however, I almost never refer matters to discovery referees. I tend to deemphasize the use of sanctions, and emphasize compliance. I tend to reserve sanctions for situations where one party is being truly obstructionist, and nothing else has seemed to work.

Do you have any advice concerning summary judgment motions?

Summary judgment is a fairly drastic measure, and places a heavy burden on the moving party to show that there is no triable issue of fact. It is therefore exceedingly important for the moving party to make it easy for the judge and staff to quickly find the important parts of important documents, especially in motions with voluminous documents. The judge and staff don't have a lot of time to search for the needles in your haystack.

For example, attorneys should almost always use exhibit tabs, rather than just separating exhibits with colored paper. Also, underline or highlight the relevant passages. It is very convincing for a judge to read a contention in the papers, turn to the evidence, and see the contention backed up in black and white. When it comes to oral argument - on summary judgment or anything else - I really admire lawyers who can keep their mouths shut and let other side complete their arguments without interrupting. Not only is this the polite thing to do, but to me it shows that the lawyer has confidence in his position.

How do you approach motions in limine?

My approach at trial is always to try to maximize the good use of juror's time. I encourage motions *in limine* because they are a good way to get issues out of the way before the jury is called. Generally, I handle arguments on *in limine* motions in chambers, starting by eliminating the easy ones then moving to the harder ones. We will go on record occasionally to memorialize rulings and to give attorneys a chance to preserve their objections. I also invite oral *in limine* motions to the extent that additional issues become apparent as we go through the argument process. With the parties' consent, I will often conduct a settlement conference before, during or after *in limine* motions.

How do you handle voir dire?

I start by giving the usual questions to the jury in a very time efficient manner, eliciting a great deal of information rather quickly. For attorney *voir dire*, I like to give the attorneys broad scope, but not too much time. I generally allow about 20 to 30 minutes of *voir dire* per side, with exceptions for particularly complex cases. Longer *voir dire* tends to become tedious for the jurors. I have the attorneys *voir dire* all 32 jurors at once, which requires them to ask most questions of the panel as a whole. I rarely permit written questionnaires, except in cases with very sensitive issues.

Can you describe your style as a trial judge?

At trial, I really like to keep things moving along so that we don't waste the jurors' time. I tend not to take an active role; for example, I seldom make *sua sponte* objections or question witnesses myself. On rare occasions, I will interject questions of my own when necessary to break some kind of a log jam. I encourage attorneys to do everything they can to keep things moving, including having a binder of witness exhibits

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Trial Reminders

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absolute minimum because they are dangerous and because they can have an inappropriately great importance in the jury's mind, especially if they go wrong.

8. Every case calls for the use of chronologies, key dates displayed for the jury's convenience.

9. The judge, with an actual trip that the jury takes, will occasionally allow examination of the premises. More often, models may be used as long as they are substantially similar to the actual premises. Video recreations are now common and have a tremendous effect in many cases.

10. Limit the information on any one chart or blow up and be sure that it is readable at the distance the jurors will be from the piece of demonstrative evidence. Eighty percent of demonstrative evidence is unreadable and too busy.

Final Argument

1. The usual sequence is the plaintiff first, the defendant second and then plaintiff's rebuttal. Rebuttal is supposed to be limited to new points raised in the defense, but is rarely so limited.

2. In order to neutralize the rebuttal argument by the plaintiff, the defendant can pose a series of questions to plaintiff's counsel during the defense argument. You have to be careful doing this but it can be effective.

3. Time limitations are sometimes imposed by a judge but usually after consultation with counsel and usually reflecting appropriate amounts of time given the length of the trial and the complexity of the material.

4. Many judges will allow the reading of pleadings, even an indictment. When in doubt on any procedures, be sure to ask the judge first.

5. It is crucial to discuss the law and most judges will allow discussions of the instructions. Occasionally the instructions will precede the argument, which makes it easier to discuss the instructions because the jury has already heard them. If the instructions are to follow, the phrase, "I believe his/her honor will instruct you that . . ." is permissible. In some courts, if you ask first, you may be able to show some language on a board that comes from an instruction.

6. A special verdict should be discussed with the jury and don't be afraid to tell them exactly what you want them to do. "We are asking you to say 'No' here . . . We are asking you to say 'Yes' here . . ."

7. Prepare your argument thoroughly before the trial begins. Start thinking about what will be in your final argument when you first get the case. Such thoughts help to focus the discovery and witness interviews. If it is not going to be in the final argument, it is probably not very important.

8. Preparing yourself for final argument is a very important part of your own self-teaching. Don't be afraid to practice your final argument out loud in front of one or two friends or colleagues. Invariably they will tell you they do not understand a certain part of your position. In general, don't be afraid to work on your speaking voice. Actors spend years training their voice. So should trial lawyers. Take a dictating machine and try out part of your argument. Then listen to it. Should you pause more? Are you as clear as you can be? Don't hesitate to study books on rhetoric for various rhetorical devices that can be used. Make them your own. Before giving the final argument, take out all of your notes on the jury and reread them very carefully. Who are you talking to? Knowing your audience is the first rule of rhetoric and a final argument is nothing but rhetoric.

9. Structure and content of final argument vary. But it is helpful to start with a recitation of the key legal elements. Even, and perhaps especially, when those legal arguments cut against your case, it is better for you to discuss them and explain them with confidence than to try to ignore them and attempt to tiptoe past them. The jury will make an effort to put the law together with the facts so you had better discuss the law. Marshalling the evidence can be helpful; there are thirty-two of these; there are eleven of those; and six times the defendant did this. Go easy on the rhetoric. It can work if very appropriate and very short. You may wish to have a blow up page of testimony prepared by the court reporter and show it to the jury to let them see the exact words that were used by the witness.

10. First and foremost, be yourself. It is true you can watch other trial lawyers and borrow from their styles, especially if they present things in a similar way to you, but you have to develop your own style. ▲

Prager

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always available at the witness stand, and to make sure that they always have witnesses available so that there is no dead time. ▲

DVD

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motion picture industry recognized the risk of widespread piracy and deployed a technical protection system to prevent users from making and distributing digital copies of movies.

Toshiba and Matsushita Electric Industrial Co., Ltd. developed the Content Scrambling System ("CSS"), which is a digital encryption system employing an algorithm and a set of master "keys" to encrypt the contents of a DVD. All DVD players access the content by using a decryption code comprised of integrated master keys and an algorithm incorporated into all DVD players. The decryption software codes permit access, but not the manipulation or copying, of the DVD's content.

The motion picture, computer and consumer electronics industries adopted and began licensing the CSS standard and technology in 1996. Under the terms of the license agreement, licensees were obligated to maintain the confidentiality of the proprietary CSS algorithm and master keys and were prohibited from reverse engi-

neering the CSS code. The industries established the DVD Copy Control Association (DVD CCA) and charged it with the responsibility for granting and administering the CSS licenses.

In 1999, a 15 year old Norwegian, Jon Johansen, acquired the proprietary CSS program and codes by reverse engineering software created by a DVD CCA licensee, Xing Technology Corporation. Using the code culled from this contractually prohibited reverse engineering, Johansen wrote "DeCSS", which is a complementary decryption code to CSS. DeCSS enables users to freely copy and distribute encrypted content, circumventing the industries' technical barriers. Johansen then posted the source code for DeCSS on an Internet Web Site, where it was widely republished, including on the website maintained by Defendant Andrew Bunner.

The Litigation

Upon discovering DeCSS, the DVD CCA and the Motion Picture Association sent notices to web site operators hosting sites that posted DeCSS

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demanding the removal of the program. Many website operators, including Bunner, declined DVD CCA's demands, which led the DVD CCA to file its lawsuit against several website operators, including Bunner, alleging trade secret misappropriation. The suit sought only injunctive relief to require that DeCSS be removed from websites, to enjoin the further use, copying and distribution of DeCSS, and to prohibit links to other sites displaying DeCSS. The trial court granted DVD CCA's motion for a preliminary injunction enjoining Bunner from "posting or otherwise disclosing or distributing, on their Websites, or elsewhere, the DeCSS program, the master keys or algorithms of the Content Scrambling System...." The trial court declined to enjoin Defendants from linking to other websites that contained the DeCSS program because the order would have been overbroad and burdensome.

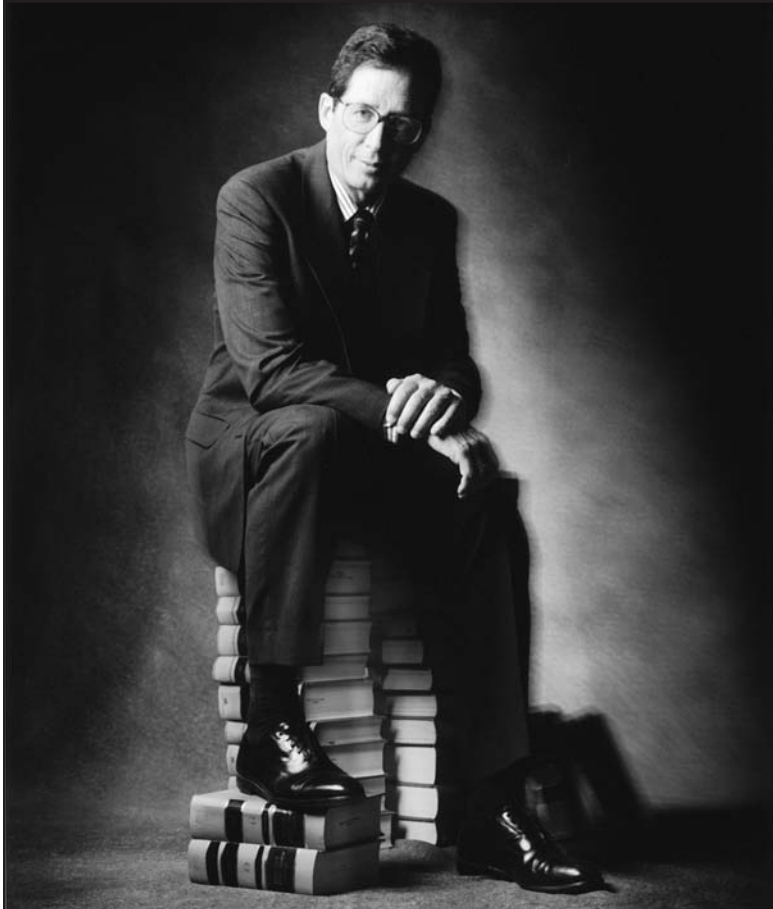
The trial court based its injunction on DVD CCA's proof that it was likely to succeed on its trade secret claim under California Civil Code §3426 et.

seq. The court found that (1) the CSS technology contained protectable trade secrets because it derived independent economic value from its secrecy and because DVD CCA took reasonable steps to maintain its secrecy, (2) Jorgensen obtained the trade secrets through improper means, by reverse engineering them in violation of the Xing Technology license agreement, (3) Bunner and the other defendants knew, or should have known, that Johansen acquired the trade secrets by improper means when they posted DeCSS on their websites, (4) the trade secret status had not been destroyed by posting DeCSS on the Internet and (5) DVD CCA would suffer irreparable harm if the injunction was not granted.

Bunner appealed and the Court of Appeal reversed. The appellate court assumed that the DVD CCA was likely to prevail on its trade secret claim, but held that the injunction violated the First Amendment because DeCSS was "pure speech" under the First Amendment and the injunction was an invalid prior restraint.

The California Supreme Court reversed and

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remanded, holding that the preliminary injunction was content neutral and was issued to protect a legitimate property interest in DVD CCA's trade secret information, rather than to suppress the content of Bunner's communications. Although the Court characterized its holding as "narrow," the Court strongly emphasized the public policies underlying California's Trade Secret Act (to promote development and commercial ethics and to protect the fruits of the trade secret owner's labor) and undertook a thorough analysis of its reasoning that will have far-reaching effects in trade secret litigation.

Analysis

As a threshold question, the Court questioned whether computer code is protectable speech under the First Amendment. The Court quickly determined that it is; while only a select group of computer programmers may actually understand the content expressed through a code language, the Court held that computer code is nevertheless "an expressive means for the exchange of information and ideas about computer information...."

Next, the Court examined what level of scrutiny should be applied to the preliminary injunction as a restriction on protectable speech. Under First Amendment analysis, content-based restrictions are subject to heightened scrutiny, while content-neutral restrictions are subject to a lesser level of scrutiny. The Court held that the Superior Court's injunction was content-neutral because the basis for the order was not the subject matter of the communications or disagreement with Bunner's viewpoint, but rather that Bunner's communications interfered with the DVD CCA's efforts to maintain the secrecy of the CSS technology.

The Court further explained that content-neutral restrictions are examined to determine if they "burden no more speech than necessary to serve a significant government interest". The Court went on to note that the preliminary injunction burdened speech no more than necessary because the total protection from improper disclosure is the only way for trade secrets to retain that status, and Bunner knew (or should have known) that the CSS trade secrets were acquired by improper means. The Court held that protecting trade secrets with injunctions serves at least three fundamental governmental interests, including protecting the fruits of the owner's labor, creating an

incentive to innovate, and maintaining standards of commercial ethics. The Court's emphasis on these three critical policies is a strong signal to California business interests that California courts will take the enforcement of trade secret rights seriously.

The Court then examined whether the prior restraint doctrine barred the issuance of the preliminary injunction. Prior restraints are viewed as "the most serious and the least tolerable infringement on First Amendment rights" because they forbid communications in advance of actual speech. The Court dealt with this issue summarily, noting that the United States Supreme Court recently found that only content-based restrictions, rather than content-neutral restrictions, are subject to the prior restraint analysis. As the Bunner communications were content-neutral, the Court reasoned no prior restraint analysis was necessary.

Last, the Court addressed Bunner's claim that the preliminary injunction violated his rights under Article I, Section 2 of the California Constitution. Though in some cases the California Constitution provides more or different protections than those of the United States Constitution, the Court held that in this circumstance the analysis would be the same, and thus the preliminary injunction did not violate the California Constitution speech protections.

Justice Moreno's Concurrence

The Court did express one significant caveat to its holding, which Justice Moreno expanded upon in great length in his concurrence. The Court's holding assumed that "the trial court properly issued the injunction under California's trade secret law." On remand, the court directed the Court of Appeal to independently examine the record on this issue and to vacate the injunction if the DVD CCA could not satisfy its burden of proof.

Justice Moreno, while concurring in the majority's holding that the "First Amendment does not categorically prohibit preliminary injunctions to enjoin the publication of trade secrets," took issue with the majority's assumption that the injunction had been properly issued in the first place. Justice Moreno said that it was appropriate and necessary for the Supreme Court to examine the propriety of the preliminary injunction. Further, because those injunctions were (in Justice

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Pre-Dispute

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bargaining power. Moreover, it remains to be seen whether the law will be found compatible with the preemptive pro-arbitration policies of the FAA.

The Circuit City Line of Cases – mutuality, fee splitting, and opt-out

Circuit City, perhaps much to its dismay, has been instrumental in defining the boundaries of unconscionable arbitration agreements. The *Circuit City v. Adams* cases include two Ninth Circuit decisions and a decision from the United States Supreme Court. The major decision for purposes of unconscionability is the last one, known as *Adams III*. See *Circuit City Stores, Inc. v. Adams (Adams III)*, 279 F.3d 889 (9th Cir. 2002).

In *Adams III*, the court found Circuit City's arbitration agreement with its employee, Saint Clair Adams, procedurally unconscionable because it was a contract of adhesion: a standard form contract drafted by the party with superior bargaining power, and offered on a take it or leave it basis. The court, citing the California Supreme Court in *Armendariz*, noted that signing the agreement was a prerequisite to employment – and that few employees are in a position to refuse a job offer because of an arbitration agreement.

The court also found the agreement substantively unconscionable. Particularly troubling was the fact that it required employees to arbitrate disputes against the company, but did not obligate the company to arbitrate disputes against employees. The agreement also required the employee to split the arbitrator's fees with Circuit City. The court found this circumstance "alone would render an arbitration agreement unenforceable." See *Adams III*, 279 F.3d at 894. Finally, the court held that the agreement's limitation on damages and one year statute of limitations on arbitrating claims were also substantively unconscionable.

Nonetheless, following *Adams III*, the Ninth Circuit found essentially the same Circuit City arbitration agreement enforceable in two decisions. The difference? In *Circuit City v. Ahmed* and *Circuit City v. Najd*, the employees were allowed to opt out of the arbitration program. See *Circuit City Stores, Inc. v. Ahmed*, 283 F.3d 1198 (9th Cir. 2002); *Circuit City Stores, Inc. v. Najd*, 294 F.3d 1104 (9th Cir. 2002). Both Ahmed and Najd were current Circuit City employees when

the company instituted its arbitration program. Circuit City had provided current employees with a simple opt out form, gave them thirty days whether to decide to participate in the arbitration scheme, and assured them that they would not be penalized should they choose to opt-out. As a result, Circuit City's arbitration agreement was not procedurally unconscionable as applied to Ahmed and Najd. Because a contract must be **both** procedurally and substantively unconscionable, the court found the agreement enforceable against the two employees.

***Ting v. Consumer Action* – Bars on Class Actions**

In *Ting*, AT&T's customer agreement was challenged by plaintiffs acting as private attorneys general under the California Consumer Legal Remedies and Unfair Practices Acts. See *Ting v. Consumer Action*, 319 F.3d 1126 (9th Cir. 2003). The agreement limited the rights and remedies of AT&T's customers in disputes with the company. Most importantly for the current discussion, it mandated binding arbitration, banned all class-wide dispute resolution, and contained a secrecy provision for all arbitration proceedings.

AT&T mailed the agreement in two separate mailings. Approximately 18 million customers received it in an envelope containing their monthly bill, with no statement on the outside of the envelope noting that a new customer agreement was contained inside. Another 42 million customers received the agreement in a mailing with other materials in an envelope stating "ATTENTION: Important information concerning your AT&T service enclosed." See *id.*, at 1134. The agreement informed customers that, by continuing to use or pay for AT&T's services, they were accepting the terms of the agreement. If the customer did not want to accept the agreement, their only option was to call a toll-free number and cancel their AT&T service.

Because the customer agreement was a contract of adhesion, the court found it procedurally unconscionable. Interestingly, AT&T argued that its customers had the option of rejecting the agreement and switching to Verizon, the third largest carrier. Verizon did not have an arbitration clause in its agreement. But, after noting that the availability of alternative sources of supply do not

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Pre-Dispute

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necessarily affect the procedural unconscionability analysis under California law, the court discussed the fact that AT&T responded to customer complaints with a letter stating that all major long distance carriers have arbitration provisions in their service agreements – in contrast to its argument to the court. Thus, “if consumers had meaningful choices, AT&T intentionally dissuaded its own customers from seeking them.” *Id.*, 319 F.3d at 1149.

The court also found ostensibly mutual clauses in the arbitration agreement substantively unconscionable. Both the bar on class actions and confidentiality requirements applied to AT&T and its customers. But the court noted that it could not imagine an instance where AT&T would bring a class action against its customers.

Likewise, while the clause requiring the arbitration proceedings to remain confidential was facially neutral, the court found that confidentiality provisions generally favor companies over individuals – based on the “repeat player” effect that results from companies continually arbitrating the same claims. Because of the “repeat player” effect, AT&T would increasingly gain knowledge about how to negotiate or defend various claims under its agreement, while its customers were denied a similar opportunity and unable to obtain information needed to build a case of intentional misconduct or unlawful discrimination.

Woodside Homes – Sometimes Fee Splitting Works and Courts do Balance

Woodside Homes (“Woodside”) developed tract homes. Its standard sales contract required homebuyers to submit disputes relating to the condition, design, or construction of the home to judicial reference pursuant to California Code of Civil Procedure sections 638 and 641 through 645.1. As the *Woodside Homes* court noted, binding judicial reference “is substantially similar to nonjudicial arbitration, and a similar approach is therefore justified in enforcing the enforceability of the provisions.” *Woodside Homes of California, Inc. v. Superior Court*, 107 Cal. App. 4th 723, 727 (2003).

The court found that the buyers presented no evidence that Woodside would not have negotiated the arbitration provision had they refused to accept it. Moreover, Woodside required the buyers

to initial the clause, which clearly and conspicuously stated that it waived the right to a jury. As a result, the buyers had only shown a low level, if any, of procedural unconscionability. Thus, a high level of substantive unconscionability was necessary to invalidate the agreement.

On the substantive unconscionability side, the agreement required the referee’s fees (estimated at up to \$600 an hour) be split between the buyers and Woodside. The court noted that “where the plaintiff is attempting to seek redress for the violation of a statutory or constitutional right, any provision requiring him to pay costs in excess of those incident to normal litigation is invalid.” *Woodside*, 107 Cal. App. 4th at 733 (citing *Armendariz*, 24 Cal.4th at 110-111). But the buyers in *Woodside* were not seeking to vindicate such rights. Moreover, they did not present evidence that the fees they were likely to pay in the reference were far greater than those they would accrue in litigation – especially given that it was routine for courts to appoint a special master or referee to handle pretrial matters in complex construction litigation. Finally, the plaintiffs did not demonstrate that they could not pay any additional expenses of a judicial referee.

In a respite for business interests, the court found the judicial reference provisions enforceable. The court noted frankly that businesses prefer to have consumer cases heard by a referee or arbitrator because they believe that the plaintiff’s recovery will be less than a jury would award. But it found nothing wrong with that because “[t]here is nothing unconscionable in requiring a party to a contract to give up the possibility of obtaining a windfall from a jury irresponsibly generous with someone else’s money.” See *id.*, 107 Cal. App. 4th at 735.

And In Conclusion

It is perhaps a fundamental of human nature to push boundaries. But, in the context of pre-dispute mandatory arbitration agreements, seeking too much often means getting nothing. Thus, in drafting arbitration clauses, businesses need to be cognizant of what they want – a relatively quick method of resolving disputes, or the upper hand. ▲

Plain English

Continued from page 2

parties' names to avoid the possibility of confusion and prejudice during deliberations.

The CACI also contain almost 200 special verdict forms. Rather than grouping all of these forms together at the end of the instructions, each of these special verdict forms is located at the end of its respective section. The task force tried to match the content of a special verdict form exactly to the elements of the cause of action set forth in the jury instructions.

Critics argue that the new CACI instructions result in a "dumbing down" of the law. Critics also note that jury instructions are often based on statutory language and that translating a statute into "plain English" is too risky; if the statutory language is not translated into the new jury instruction correctly, a verdict based on that instruction could easily be overturned on appeal.

Judge Orfield believes that any such criticism is outweighed by the CACI instructions' purpose and benefits of educating jurors. Judge Orfield disagrees that the new CACI instructions will open the door to appeals from jury verdicts because each instruction is directly based upon either statutory language or the express text of published opinions. Judge Orfield stressed that the task force did not attempt to rewrite the law; rather, the task force sought to develop instructions which presented the law in an understandable fashion while maintaining its intended meaning.

However, in a recent panel presentation before the San Diego County Bar Association Judge Orfield admitted that the CACI instructions will continue to be a work in progress overseen by the Advisory Committee on Civil Jury Instructions. Another panelist, Rick L. Seabolt, a partner at Hancock, Rothert & Bunshoft in San Francisco, confirmed this by pointing out that since the adoption of CACI, Instruction 430 is already in need of change because of a recent Supreme Court decision. Instruction 430 defines causation based on the substantial factor test; however, in June the California Supreme Court held that causation should be measured instead by a "but for" test. *Diner v. Sweet* (2003) 30 Cal.4th 1232.

Harvey R. Levine of Levine, Steinberg, Miller & Huver noted that the arrival of CACI will increase the amount of time judges and attorneys spend arguing about jury instructions. Two sets of jury

instructions create the occasion for attorneys to argue about whether BAJI or CACI should apply. Judge Orfield responded that judges will prevent this by stating a preference at the beginning of the trial. Mr. Levine was otherwise largely complimentary of CACI, especially the new burden of proof instructions which appear below.

Examples of CACI instructions compared to BAJI instructions are provided below:

CACI	BAJI
CACI 200. Obligation to Prove-More Likely True Than Not True: When I tell you that a party must prove something, I mean that the party must persuade you, by the evidence presented in court, that what he or she is trying to prove is more likely to be true than not true. This is sometimes referred to as "the burden of proof." After weighing all of the evidence, if you cannot decide whether a party has satisfied the burden of proof, you must conclude that the party did not prove that fact. You should consider all the evidence that applies to that fact, no matter which party produced the evidence. In criminal trials, the prosecution must prove facts showing that the defendant is guilty beyond a reasonable doubt. But in civil trials, such as this one, the party who is required to prove a fact need only prove that the fact is more likely to be true than not true.	BAJI 2.60. Burden of Proof and Preponderance of Evidence: Plaintiff is seeking damages based upon [a] claim[s] of _____. Plaintiff has the burden of proving by a preponderance of the evidence all of the facts necessary to establish: [The essential elements of [each separate] [the] claim. The essential elements of [the] [each separate] claim [is] [are] set forth elsewhere in these instructions. In addition to these essential elements, plaintiff has the burden of proving by a preponderance of the evidence all of the facts necessary to establish the nature and extent of the [damages] [injuries] claimed to have been suffered, the elements of plaintiff's damage and the amount thereof.] The defendant has the burden of proving by a preponderance of the evidence all of the facts necessary to establish: _____. "Preponderance of the evidence" means

(See "Plain English" on page 13)

Plain English

Continued from page 12

CACI

BAJI

evidence that has more convincing force than that opposed to it. If the evidence is so evenly balanced that you are unable to say that the evidence on either side of an issue preponderates, your finding on that issue must be against the party who had the burden of proving it. You should consider all of the evidence bearing upon every issue regardless of who produced it.

CACI 201. More Likely True-Clear and Convincing Proof:

In this case, there are some specific facts that must be proved by the higher standard of clear and convincing evidence. This means the party must persuade you that it is highly probable that the fact is true. I will tell you specifically which of the facts must be proved by clear and convincing evidence. All the other facts will be proved if they are more likely to be true than not true.

BAJI 2.62. Burden of Proof and Clear and Convincing Evidence:

[The plaintiff has the burden of proving by clear and convincing evidence all of the facts necessary to establish:_____.]

“Clear and convincing” evidence means evidence of such convincing force that it demonstrates, in contrast to the opposing evidence, a high probability of the fact(s) for which it is offered as proof. Such evidence requires a higher standard of proof than proof by a preponderance of the evidence.

You should consider all of the evidence bearing upon every issue regardless of who produced it.

CACI

BAJI

CACI 202. Direct and Indirect Evidence:

Evidence can come in many forms. It can be testimony about what someone saw or heard or smelled. It can be an exhibit admitted into evidence. It can be someone’s opinion. Some evidence proves a fact directly, such as testimony of a witness who saw a jet plane flying across the sky. Some evidence proves a fact indirectly, such as testimony of a witness who saw only the white trail that jet planes often leave. This indirect evidence is sometimes referred to as “circumstantial evidence.” In either instance, the witness’s testimony is evidence that a jet plane flew across the sky. As far as the law is concerned, it makes no difference whether evidence is direct or indirect. You may choose to believe or disbelieve either kind. Whether it is direct or indirect, you should give every piece of evidence whatever weight you think it deserves.

BAJI 2.00. Direct and Circumstantial Evidence-Inferences:

Evidence consists of testimony, writings, material objects or other things presented to the senses and offered to prove whether a fact exists or does not exist. Evidence is either direct or circumstantial. Direct evidence is evidence that directly proves a fact. It is evidence which by itself, if found to be true, establishes that fact.

Circumstantial evidence is evidence that, if found to be true, proves a fact from which an inference of the existence of another fact may be drawn. A factual inference is a deduction that may logically and reasonably be drawn from one or more facts established by the evidence. It is not necessary that facts be proved by direct evidence. They may be proved also by circumstantial evidence or by a combination of direct and circumstantial evidence. Both direct and circumstantial evidence are acceptable as a means of proof. Neither is entitled to any greater weight than the other.

(See “Plain English” on page 14)

Plain English

Continued from page 13

Another interesting change by the Judicial Counsel is the new jury instruction for a bifurcated punitive damages jury trial. The BAJI punitive damage instructions at 14.72.1 refer to two different phases. According to Judge Orfield the Judicial Council actually found cases in which defense attorney's argued before juries that they should find no punitive damages so that they could go home, as opposed to staying for an additional round of deliberations to determine the amount of the damages. The judicial council removed these references in order to prevent attorneys from making this argument.

The CACI instructions are available free of charge at the Judicial Counsel's website, <http://www.courtinfo.ca.gov/reference/documents/civiljuryinst.pdf>. LexisNexis has been selected as the official publisher of the CACI instructions. As official publisher, LexisNexis will produce the jury instructions in print, on CD-ROM, and online. LexisNexis also offers the CACI instructions in its new HotDocs document assembly software. This software allows attorneys and judges to customize the CACI instructions to fit within the facts of a particular case.

The use of the CACI instructions in California civil courts was made effective September 1, 2003. Like the BAJI instructions, use of the CACI instructions is not mandatory. Plain language criminal jury instructions have also been drafted and are being examined for approval and use beginning in 2005. ▲

DVD

Continued from page 9

Moreno's opinion) subject to prior restraint analysis, the standard for such injunctions should be "more rigorous." In the end, Justice Moreno would have found that Bunner's publication of DeCSS was not a misappropriation of the plaintiff's trade secrets, because wide-ranging publication on the Internet had already destroyed the technology's secrecy, and substantial secrecy is a necessary condition to protection under the UTSA. Justice Moreno relied heavily on cases noting that a party not involved in the initial misappropriation of a trade secret cannot be prosecuted under trade secret law for downloading and republishing proprietary information posted on the Internet, primarily because the information is in the public domain and is no longer secret.

Justice Moreno noted that DeCSS had been made available on "at least 118 Web sites," and that the complaint was not filed until "approximately two months after the initial posting." Moreno, then, would have placed the heavy burden on plaintiff to show that "the trade secret remains a secret despite the Internet posting." Justice Moreno found that the DVD CCA did not meet that burden, and he would have affirmed the Court of Appeals decision on these alternate grounds.

Conclusion

The Supreme Court's majority opinion is strong tonic for California business and individuals who use trade secret law to protect their discoveries and information. The Court's emphasis on the policy reasons underlying California's trade secret law will be a useful guidepost to future courts and juries. The majority's decision to remand for determination of the correctness of the preliminary injunction, coupled with Justice Moreno's concurrence that would find the preliminary injunction was not justified under trade secret law, does leave open the substantial question about what protection will be afforded trade secret owners in California whose trade secrets are nefariously published on the Internet. This case should be read as both a reaffirmation of California's strong commitment to protecting trade secrets and as a warning to trade secret owners to step up vigilance wherever electronic misappropriation and distribution may occur. ▲

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