

# abt REPORT

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## *How to Present (and also Protect) Trade Secrets at Trial*

**Judge Sunil R. Kulkarni**

A plaintiff going to trial on a technology-based trade secrets misappropriation claim is in a tough spot. On the one hand, the plaintiff wants to preserve confidentiality of the asserted trade secrets, so as to maintain an advantage over competitors. For its part, the

defendant may also want to ensure confidentiality of its technology, which it may claim was independently developed without use of the plaintiff's trade secrets.

On the other hand, the plaintiff must prove misappropriation, which requires explaining the trade secrets to the factfinder (a jury or judge). Similarly, to defend against a trade secrets claim, the defendant

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## *Securing A Bench Trial In Cases Involving Both Legal And Equitable Claims*

**Sanjeet S. Ganjam**

In cases involving both legal and equitable claims, it is possible and may make sense for plaintiffs to seek a bench trial in lieu of a jury trial. Under California law, legal claims entail a right to a jury, but equitable claims do not. In a case involving both legal and equitable claims, California law generally requires that the court try the equitable claims first, before holding a jury trial for any remaining legal claims. This article discusses pleading and motion strategies that plaintiffs can employ to try to avoid a jury trial in such "mixed" cases, where suitable remedies are available in equity.

Plaintiffs may wish to avoid a jury trial for a variety of reasons, including because a judge is better suited to decide a particular case. For example, a case may involve complex business transactions that are difficult for jurors to digest. Such complexity often presents a greater challenge for plaintiffs because they usually have the burden of proof and must convince three-quarters of the jurors to prevail. Further, some jurors may sympathize with certain defendants and allow those sympathies to influence their deliberations. This is often a concern where

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JAIDEEP VENKATESAN

## *Damages Under the California Uniform Trade Secrets Act and the Federal Trade Secrets Act*



Jaideep Venkatesan

Congress enacted the Defend Trade Secrets Act (“DTSA”) in 2016 to bring uniformity to trade secrets law, governed as it was by the laws of fifty separate jurisdictions. Like the California Uniform Trade Secrets Act (“CUSTA”) the DTSA is modeled on the Uniform Trade Secrets Act. Not surprisingly, early decisions interpreting the DTSA in California federal district courts relied on California and federal courts’ interpretation of the CUSTA. Now there are several years of federal decisions applying the DTSA, and courts look to these decisions to apply both laws, particularly with regards to the issue of damages. California practitioners litigating CUSTA claims in state or federal court would be advised to keep abreast of developments in federal courts interpreting the DTSA, and vice versa.

### **Unjust Enrichment, Lost Profits, and a Reasonable Royalty**

Both the DTSA and CUSTA provide for three types of damages: actual loss, unjust enrichment, and a reasonable royalty. The statutes are subtly different in how a plaintiff can recover these damages. Under the DTSA, a plaintiff can claim damages for actual loss and unjust enrichment to the extent not covered by actual loss; or in the alternative a reasonable royalty. 18 U.S.C. § 1836(b)(3)(B). A federal plaintiff can plead these theories in the alternative and can

recover under more than one theory so long as there is no double recovery. *Nephron Pharms. Corp. v. Hulsey*, No. 6:18-cv-1573-Orl-31LRH, 2021 U.S. Dist. Lexis 57722 at \*6-7 (M.D. Fla. January 11, 2021).

Under the CUSTA a plaintiff can also recover damages for actual loss or unjust enrichment “caused by misappropriation that is not taken into account in computing damages for actual loss.” Cal. Civ. Code § 3426.3(a). But a reasonable royalty is only allowed “if neither damages nor unjust enrichment caused by misappropriation are provable.” Cal. Civ. Code § 3426.3(b). Such measures are not “provable” if, for example, the defendant has not used the trade secret commercially or benefitted in a measurable way. *Ajaxo, Inc. v. E\*Trade Financial Corp.*, 187 Cal. App. 4th 1295, 1310 (2010) (“*Ajaxo II*”). A plaintiff can also recover a reasonable royalty if a jury rejects the evidence proffered on other measures. *Id.*, at 1313.

One pitfall looms for plaintiffs asserting multiple trade secrets – the need to apportion damages for each trade secret. In *Liveperson, Inc. v. [24]7.ai, Inc.*, No. 17-cv-01268-JST, 2018 U.S. Dist. Lexis 203571 (N.D. Cal. November 30, 2018), the court excluded an expert’s opinion that failed to apportion the damages accrued for each of the 28 trade secrets at issue – even though the initial trial would be a “bellweather trial in which only 15 of the 28 alleged trade secrets will be at issue, [and] the jury’s verdict will necessarily encompass fewer than all of the alleged trade secrets.” *Id.*, at \*5-6. While some courts may nonetheless allow evidence of damages without apportionment to go to a jury, *Nephron*, 2021 U.S. Dist. Lexis 57722, at \*8-9, a plaintiff risks exclusion if it does not present a damages theory applicable should a jury find liability on only some of the trade secrets at issue.

### **Actual Loss**

Damages for “actual loss” in trade secret actions can include the plaintiff’s lost profits. *Chromadex, Inc. v. Elysium Health, Inc.*, No. SACV 16-02277-CJC(DFMx), 2019 U.S. Dist. Lexis 221586, at \*6-10 (N.D. Cal. October 9, 2019); see also *Medipro Med. Staffing, LLC v. Certified Nursing Registry, Inc.*, No. B294391, 2021 Cal. App. Unpub. Lexis 731, at \*28-29 (Cal. App. 2nd Dist. February 4, 2021) (unpublished decision stating that “damages for lost profits are a component of actual loss”). Lost profits include the profits that the

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FRANK CIALONE

## On PROBATE



Frank Cialone

**P**robate litigation that arises from the death of a spouse can involve an array of competing presumptions, especially in situations spouses have property acquired before marriage or where

an individual has remarried after having children in another marriage. In a recent case, *Estate of Wall*, 68 Cal. App 5th 168 (August 24, 2021), the Court of Appeal sorted out some of these presumptions, clarifying which prevail over others and identifying issues that probate litigators need to consider when handling such disputes.

In disputes concerning the assets of a deceased spouse—for example, where a surviving spouse claims a right to property that the decedent sought to leave to children from a prior marriage, or when a spouse dies intestate—an initial question is whether the property was transmuted, *e.g.* did the surviving spouse effectively transfer her separate and/or community property to the decedent, as his separate property, so that the decedent could transfer it to another person through his will or trust? Family Code Section 852 provides that a transmutation is not effective unless made in writing by an express declaration. While no “magic words” are required, the courts have consistently held that the transmutation must be clear and unambiguous. *E.g.*, *Estate of Russell*, 69 Cal. 2d 200, 211 (1968) (if “the written language is fairly susceptible of two or more constructions,” it is ambiguous and therefore not a transmutation). More recent cases demonstrate just how clear the writing must be; for example, *In re the Marriage of Begian and Serajian*, 31 Cal. App. 5th 506 (2018), the Court of

Appeal held that a “Trust Transfer Deed,” by which husband and wife transferred property to wife as a “bona fide gift” and a “grant” by husband, was not a transmutation of husband’s community property to separate property. The question of transmutation can matter even when one spouse owned the property before marriage, because community assets may have contributed to payments or improvements on the property or the couple may have obtained refinance loans together. Other complications arise where spouses have business interests when they marry.

Once the threshold question of transmutation is cleared, however, the competing presumptions come into play. In *Wall*, the decedent purchased a house during his second marriage, but the house was titled in his name alone, as separate property. He obtained a mortgage in his own name, and paid the mortgage entirely from separate property funds. His wife signed a quitclaim deed to confirm that she had no ownership interest. He died intestate, and his children challenged his wife’s claim that the house was community property. The trial court ruled in the wife’s favor. The Court of Appeal affirmed, but only after finding that the trial court applied certain presumptions incorrectly.

Family Code Section 760 creates a rebuttable presumption that property acquired during marriage is community property. Evidence Code Section 662 creates a presumption that the holder of title to property is the full beneficial owner -- also rebuttable, but only by clear and convincing evidence. In divorce cases, courts have long held that the community property presumption prevails over title. See *In re Marriage of Valli*, 58 Cal. 4th 1396, 1413-14 (Chin, J., concurring) (2014). The California Supreme Court recently held that this rule applies beyond divorce cases. *In re Brace*, 9 Cal. 5th 903, 927-928 (2020) (applying community property presumption over form of title presumption in dispute between married couple and bankruptcy trustee). But, as the Court stated in *Brace*, “the form of title controls at death.” *Id.* at 931. Accordingly, in *Wall*, the Court of Appeal found that the trial court incorrectly applied the community property presumption to determine

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JAMES YOON

## On PATENTS



James Yoon

Patent cases are some of the most challenging case to try in front of a jury. Juries are often intimidated by the complex technology and the dense and obscure terminology of the technical documents relating to patent infringement and validity. Juries often feel they are not

qualified to determine which of competing PhD experts are correct on the issues of infringement and validity. Trial lawyers must perform the difficult task of balancing the need to make issues accessible and coherent to the jury against the need to address every element of a patent claim. On top of that, the lawyers must put together a story or framework that empowers the jurors to discuss the merits of the case and to decide the case in their favor.

Patent trial lawyers would face the same challenges that any trial lawyer would face when litigating complex, detailed, and obscure subject matter were it not for the patent invalidity defense of obviousness. The invalidity defense of obviousness is a very common defense in patent cases and presents unique challenges for a jury trial. Further, the issue of obviousness is ultimately a legal issue for the Court, not the jury, to decide. As a result, many districts (including the Northern District of California) have jury instructions and verdict forms that require the jury to make certain factual findings relating to the factors that the Court will consider in determining obviousness. However, importantly, the forms restrict the jury to those factual findings and do not allow it to make the ultimate finding (even in advisory form) of whether the defendant met its burden of proving the patent was invalid as obvious.

For example, in the Northern District of California model verdict form on the “obviousness” defense, a proposed verdict form includes a series of questions requiring the jurors to make specific findings on: (1)

scope and concern of the prior art; (2) differences between the claims and the cited art; and (3) secondary considerations that could impact whether or not a claim was obvious to a person of ordinary skill. Again, it is important to note that the jurors’ answers to these questions are not determinative of the outcome of the validity defense. The Court will weigh the jurors’ answers on the verdict form and other information to determine whether a patent claim is obvious.

What impact will such a verdict form on obviousness have on how you try a patent case?

It definitely makes the presentation at trial more challenging. It is no longer enough to make the binary argument that a disputed patent claims is or is not obvious. The trial lawyer must educate the jury on the field of the patent and the problems relevant to the claimed inventions. The lawyer must then, in detail, describe the differences between individual pieces of prior art and the claims. Lastly, the trial lawyer must address each “secondary consideration,” such as “commercial success” or “long felt need,” and tie them to the patent claims. Such a presentation can create many “side issues” and “detours” for the jury. For instance, the standard for determining whether a piece of prior art is or is not within the relevant scope of prior art is different from whether the prior art actually discloses an element of the patent claim. Accordingly, the jury will be required to make detailed findings without a strong understanding of how such findings will ultimately impact the case.

While the above decisions on sub-issues can create confusion, the big issue for trial lawyers is the fact that jurors will be required to make decisions on damages regardless of their view on the obviousness of a patent claim. In traditional cases, if the jury believes that there is no liability, there is no decision on damages. Here, the jury will be making a damages decision that is, to an extent, independent of the decision on liability. For example, if a jury believes that a patent claim is invalid, what impact will that belief have on its award of damages? Will the jury “discount” the damages to reflect its view that a patent is invalid? Will the jury be able to make a decision on damages separate and apart from its view on the validity of damages? It is a difficult tactical issue for both plaintiff and defendant trial counsel.

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CAROLINE MCINTYRE

## On LITIGATION



**Caroline McIntyre**

While I was considering what topic to write about for this column, I received the sad news that Reverend David Link, Dean Emeritus of Notre Dame Law School (NDLS), where I attended law school, had passed away. I quickly decided to focus

the column on professionalism in litigation. During Dean Link's 24-year tenure as Dean of NDLS, he made ethics and professional responsibility a core part of the curriculum, educating "a different kind of lawyer." Dean Link's own life was a blueprint for professionalism, ethics, and service, including establishing a homeless center in South Bend, Indiana, serving as founding President and first Vice Chancellor of the University of Notre Dame Australia, and ministering to prisoners after he became a priest later in his life.

### **Standards of Professional Conduct**

The California Rules of Professional Conduct are intended to regulate the conduct of lawyers in California, and should be reviewed by all practicing attorneys. Also, at the beginning of any case, it is good practice to confirm whether the jurisdiction has any additional specific guidelines for professional conduct, and to familiarize yourself with these guidelines. Many jurisdictions, including Santa Clara County, San Francisco County, and the United States District Court for the Northern District of California, have such guidelines. The guidelines cover topics such as responsibilities to the public and the client, scheduling, extensions, communications with adversaries, discovery, and motions. But even if the jurisdiction where your case is located does not have additional specific guidelines for professional conduct, guidelines from other courts set an important standard that should be considered.

### **Responsibilities to the Client**

From the very first communication with a client or potential client about a new litigation matter, the attorney should carefully consider whether the matter is something the attorney can handle, or whether it would be in the client's best interest to refer the matter to another attorney with better expertise in the matter or who could handle the matter more efficiently by offering a different fee structure. The attorney should carefully review available information about the matter and advise the client about the strengths and weaknesses of the case, including advising against initiating litigation or taking other actions that do not have merit. It is important to know the client's goals regarding the litigation from the outset and to keep those goals in mind throughout the litigation, including any changes to the goals. Sometimes, an early resolution is the best course of action and explaining alternative dispute options to the client early on in the litigation is good practice. Regular communication with the client about the status of the litigation, proposed actions, and budgets is paramount.

### **Responsibilities to Opposing Parties and Their Counsel**

While attorneys must zealously represent their client's interests, this can be done without using sharp practices or at the expense of civility and professionalism. Attorneys should endeavor to establish a cooperative relationship with opposing counsel from the beginning of the case. This includes coordinating in advance on scheduling hearings, depositions and discovery, refraining from scheduling events when it is known opposing counsel is not available, and granting reasonable requests for extensions of time or continuances which will not prejudice the client or unduly delay a proceeding. Attorneys should promptly respond to communications from opposing counsel and refrain from disparaging counsel. It is easy to respond to a nasty email from an adversary by shooting off an equally nasty response. But take a breath before hitting the send button, and consider a professional response that will vigorously represent your client without getting in the mud with counsel who chooses not to act professionally.

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may have to discuss its own technology with the factfinder. These explanations likely will need to be very specific, thus potentially exposing highly-sensitive technology to the world.

One possible solution to resolve these competing interests is to close the courtroom for the entire trial. But as held by the California Supreme Court and lower federal courts, the public has a presumptive First Amendment right to observe civil trials. *KNBC-TV v. Superior Court*, 20 Cal. 4th 1178, 1217-1218 (1999) (“KNBC”); *Gerawan Farming, Inc. v. Agricultural Labor Relations Bd.*, 40 Cal. App. 5th 241, 260 (2019) [collecting federal cases]. Closing the courtroom for the entire trial likely would be unconstitutional.

Another possibility would be to try the case without taking any special precautions to protect trade secrets. But discussing trade secrets in a public courtroom without taking reasonable measures to protect them may well destroy their confidential status. *See Gates Rubber Co. v. Bando Chem. Indus., Ltd.*, 9 F.3d 823, 848-49 (10th Cir. 1993).

So as an attorney preparing for a trade secrets trial, what should you do? In my view, you should do two things. First, make an adequate evidentiary record to justify special precautions (e.g., closing the courtroom for brief periods). Second, talk with opposing counsel and the trial judge early and often to develop a trial plan addressing trade secret issues in a practical way.

Let’s look at each of these points in more detail.

### **I. Provide Evidence to Overcome the Presumption of Public Access.**

To overcome the constitutional presumption of an open courtroom, a party needs to provide evidence to a judge that closing the proceeding to the public preserves a “higher interest” and that the closure is narrowly tailored to serve that interest. If it does so,

the courtroom can be closed, at least for portions of the trial. *See KNBC, supra*, 20 Cal. 4th at 1217-1218. The judge needs to make express findings on the record reflecting these factors. *See id.*

In trade secret cases, that “higher interest” would be preserving confidentiality of the alleged trade secret. Cal. R. Ct. 2.550, advisory committee comment. In fact, California law specifically requires a judge to “maintain the secrecy of an alleged trade secret through reasonable means.” Cal. Civ. Code, § 3426.5.

It is not necessary for a plaintiff to prove that the alleged trade secret is, in fact, a trade secret, before seeking an in-camera hearing or a closed courtroom. *See* Cal. Civ. Code, § 3426.5. But the plaintiff does have to show that, at the time of trial or hearing, the alleged trade secret is still confidential, so as to justify closure.

Typically, a plaintiff presents a declaration from a high-ranking scientific/technical officer explaining: a) how the technical or other information at issue meets the criteria for being a trade secret; and b) why closing the courtroom during specific discussions of the trade secrets is the only reasonable way to protect the secrets and prevent competitive harm. The more relevant details the declarant provides, the more likely it is a judge will accept the declarant’s views and close the courtroom.

### **II. Practical Tips for Your Trial Plan**

Once it is plain that your trade secrets case is going to trial, begin talking with opposing counsel about how the plaintiff’s alleged trade secrets (and the defendant’s confidential technology) will be presented at trial, when the courtroom will need to be closed, and related issues. You should try, if possible, to develop a joint draft trial plan addressing these issues.

Once you have a draft trial plan, discuss it with the judge, since she will be the one ultimately approving it. Often, these trade secret presentation issues are discussed at the final pretrial conference. In my experience, it is better to discuss these issues with the judge earlier than that because of: a) the findings that must be made

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before any courtroom closure occurs; and b) the unusual arrangements that may need to occur at trial.

Here are some ideas of what the parties could put in their joint trial plan and discuss with the judge:

- If you believe that the courtroom needs to be closed for part of the trial, ask the judge to make express findings on the record justifying closure. Accord Cal. Rule of Court 2.550 [listing analogous factors considered when sealing documents]. Without explicitly making the required findings, the judge legally cannot close the courtroom.
- Show the judge how the alleged trade secret is still a secret today, as opposed to when the supposed misappropriation occurred. Many trade secret cases involve misappropriation of information that was confidential at the time of theft, but now is public (because it was in a patent or other public disclosure). There may well be viable claims in those cases, but there's no need to close the courtroom in those cases, since the information at issue already is in the public domain.
- Don't ask the judge to close the entire trial, or even most of the trial. Typically, relatively little of the trial will involve testimony or documents discussing the alleged trade secrets in detail. That's the only portion you should try to protect from the public. Seeking a blanket closure of the courtroom may well backfire and cause the whole trial to be open. In other words, be narrow in your request.
- Ensure there is adequate public notice of the potential closure. See *KNBC, supra*, 20 Cal. 4th at p. 1217; *United States v. Valenti*, 987 F.2d 708, 713 (11th Cir. 1993). This notice occurs when a judge announces in open court "he

or she plans to hold (or to consider holding) that proceeding in closed session," or when a party files a motion to close the courtroom "reasonably in advance of a determination thereon." *KNBC, supra*, 20 Cal. 4th at 1217.

- Have all parties and the judge agree to limit on-the-record discussions of specific trade secrets, unless absolutely necessary. You can instruct witnesses to speak about "Trade Secret #4" or the information in "Trial Exhibit 50," for instance, instead of providing unnecessary detail about the trade secret.
- Have the judge order that witness testimony be broken into two parts: regular testimony open to the public and detailed trade secret testimony closed to the public. There would be direct, cross, and redirect examination for the regular testimony. The judge would then close the courtroom after making the required findings on the record. Then there would be direct, cross, and redirect examination limited to trade secret details. Finally, the judge would reopen the courtroom for the next witness.
- This process can be cumbersome, but it does limit the closure of the courtroom, as required by the First Amendment. And it has the side benefit (at least for plaintiffs) of showing the jury that the information to be discussed in closed session is highly important—and thus perhaps worthy of protection. For their part, defendants usually ask judges for a jury instruction explaining that closing the courtroom to discuss certain technical information does not mean the information necessarily is a trade secret.
- Tell the judge that when the courtroom is closed, you and opposing counsel will ensure that no unauthorized individuals are in the courtroom. After all, the judge may not know who is an "authorized individual." Then at trial, you should make a record that the courtroom has been properly cleared.

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That way, there will be no dispute down the road whether you took reasonable measures to protect the trade secrets or other highly-confidential information.

- If the courtroom is not closed when highly-confidential trial exhibits are being discussed, have the jury see these trial exhibits, but not the spectators in the courtroom. One way to do that is to set up individual video screens for jurors, and show these trial exhibits to the jurors, while making sure people in the public gallery cannot see those screens. Make sure before trial that the judge is comfortable with this arrangement.
- Alert the judge that you will file motions to seal transcripts of closed courtroom testimony and sensitive trial exhibits. And then gently nudge the judge during trial to rule on them; in the heat of trial, these motions sometimes can go by the wayside.

### **IV. Conclusion**

If you follow the principles and tips discussed above, presenting and protecting trade secrets and highly-confidential material at trial should go smoothly. Whether you succeed at trial . . . well, that's a different story!

*The Hon. Sunil R. Kulkarni is a judge on the Santa Clara County Superior Court. He currently has a Complex Civil Litigation assignment, and has tried multiple cases involving trade secrets or highly-confidential information.*



## *Securing A Bench Trial In Cases Involving Both Legal And Equitable Claims*

the plaintiff is a large business or wealthy individual with greater resources than the defendant, or when the plaintiff is more educated, sophisticated, or proficient in English than the defendant. Judges, by way of their training and experience, are often more adept at giving the appropriate weight to such factors.

Plaintiffs may also prefer a bench trial because they are generally more efficient and cost less. Even before the COVID-19 Pandemic (“Pandemic”), jury trials were more expensive because they took longer to get to trial, and even longer to try. The Pandemic has placed unprecedented pressures on court dockets and substantially delayed civil jury trials in most jurisdictions. Reports of civil jury trials actually proceeding during the Pandemic are scarce, with many trial-ready cases still waiting for a trial date. Without the pressure of an impending trial, many cases that under normal circumstances might have settled on the eve of trial, have yet to resolve. In contrast, bench trials have been proceeding during the Pandemic, in part because they can be conducted more effectively over Zoom or in a socially-distanced setting.

To illustrate the strategies discussed herein, we will use examples from fiduciary disputes, which typically involve both legal and equitable claims and where suitable remedies are often available in both law and equity. However, these strategies may be applicable to other types of litigation where suitable remedies are available in equity.

### **I. Pleading Strategies To Secure A Bench Trial**

It is usually premature to structure the initial complaint specifically to avoid a jury trial. Plaintiffs, however, do not need to plead an exclusively equitable case in the initial complaint to avoid a jury trial. As we will discuss, it is possible to plead both legal and



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equitable claims at the outset, but still preserve the ability to secure a bench trial.

Plaintiffs should plead all available claims at the outset, even if equitable claims provide a sufficient remedy, because the legal claims may have other advantages that are not readily apparent at the outset. For example, in a typical fiduciary dispute involving self-dealing by the fiduciary defendant who runs the business, the shareholder plaintiffs will likely have an equitable breach of fiduciary duty claim. But plaintiffs should also plead fraud (if the facts support it) and any contract claims under the parties' written agreements. Even though fraud and contract claims may not offer any additional remedies over a fiduciary duty claim and may entail a jury right, they may be necessary if, for some reason, the court finds that the equitable claims are not viable. For instance, if the defendant fiduciary successfully challenges plaintiffs' individual or derivative standing to bring a fiduciary duty claim, the fraud and contract claims might be the only viable claims. These issues are not always obvious at the initial pleading stage, so plaintiffs should try to preserve all available claims and remedies for as long as possible, even if plaintiffs know they want a bench trial from the outset of litigation.

Preserving the ability to secure a bench trial at a later stage of litigation continues with the initial case management conference. Plaintiffs will have to specify their request for a jury or bench trial in the initial case management statement. The best practice is generally to pay the jury fees and designate the case for a jury trial because, as we will discuss, it is possible to abandon a jury trial and seek a bench trial later. Plaintiffs who do not timely pay jury fees and designate the case for a jury trial, on the other hand, risk waiving their right to a jury and will be stuck with a bench trial if defendants elect that option.

Plaintiffs should also, however, preview in the

initial case management that some or all of the pleaded claims and defenses are equitable, and that they will file a motion to bifurcate the legal and equitable claims at the appropriate time. Otherwise, the court may issue a scheduling order setting a jury trial because at least one party requested it in their case management statement.

Ultimately, securing a bench trial in a mixed case involving legal and factual claims requires dismissing the legal claims altogether or convincing the court to try the equitable claims first. We will discuss the mechanics of how to do this in the next section, but first, it is important for plaintiffs to carefully evaluate the strength of their equitable claims relative to their legal claims and whether the equitable claims provide suitable remedies. Plaintiffs must then decide whether their legal claims are necessary or whether they can proceed to trial solely on their equitable claims without compromising the strength of their case.

In the example discussed above, if plaintiffs can overcome the standing issues the equitable fiduciary duty claim is stronger and would provide the same remedies as the legal claims, making it unnecessary to try the fraud and contract claims to the jury. The fiduciary duty claim in that example alleges a self-dealing transaction, which is a breach of the duty of loyalty, so the fiduciary defendant usually has the burden of proving that the transaction is inherently fair to the company and its shareholders. This is a high burden for the defendant to satisfy. In contrast, plaintiffs would have the burden of proof on the legal contract and fraud claims.

As another example, while it is common at the outset of a fiduciary dispute to plead both a direct and a derivative claim for breach of fiduciary duty, it is often unnecessary to try both. Under some circumstances, a direct claim for breach of fiduciary duty may entail a right to a jury, whereas a derivative claim usually does not. In those situations, if there are no impediments to the derivative claim, *e.g.*, defendant does not intend to contest plaintiff's standing to assert a derivative claim and all of the remedies plaintiff seeks are available through a derivative claim, the

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plaintiff should consider dismissing the direct claim and proceeding with a bench trial on the derivative claim.

### **II. Motion Strategies To Secure A Bench Trial**

Securing a bench trial, either by asking the court to try the equitable claims first or by dismissing the legal claims, is likely to require motion practice as to which triable claims entail a right to a jury. That issue is often contested because (1) the answer is not always obvious, *i.e.*, based on bright-line rules, and (2) defendants want a jury trial for many of the same reasons that plaintiffs want to avoid a jury trial.

The law on which claims entail a right to a jury is dependent on the underlying facts of the case, not how a claim is styled. California courts apply the “gist of the action” test to decide whether a claim is legal or equitable. This test analyzes whether the action was one that was triable by a jury under English common law in 1850, when the California constitution was first adopted. Under this test, the court is not bound by the form of the cause of action or the prayers for relief, but rather by the nature of the rights involved and the facts of the case. If the gist of the action was only cognizable in equity in 1850 and the prayer for relief requires the application of equitable doctrines, there is usually no right to a jury trial. For example, the gist of a typical fiduciary claim by a shareholder against directors and/or officers for breach of the duty of loyalty is equitable because the duty of loyalty arises out of trust principles and requires the application of equitable doctrines such as “inherent fairness.” Allegations of fraud as a basis for the breach of fiduciary duty, however, could make the claim legal.

Further complicating the issue is the applicable choice of law to the claim. If, for example, Delaware

law governs, as is sometimes the case in fiduciary disputes involving Delaware business entities, then California will apply Delaware law to decide if the claims entail a right to a jury.

As you might infer from this discussion, there is a substantial body of case law on the classification of claims as legal or equitable, which is beyond the scope of this article. The main takeaway here is that the classification of claims is not straightforward, so it is often contested and requires motion practice.

The preferred approach to securing a bench trial is a “Motion to Try Equitable Claims First” because it does not require plaintiffs to dismiss viable legal claims before trial. Under the well-established “equity first” rule in California, trial courts are encouraged to try equitable claims first, without a jury, because it promotes judicial economy by potentially obviating the need for a jury trial. If the trial court’s determination of equitable issues is also dispositive of the legal issues, or if plaintiffs voluntarily dismiss the remaining legal claims after prevailing on the equitable claims, nothing further remains for a jury.

The strength of such a motion depends on to what extent the equitable claims predominate and would obviate the need for a jury trial on the remaining issues. The court may not be inclined to grant such a motion and potentially complicate the presentation of evidence at trial merely to accommodate an equitable claim that comprises of only a small portion of the overall case. Plaintiffs, thus, should persuade the court (1) that the putative equitable claims entail no right to a jury and (2) that a bench trial on those claims will make a jury trial unnecessary because, for example, the court’s determination of the equitable issues is likely to be dispositive of the legal issues, the equitable remedies are cumulative of or would moot the legal remedies and/or that plaintiffs will dismiss their legal claims if they prevail on the equitable claims.

If the court is not willing to try the equitable claims first, plaintiffs will need to dismiss their legal claims in order to secure a bench trial. This only makes sense if plaintiffs can completely eliminate the risk of a jury trial. There may be no such risk in some cases where

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## *Securing A Bench Trial In Cases Involving Both Legal And Equitable Claims*

defendant has no argument that the remaining claims entail a right to a jury. However, as discussed above the parties often do not agree on which claims entail a right to jury.

One way for plaintiffs to present this issue to the court is to file a “Motion to Vacate Jury Trial” before dismissing any claims and inform the court in that motion that plaintiffs will dismiss their legal claims if the court decides that the remaining triable claims are equitable. The motion should set forth why, under the applicable law, the remaining triable claims are equitable with no right to a jury. If the court decides in plaintiffs’ favor, plaintiffs can dismiss their legal claims with confidence that doing so will avoid a jury trial.

For either motion, practically speaking plaintiffs have the burden of demonstrating that the triable claims do not entail a right to a jury. Trial courts are usually reluctant to deny a defendant a jury trial because it involves a fundamental right under the California constitution and if the Court of Appeal finds that the trial court’s decision was erroneous, it would likely require a new trial. As such, a trial court is unlikely to grant the motion unless it is confident that none of the triable claims entail a right to a jury. If the trial court has any doubt as to the matter, it has the option of holding a jury trial on all issues and deciding after trial whether some or all of the jury’s findings were advisory such that the trial court can independently decide them. This is often the safer option for the trial court because if its findings agree with the advisory jury’s findings, then even if the trial court wrongly decides whether the claim entails a jury right, there may not be an appealable error because the trial court and the jury’s findings are consistent. The plaintiff, however, has failed to avoid a jury trial.

While motions to vacate a jury trial or try equitable claims first are often brought on the eve of trial as *in limine* motions, the better practice is to bring them as noticed motions as early as plaintiffs are ready to narrow their case for trial. As discussed above, such motions often raise complex and esoteric issues and plaintiffs have the practical burden on such motions. Therefore, plaintiffs should give themselves sufficient time to convince the court of their position, which might require multiple rounds of briefing and/or argument. Accordingly, bringing such motions early offers the best chance that a court will decide them in plaintiffs’ favor.

### **I. Conclusion**

There are a variety of reasons to prefer a bench trial over a jury trial, including the costs of a jury trial, the jury’s ability to understand a complex case, and how a plaintiff or defendant might present to a jury. The ongoing Pandemic and its impacts on the courts’ trial calendars is another reason for plaintiffs to consider whether they might prefer a bench trial. A bench trial may not be an option in legal cases unless all parties waive the right to a jury. However, in cases involving both legal and equitable claims, where suitable remedies are available in equity and the burden of proof and other considerations weigh in favor of the equitable claims, plaintiffs can utilize the strategies discussed herein to secure a bench trial.

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## *Damages Under the California Uniform Trade Secrets Act and the Federal Trade Secrets Act*

plaintiff would have earned but for the defendant's infringement, minus associated expenses. *See* 2 CACI 4409 (2021), Remedies for Misappropriation of Trade Secret, noting that "If the plaintiff's claim of actual injury or loss is based on lost profits, give CACI No. 3903N, Lost Profits (Economic Damage)." CACI 3903N instructs the jury to "determine the gross amount [name of plaintiff] would have received but for [name of defendant]'s conduct and then subtract from that amount the expenses . . . [name of plaintiff] would have had if [name of defendant]'s conduct had not occurred." 2 CACI 3903N (2021). Lost profit damages are difficult to prove. "Although absolute certainty is not required, damages for lost profits will not be awarded based on hypothetical or speculative forecasts." *Herrmann Int'l, Inc. v. Herrmann Int'l Eur.*, No. 1:17-cv-00073-MR, 2021 U.S. Dist. Lexis 42277, at \*51-52 (W. D. N. C. March 6, 2021). The typical method of calculating lost profits – determining net profits from sales the plaintiff would have made had the defendant not infringed – may not be feasible if data tracking sales made by the use of specific trade secrets is not available. In some cases, a plaintiff's quick action to recover its information will prevent it from suffering lost profits. *Brightview Grp., LP v. Teeters, SAG-19-2774*, No. SAG-19-2774, 2021 U.S. Dist. Lexis 64487, at \*58-59 (D. Md. March 29, 2021). Such a plaintiff will need to show evidence that the misappropriation in fact imperiled future opportunities to defeat summary judgment on damages via lost profits. *Id.*

There are other means of proving an actual loss. For example, a plaintiff can assert that it suffered a lower market share due to the infringement. *See Oakwood Labs, LLC v. Thanoo*, 999 F.3d 892, 914 (3rd Cir. 2021) (noting that the defendant's "rapid market entry into a sector of the pharmaceutical industry with few competitors may well deprive [the plaintiff] of market share"). A plaintiff may also suffer a diminution in value of its trade secrets, though such

damages claims can also be stricken as speculative if not supported by expert testimony clearly showing the loss in value. *Anastasia Beverly Hills, Inc. v. Chisato Katoh Daiko*, No. CV 07-3008-GHK, 2008 U.S. Dist. LEXIS 126469, at \*3 (C.D. Cal. October 8, 2008).

### **Unjust Enrichment**

Unjust enrichment is a more common type of trade secrets damages. The California Court of Appeal has opined that "[a] defendant's unjust enrichment is typically measured by the defendant's profits flowing from the misappropriation. A defendant's profits often represent profits the plaintiff would otherwise have earned." *Ajaxo II*, 187 Cal. App. 4th at 1305. In such cases, "[a] defendant's unjust enrichment might be calculated based upon cost savings or increased productivity resulting from use of the secret. Increased market share is another way to measure the benefit to the defendant." *Id.* (internal citation omitted). But the difficulties in determining the lost profits flowing from trade secret misappropriation equally apply to determining a defendant's "unjust" profits earned from that misappropriation. *Id.*

The Court of Appeal had earlier examined avoided development costs as damages for breach of a non-disclosure agreement. *Ajaxo v. E\*Trade Group Inc.*, 135 Cal. App. 4th 21, 56-57 (2005) ("*Ajaxo P*"). There, the court noted that while unjust enrichment is often "used as a synonym for restitution", it can also include the return of any "value" or "benefit" received, regardless of whether such was conferred directly by the plaintiff on the defendant. *Id.*, at 56. Avoided development costs have become a recognized form of damages for misappropriation of trade secrets under the DTSA. "Unjust enrichment damages include what the parties call 'avoided costs'—*i.e.*, the development costs that [defendant] avoided incurring when it misappropriated [plaintiff's] trade secrets. These avoided costs are recoverable as damages for unjust enrichment under the DTSA and its state law counterparts derived from the Uniform Trade Secrets Act." *Syntel Sterling Best Shores Mauritius Ltd. v. Trizetto Grp., Inc.*, No. 15 Civ. 211, 2021 U.S. Dist. Lexis 75875, at \*23-24 (S.D.N.Y. April 20, 2021) (citing cases). That the trade secrets are still of continuing value to the plaintiff does not



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prevent the plaintiff from recovering the full value of their use from the defendant. *Id.* at 24-25. Such recovery is not considered a double recovery, because “unjust enrichment damages derive from a policy of preventing wrongdoers from keeping ill-gotten gains, and therefore do not require a corresponding loss to the plaintiff.” *Id.* Moreover, both actual loss and unjust enrichment can be awarded so long as there is no double counting. *Lightening Box Games Pty., Ltd. v. Plaor, Inc.*, No. 17-cv-03764-EDL, 2017 U.S. Dist. Lexis 222529 (N.D. Cal. December 29, 2017), report and recommendation adopted, 2018 U.S. Dist. Lexis 220160 (N.D. Cal. Feb. 27, 2018); *Syntel*, 2021 U.S. Dist. Lexis 75875, at \*26 (“The DTSA expressly permits the award of both actual loss and unjust enrichment, as long as there is no double counting. See 18 U.S.C. § 1836(b)(3)(B). The award of one does not preclude the other.”) A plaintiff will need to provide a reliable method for calculating the dollar value of the time and resources a trade secrets defendant saved using the plaintiff’s trade secrets. *Brightview*, 2021 U.S. Dist. Lexis 64487, at \*63-64.

A jury may quantify these avoided development costs by looking at the costs to the plaintiff, though such damages might be more accurately considered as “actual loss” rather than “unjust enrichment”. *Caudill Seed & Warehouse Co. v. Jarrow Formulas*, 3:13-CV-082-CRS, 2020 U.S. Dist. Lexis 10119, \*75-84 (W.D. Ky. June 9, 2020). Such a measure has also been characterized as “head-start damages” – the value of the “head-start” that the defendant obtained by using the trade secrets. *Epic Sys. Corp. v. Tata Consultancy Servs.*, 980 F.3d 1117, 1129-1130 (7th Cir. 2020). Head-start damages can be limited to the time in which the defendant benefitted from the head-start. *AMS Sensors, USA, Inc. v. Renesas Elecs. Am.*, 4:08-cv-00451, 2021 U.S. Dist. Lexis 36056, at \*15-19 (E.D. Tex. February 26, 2021) (finding that “the head-start duration is for the factfinder to determine what that ‘marketing advantage or head start’ was neutralized”).

## **Reasonable Royalty**

Under both the DTSA and CUSTA, a plaintiff can recover a reasonable royalty for the defendant’s use of the trade secrets, which is a “court-determined fee imposed upon a defendant for his or her use of a misappropriated trade secret.” *Ajaxo II*, 187 Cal App. 4th at 1308. Unlike the DTSA, the CUSTA expressly provides that the reasonable royalty can be imposed “no longer than the period of time the use could have been prohibited.” Cal. Civ. Code §3426.3(b). In 2020 the California Court of Appeal sought to provide guidance to litigants in a decision affirming the trial court’s finding that the plaintiff was not entitled to a royalty. *Ajaxo, Inc. v. E\*Trade Financial Corp.*, 48 Cal. App. 5th 129 (2020) (“*Ajaxo IIP*”). Noting that the reasonable royalty “approximates ‘the price that would be set by a willing buyer and a willing seller for the use of the trade secret made by the defendant’” the Court of Appeal looked to federal precedent to guide courts in determining the royalty. *Id.*, at 160-161. In particular, it looked to the Fifth Circuit’s decision *University Computing Co. v. Lykes-Youngstown Corp.*, 504 F.2d 518 (5th Cir. 1974), and the 15 factors listed in the well-known decision *Georgia-Pacific Corp. v. United States Plywood Corp.*, 318 F. Supp. 1116 (S.D.N.Y. 1970) (the “*Georgia Pacific*” factors) used to set reasonable royalty in patent infringement cases. *Ajaxo III*, 48 Cal. App. 5th at 161.

*University Computing* analyzed the damages allowable under Georgia trade secret law, which it found to be modeled on the Restatement, Torts §757. *University Computing*, 504 F.2d at 534. It found that “what the parties would have agreed to as a fair price for licensing the defendant to put the trade secret to the use the defendant intended at the time the misappropriation took place.” *Id.*, at 539. It declared that “every case requires a flexible and imaginative approach to the problem of damages” and identified several factors to examine, including a previously agreed upon licensing price, resulting and foreseeable changes in the parties’ competitive posture, the prices past purchasers or licensees paid, the total value of the secret to the plaintiff, including its development costs, or the availability of alternate processes. *Id.*, at 538-539. Importantly, *University Computing* held that “the defendant must have actually put the trade secret

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to some commercial use.” *Id.* *University Computing* has been described as “a leading case on calculating a reasonable royalty,” *Hermann*, 2021 U.S. Dist. Lexis 42277, at \*49; see also *Airfacts, Inc. v. de Amezaga*, 502 F. Supp. 3d 1027, 1040-1041 (D. Md. 2020) (“The leading case on calculation of a reasonable royalty in the trade secret context is [*University Computing*]” and has been cited by numerous federal courts addressing a reasonable royalty under the DTSA as well as other state law claims.

The California Court of Appeal also stated that the *Georgia Pacific* factors could be used to adjust upward or downward for other data points, where there is a “real-world ‘comparable’ close on point” that can be used as a starting point. *Ajaxo III*, 48 Cal. App. 5th at 161. These factors include existing license agreements, licensing negotiations, the duration of the license, the profitability of the product, as well as expert testimony.

The court’s invocation of federal standards for analyzing a reasonable royalty for trade secrets misappropriation opens up a wealth of cases and standards – the *Georgia-Pacific* factors alone have been applied in thousands of cases and practice guides, too numerous to cite or summarize here. Damages analysis under both the state CUSTA and the federal DTSA will continue to be intertwined as case law under both laws develop.

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## *On Probate*

the rights of the decedent’s legal heirs, and should have applied the presumption of title.

Why, then, did the Court of Appeal in *Wall* affirm the trial court’s decision that the home titled as decedent’s sole and separate property was actually community property? Because of another presumption: Where an interspousal transaction advantages one spouse over another the presumption of undue influence applies, because under Family Code Section 721 spouses are fiduciaries of each other. In an unpublished portion of the opinion, the court found substantial evidence to support the trial court’s finding that this presumption had not been rebutted. Notably, the trial court applied the presumption of undue influence even though there was no showing of unfair advantage; in other cases, the Court of Appeal has held that an unfair advantage is prerequisite to applying the presumption of undue influence. *E.g., In re Marriage of Burke*, 139 Cal. App. 4th 712, 731 (2006). But in *Wall*, that was not the case. In future decisions, the appellate courts may clarify when this presumption applies: To any transaction between spouses, or only those shown to be unfair? To a transfer deed that expressly states it is a gift? But, at least until such questions are resolved, this last presumption creates significant factual issues that a probate litigator must consider when dealing with disputes over a spouse’s property, including in particular how to rebut a presumption of undue influence when the alleged influencer is deceased.

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Continued from page 4

## On Patents

Traditionally, trial lawyers for the defense attempt to minimize discussion of damages in opening and closing arguments. If possible, they simply want to present that they do not infringe and that the patent is invalid. In an obviousness case, they will be forced to address the issue of damages. This requirement will skew how they present the case and will put additional timing pressure in the opening and closing argument (which are often limited to approximately 1 hour each). The obviousness issues also impact the plaintiff trial lawyer. If the defense counsel can establish the obviousness sub-factors, the jury may believe that the patent is obvious and, as a result, find that the patent had little or no value. Such a finding or belief by the jury may cause them to award only a very small amount of damages. Such findings are difficult to overturn on appeal in the event that the Court finds that the claims are valid and not obvious.

In light of the above concerns, both plaintiff and defense may be inclined (for different reasons) to consider the possibility of bifurcating the liability and damages phase of the trial. The advantage for both sides is that damages will be decided for only the patent claims that are expressly found to be infringed and valid. The drawback of such an approach is that it would substantially increase the time and expense of litigation. For the plaintiff, it would also give defendant the opportunity to provide a focused challenge on the issue of damages. For the defendant, it would eliminate the ability for them to devalue the patent in light of the prior art. Each trial lawyer will have to determine how to address obviousness at trial and whether there are potential, mutual advantages in bifurcating the case at trial.

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## On Litigation

### Responsibilities to the Court

Discovery should serve a purpose and not be used as a weapon to bury an adversary in paper or cause unnecessary burden or expense on a party. Attorneys should be familiar with the applicable rules, including local rules for the jurisdiction. Consider meeting and conferring with opposing counsel before filing motions regardless of whether any rule requires it. Professionalism includes filing motions that are well grounded in fact and law, showing up on time and prepared for hearings, including wearing professional dress (neutral color suits and ties for men and neutral color suits and dresses for women), even with video court appearances as you are still in court, and making arguments that zealously represent the client, but are respectful of the Court, parties, and counsel.

### Responsibilities to the Public

We are fortunate to have clients who can afford legal representation, but many are not so fortunate. Opportunities for pro bono service abound, so consider if you have particular expertise that might be a good fit for a particular organization. Attorneys should keep up to date with current laws, and participate in organizations that advance the law and educate attorneys and the public. Organizations such as ABTL, the American Inns of Court, which is focused on ethics, civility and professionalism in the legal profession, and local Bar associations do an excellent job educating attorneys to seek the highest levels of professionalism, and this education will have a positive lasting impact on the public and the profession.

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