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Fighting Personal Jurisdiction in IP Cases: Practical Lessons

Challenges to personal jurisdiction

— the court's power to exercise authority over a party — may be more common in the intellectual property field than in other areas of litigation for the simple reason that much is often at stake. These cases frequently have the potential to significantly affect a company's overall viability,

possibly terminating or altering its ability to manufacture, distribute, sell, label, or market a key product or product line. With so much riding on the outcome of the case, a cost/benefit analysis often weighs in favor of attempting a jurisdictional challenge.

Because the defense of lack of personal jurisdiction can be waived by a failure to timely assert, challenges will most often be raised via a motion to dismiss under Federal Rule of Civil Procedure 12(b)(3) (assuming, like the majority of intellectual property cases, the action is brought in federal court).

The goal of the motion is to move the case into a more favorable jurisdiction or, occasionally, to avoid jurisdiction entirely. The dispute typically boils down to the question



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The Five Most Important Rules for Winning Trials

All experienced trial lawyers have rules of thumb — conscious or unconscious — that guide them through the trial process. What I share here are five simple rules or principles of trial practice which have, for me, proven to be the most important ingredients for success. These are principles which I believe all lawyers can incorporate into their trial repertoire and, if adapted to whatever style is most comfortable for them, will help them try a winning case before either a judge or a jury.

Establish and Maintain Personal Credibility

The number one rule for any advocate is that your *personal credibility* with both the judge and the jury is of paramount importance. In trial work, there simply is nothing more important. Period. When you speak to the judge or jury, you obviously want them to listen to you and to believe you. But if they don't trust you, they won't listen and they certainly won't believe you. It is sad but true that many, if not most, jurors step into the box with the preconceived notion that lawyers, and especially trial lawyers, are smooth talking hucksters who talk out of both sides of their mouths and will say anything to get their way. A trial lawyer's first order of business is to establish his or her personal credibility with the jury despite this preconceived notion. The three simple steps for accomplishing this are: 1) demonstrate your personal conviction; 2) earn the judge's and the jury's respect; and 3) earn the judge's and the jury's trust.

Personal Conviction — Advocates are not allowed to vouch personally for witnesses or for the facts. But a trial

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Rules for Winning Trials

lawyer who does not convey to the jury his personal conviction of the justness of his cause is not doing his job. You must make the jury believe that you believe. If they think that you are "just doing your job" or "going through the motions," you should expect to win only if you have a compelling case or are feeling lucky. You can demonstrate your personal conviction by the manner of your presentation as much as by its substance. Show passion; jurors have it in themselves and they recognize it in others. Your passion or enthusiasm does not have to be play acting; there are always pieces of a case about which we feel more strongly than others. You should emphasize those aspects of your case which genuinely stir your own blood.

Respect — You earn the jury's respect when they see that you are totally prepared on both the facts and the law, that you are a controlling force in the courtroom, that you are self confident but respectful of others, and that you do not "talk down" to the jury. While you should be deferential and respectful to the judge, you want the jury to have the impression that you are in charge — or at the minimum, it is you and the judge who are there to help the jury do the right thing. You want the jury to like you if they can. I work at being a regular guy with a sense of fairness, which my experience teaches me most juries respect.

Whether the trier of fact is the Court or a jury, enjoying the trust and respect of the judge is very important. Even in a jury trial, you are trying the case to the judge as well as the jury. You want the judge to believe in the justice of your client's cause. Don't forget that it is the judge who rules on the objections, decides the motions *in limine*, settles the instructions and rules on the outcome-determinative motions. Moreover, jurors want to look up to the judge and will do so every time unless the judge is totally out of hand. They look to the judge for subtle signals as to which lawyer the judge respects most. You want to be that lawyer.

In every trial, I always look for early opportunities to establish my credibility with the trial judge. Knowing the rules of evidence cold, knowing when and how to object (and when not to object), knowing the law and the facts like the back of your hand, and not overstating the facts or the law will all give confidence to the judge that you are to be trusted to help guide the court to the right result, *i.e.* one which does justice *and* which will not be overturned on appeal.

Trust — You must earn the judge's and jury's trust and, to do that, you must be straight with them. You earn the judge's trust when she sees that you are competent and don't overstate the facts or law. Similarly, you earn the jury's trust when they see that you are reliable: when you say something is so, it is. The jury sees this when the judge agrees with your legal positions. They see this when you acknowledge "bad facts" in your opening. If you do not over-promise what the evidence will show and the witnesses then take the stand and say what you told the jury they would say, your reliability is validated. Once the

judge and the jury see that you are the "truth giver," that you can be counted on, you are on the way to winning your client's case.

Try the Case to the Truth

In every case there are certain core facts — or essential truths — which, whether or not you or your client like it — will almost certainly be established by the evidence and be believed by the jury. Some of those facts will be "bad facts" — ones which don't help you or even seem to hurt you. Don't run away from those facts and don't ignore them. Most importantly, don't squander your personal credibility trying to distort them or trying to con the jury into believing that black is white. Such "stretches" are rarely successful. They almost always backfire because you end up losing credibility with the finder of fact. Jurors figure the basics out pretty quickly, and they look for evidence, themes, arguments and advocates which are comfortable to them — usually the ones that appeal to their innate sense of fairness. If you get identified in the jury's eyes as the person who is trying to sell them something they "just know" doesn't seem right, you are well on your way to losing the jury and the case.

The key is to face reality early: identify those core facts which are harmful to you and which you believe the evidence will almost certainly establish in the jury's mind. Once you identify them, then you deal with them in a way which defuses them. Sometimes you explicitly concede them. Sometimes you give them the back of your hand. And sometimes you just nibble at the edges of credibility and invite the jurors to make their own judgments. But you never ignore those "bad" facts or pretend that they don't exist. In the best of circumstances, you work them into a winning argument. The most effective use of "bad facts" comes when you can bring them out before your adversary does and incorporate them into your theme and your proof. Take this simple example: you represent a plaintiff in a personal injury case where you seek substantial damages for pain and suffering. You know that within one week of the accident, your client was back at work. Rather than being defensive, you bring this "bad fact" out in your opening statement and weave it into your theme. "Ladies and Gentlemen, the evidence will show that within one week of the accident my client was back at work. The easy thing was to stay home like his doctors recommended. But Mr. Jones is not that kind of man. He had a family to support and a job to do. So he went back to work, despite the pain. Mr. Jones' co-workers will tell you how he suffered, how he grinned and bore it, and how he didn't complain..." A jury can identify with this theme and respect your client for not being a "whiner." If the plaintiff's lawyer ignored this "bad fact" in his opening statement, the defense could pound on it during her opening and create a very bad first impression that your client could not have been hurt very badly if he went back to work so soon.

Common Sense Equities that Favor Your Client

The most effective themes are those which jurors

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relate to on a fundamental "common sense" level, *i.e.*, common sense things derived from every day life by ordinary people. A theme which humanizes your client and encourages the jury to empathize with her on a human level is essential to a winning trial strategy. Every defense case that I have tried and won had a simple, central theme: my client was an honorable person sincerely trying to do the right thing in a difficult situation. I am convinced that a jury that believes that theme will find a way to make the evidence and the law fit the right result — one which does not make your client suffer unfairly. In my experience, this is often the principle of trial practice which requires the most thought and creativity, but it is the one that is most often given short shrift.

In developing your own theme, you must remember to anticipate and counter the other side's themes. If the defense theme is that the defendant is a nice guy who tried to do the right thing and you believe that the jury will probably buy that theme, the plaintiff's theme cannot be that the defendant was an evil man who needs to be punished. Instead, a winning plaintiff's theme would be one that was consistent with the jury's likely belief that the defendant was not evil — one which demonstrates that, even if the defendant is an honorable person, the equities still favor the plaintiff and denying a recovery to the plaintiff would punish the more innocent of the parties.

My central point here is that, while jurors generally try to be conscientious in following the law, they always start with their own common sense notions of what "seems fair and right to them." They then work the facts and/or the court's instructions to get to the "right result." Your job is to make it easy for them to do the right thing for your client.

You must emphasize and reemphasize your themes throughout the trial — in your opening, direct, cross, & closing — with testimony, exhibits and visuals. You must also do the hard legal work necessary to get the jury instructions that support your themes. This is not something that can wait until the end of the case or even the commencement of trial. You must do everything that you can before the trial commences to make sure that you have the ammunition to convince the trial judge to give the jury the instructions you need to provide legal support for your theme. Then the last thing the jury hears is the judge giving them the instructions on the law that validate your theory of the case.

Push on Your Opponent's Soft Spots

You must find the soft spots in the other side's case and push on them continually and repeatedly. The "soft spot" in the other side's case — and all cases which go to trial have some soft spots — may be the inability of the plaintiff to prove a necessary element of a claim. It may be plaintiff's susceptibility to an affirmative defense. Or it may simply be the facts which show the jury that the equities favor your client. Whatever they are, you must identify them early and press on them continually. If you can do it in such a way that the jury "discovers" the signifi-

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Managing a High Technology 'Unfair Competition' Case

High technology manufacturers and retailers are increasingly being sued in state court in so-called "Unfair Competition" cases, alleging that their products or related advertising are in some way deceptive or unfair. From the plaintiffs' perspective, while the alleged individual harm may be small, the composite societal damage can be significant. From the defendants' side, these cases are often viewed as meritless and worth only nuisance value.

Managing these cases presents unique challenges due to the technology issues and the often large group of defendants, contrasted with the frequently small risk of significant awards or other remedies against any one defendant. This article reviews the challenges raised by these cases and offers suggestions for managing them.

Charging Allegations

The heart of the high-tech advertising or technical performance case is the state unfair competition laws — California Business and Professions Code sections 17200 and 17500. Section 17200 prohibits "any unlawful, unfair or fraudulent business act or practice and unfair, deceptive, untrue or misleading advertising," as well as any act barred by section 17500, which prohibits advertising "which is known, or which by the exercise of reasonable care should be known, to be untrue or misleading."

California courts have construed these statutes broadly, embracing "anything that can properly be called a business practice and that at the same time is forbidden by law." *Cel-Tech Communications, Inc. v. Los Angeles Cellular Telephone Co.* (1999) 20 Cal.4th 163, 180. "The Legislature apparently intended to permit courts to enjoin ongoing wrongful business conduct in whatever context such activity might occur." *Committee on Children's Television, Inc. v. General Foods Corp.* (1983) 35 Cal.3d 197, 210. Moreover, "in order to recover under [section 17500], it is necessary to show only that members of the public are likely to be deceived. Actual deception or confusion is not required. The court may order relief without individualized proof of deception, reliance, and injury if it determines that such a remedy is necessary to prevent the use or employment of the unfair practice." *People v. Dollar Rent-A-Car Systems, Inc.* (1989) 211 Cal.App.3d 119, 129.

Accordingly, by liberally sprinkling the words "untrue and/or misleading and/or likely to deceive" in its complaint and by alleging that defendants made the represen-



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Managing a High Technology Case

tations "knowingly, intentionally, recklessly and/or negligently," a plaintiff can make its complaint very difficult to defeat by demurrer. As a result, many high technology performance and advertising cases have been filed and litigated. Examples of the challenged technology include alleged deficiencies in the software packages sold with a personal computer, and claimed deception in advertising the size of computer monitors, speed of computer drives, and available system memory. These cases are normally brought *en masse* against any defendants the plaintiff can find in the same line of manufacturers and retailers — often including as many as 20 separate and large defendants.

While neither statute authorizes the recovery of actual or punitive damages (*Bank of the West v. Superior Court* (1992) 2 Cal.4th 1254, 1266), injunctive and restitutionary remedies are available. BPC sections 17203 and 17535. The general purpose of restitution under the unfair competition statutes is "to deter future violations of the unfair trade practice statute and to foreclose retention by the violator of its ill-gotten gains." *Fletcher v. Security Pacific National Bank* (1979) 23 Cal.3d 442, 449. "The Legislature considered this purpose so important that it authorized courts to order restitution without individualized proof of deception, reliance and injury if necessary to prevent the use or employment of an unfair practice." *Bank of the West, supra*, 2 Cal.4th at 1267. At the same time, an appellate court has denied the classic "full" restitutionary recovery, observing that "section 17203 operates only to return to a person those *measurable amounts which are wrongfully taken* by means of an unfair business practice.... While it may be that an order of restitution will also serve to deter future improper conduct, in the absence of a measurable loss the section does not allow the imposition of a monetary sanction merely to achieve this deterrent effect." *Day v. AT&T Corp.* (1998) 63 Cal. App. 4th 325, 339 (emphasis in original).

This limitation on a restitutionary award is crucial in technology cases, because the plaintiff may be hard-pressed to show how an alleged deficiency in computer-related equipment causes measurable reduction in performance. The appropriate measure of and limits on unfair competition restitution will likely be addressed by the Supreme Court this year in the cases of *Cortez v. Purolator Air Filtration Prods.*, 64 Cal.App.4th 882, review granted, 78 Cal.Rptr.2d 702 (Aug. 19, 1998), and *Kraus v. Trinity Management Servs., Inc.*, 57 Cal.App.4th 709, review granted, 68 Cal.Rptr.2d 475 (Oct. 28, 1997).

Despite these legal strictures on restitution, where many large defendants with significant sales and extensive marketing are named in one action, the potential total of restitutionary damages may be significant, even if the risk of liability is small. This risk is magnified by the high cost of technology-related litigation with multiple parties, all represented by separate counsel.

In addition to these statutory unfair competition claims, plaintiffs will often supplement their complaint with alleged violations of the Consumer Legal Remedies

Act, set forth at Civil Code section 1750 *et seq.* This Act bars, among many other things, misrepresentations in advertising a product's characteristics, quality or grade. See Civil Code section 1770. The statute confers upon the plaintiffs the additional right to compensatory and punitive damages and recovery of attorneys' fees. Civil Code section 1780. Plaintiffs also may claim common law misrepresentation, negligence and breach of contract. Finally, in recent cases filed against several manufacturers of personal computers for alleged data corruption caused by floppy disk controller microcode, the plaintiffs premised their Texas federal court claims on 18 U.S.C. section 1030, a criminal statute concerning "computer fraud" that also authorizes civil damages. In those cases, the plaintiffs sought an injunction, return of the purchase price, actual and punitive damages, and attorneys' fees.

The Form of the Action:

Private Attorney General Versus Class Action

High tech unfair competition actions normally are brought either as private attorney general actions or as class actions. Section 17200 and 17500 actions may be brought "by any person acting for the interests of...the general public." Sections 17204 and 17535. In a private attorney general action, neither privity with each retailer nor even purchase of the allegedly offending product is required. *Hernandez v. Atlantic Finance Co.* (1980) 105 Cal.App.3d 65, 71-73. While common law or other actual damages claims may not be asserted by a private attorney general, apparently restitution may be obtained on behalf of "the general public." (This issue may be decided by the Supreme Court in the *Kraus* case currently under review.) Perhaps as importantly, the plaintiff may seek recovery of attorneys' fees under the common fund theory codified in Code of Civil Procedure section 1021.5. See e.g., *Hewlett v. Squaw Valley Ski Corporation* (1997) 54 Cal.App.4th 499, 543-46.

Class actions can be brought in California state court, among other bases, under Code of Civil Procedure section 382 and Civil Code section 1781, and involve similar analysis of common questions of fact and law presented by Rule 23 of the Federal Rules of Civil Procedure. Generally, class actions brought in state court should be limited to a putative class of California residents. Thus, a recent decision denied certification to a subclass of non-California residents claiming unfair competition under section 17200, where the challenged conduct occurred outside of California. *Norwest Mortgage, Inc. v. Superior Court* (1999) 72 Cal.App.4th 214, 222. Even where the alleged wrongful conduct occurred within California, courts have discretion to deny certification to non-California class members, depending on "whether the variations of applicable law among the various states would render the purported nationwide class unmanageable, and whether California has a 'special obligation to undertake the burden of a nationwide class action.'" *Canon U.S.A., Inc. v. Superior Court* (1998) 68 Cal. App.4th 1, 7 (citation omitted; emphasis in original); *Norwest Mortgage, supra*, 72 Cal.App.4th at 229. At the same

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MARY E. MCCUTCHEON

On INSURANCE

It is never easy to convince Directors & Officers (D&O) Liability insurers to contribute significant amounts to securities class action settlements. The assumption that the insurer would at the very least be a major player in such a settlement, however, has been shaken by the insurance industry's recent propensity to seek rescission in the face of securities claims based on restatements of earnings.

D&O insurers claim they issue a policy in reliance upon the company's financial statements, which generally are provided to the insurer when the policy is issued or renewed and are often incorporated into the policy application. So, if the financials are restated (and class actions are filed), the insurers contend that the application incorporated a material misrepresentation (the repudiated financial statement), and therefore the insurer is entitled to rescission. In other words, the very event which triggers the insured's need for D&O coverage — the restatement — eliminates that coverage.

What to Do When Buying a Policy

There are some minor, but critical, policy features which might avoid a rescission claim altogether, or at least strengthen the policyholder's chance of prevailing against such a claim. Companies evaluating their D&O Liability Insurance options should be aware of what information the insurer is requesting and purporting to rely on in the application process. They should be extremely careful as to the form of warranties or representations executed by any officers or directors in connection with the application, whether concerning financial statements or knowledge regarding any potential claim (another ground for rescission).

Some policies provide that, if there is a misstatement in the application or accompanying financial statement, the insurer will seek rescission only as to those insureds either responsible for or having knowledge of the misstatement. If the policies are silent on this point, however, insurers maintain the right to seek rescission against all directors and officers, no matter how innocent. Such policies should be avoided if possible.

Another common policy feature, although not expressly addressing rescission, provides a strategic advantage to the insurer — the arbitration clause. While an arbitration might offer a speedier resolution of the dispute, an insurer is more likely to pursue a rescission claim, or simply cite rescission as a grounds for denying coverage, if it need not face a jury's outrage. Again, avoid such provisions if possible.

What to Do When the Insurer Rescinds

Assuming the first time you review the D&O policy is after the restatement has been issued and the class action has been filed, all is not lost. The carrier is entitled to rescission only when, in issuing the policy, it has relied on a material representation which was not true when made. While at first glance a restatement seems to satisfy that criteria automatically, such is not always the case.

The Representation: In some instances the financial statements are not made a part of the application, and therefore do not constitute a representation to the insurer. This may be particularly true in a renewal situation, where the insurer and company have an ongoing relationship and renewal is almost automatic.

Materiality: In some instances, the restated earnings may not be material from an insurer's perspective. Particularly in a renewal situation, the fact that earnings per share might be ten cents less than originally promised probably would not influence the insurer's decision to underwrite the policy. This argument has particular appeal in a competitive D&O market (which has existed in recent years). Keep in mind, however, that many jurisdictions consider financial information material by definition, especially if the insurer requested it.

Falsity: An auditor may require restatement not because of a change in financial condition, but because of a change in accounting policies. While the financial statement might have been true at the time it was made, retroactive imposition of a new accounting policy forces a restatement. Therefore, the initial financial statement was not false under the accounting policies in place at the time the financial statement was issued. This argument might also prove successful where the restated financials were interim 10-Q statements, and not the year-end 10K.

Knowledge: In many states, it is unclear to what degree rescission depends on the insured's state of mind. In California, for example, courts hold that rescission is available regardless of the intent to deceive, but they modify this apparently strict liability standard by holding that rescission is not available if the insured did not realize that the information supplied was false — a fine distinction, but an important one. See *Miller v. Republic National Life*, 789 F.2d 1336 (9th Cir. 1986). See also *Old Republic Ins. Co. v. Rexene Corp.*, 1990 Del. Ch. Lexis 187 (Del. Ch. Nov. 5, 1990) (comparing Delaware law, which requires knowledge of the falsity, with Texas law, which requires intent to deceive).

So don't assume that restatement equals rescission.



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Fighting Personal Jurisdiction

of whether the defendant has the requisite "minimum contacts" with the forum state necessary to comport with traditional notions of fair play and substantial justice that make it reasonable for the court to exercise jurisdiction.

Over the past two years the authors have litigated to decision five Rule 12 motions to dismiss for lack of personal jurisdiction in intellectual property cases, on both sides of the issue. Two lessons have emerged from our experiences.

Lesson One: Don't Be Cute

A jurisdictional argument that fits within the parameters of the black letter law may nevertheless be ill-advised from a strategic standpoint. Sometimes a tactic that appears designed to manipulate the facts and law can taint the entire presentation to the court.

This lesson is illustrated by three of our cases.

In *Dainippon Screen Manufacturing Co., Ltd. v. CFMT, Inc.* (N.D. Cal. 97-CV-20270JW), rev'd, 142 F.3d 1266, 46 USPQ2d 1616 (Fed. Cir. 1998), the defendants' form over substance argument held sway at the district court level, but ultimately backfired on appeal. One defendant created the second defendant as a wholly-owned subsidiary for the sole purpose of acting as a holding company for the parent company's intellectual property. The sub-

siary was set up as a shell company in a state that did not charge income tax on intellectual property royalties. The subsidiary "shared" one part-time employee and an office with hundreds of other such shell companies. The parent transferred ownership of all patents and trademarks to the subsidiary, which in turn immediately granted the parent company an exclusive license. When plaintiff, a competitor of the parent company, was threatened by defendants with a patent infringement suit, plaintiff filed a declaratory relief action in California against both the parent and the subsidiary/patent owner, seeking a declaration of no infringement and challenging the validity of the patent.

The defendants moved to dismiss plaintiff's complaint for lack of personal jurisdiction over the subsidiary defendant, which as the patent owner was an indispensable party to the action. The subsidiary argued that, although the parent company conducted business in California, the subsidiary merely owned the patent and did not sell the patented product in California, was not incorporated in California, and did not have any place of business in California. Furthermore, the subsidiary contended that in delivering the enforcement threats, its top officers — who were also officers of the parent — were acting on behalf of the parent only. The district court granted the defendant's motion to dismiss.

On appeal, the Federal Circuit was not impressed by

defendants' arguments that all corporate formalities were followed. The Circuit seemed particularly skeptical about the proposition that the same individuals could be "wearing different hats" at different times while in California so as to avoid jurisdiction in the state, stating "This argument qualifies for one of our chutzpah awards." 142 F.3d at 1271. The court reversed the dismissal.

In a second case, *Figi Graphics, Inc. v. Dollar General Corp.*, 33 F.Supp.2d 1263 (S.D. Cal. 1998), the court rejected plaintiff's attempts to create a sale transaction within the forum state. Plaintiff brought an action in its home base in San Diego for copyright infringement based on defendant's sales through its large network of value-priced retail outlets throughout the South and Midwest. Recognizing that the defendant had no retail outlets in California, the plaintiff hired a private investigator who called the defendant and posed as a "customer," asking to have units shipped to him in California. The defendant shipped the requested merchandise to the "customer" at a San Diego address. Plaintiff then responded to the Rule 12 motion by providing its investigator's declaration attesting to the shipment. The declaration, however, did not identify the investigator as such. Defendant discovered the true identity of the declarant, and pointed out these facts to the court in its reply brief.

The district court was not persuaded by plaintiff's attempt to gin up facts supporting jurisdiction. The court rejected plaintiff's argument that the single, "staged" shipment to California constituted a "purposeful availment" of the privileges of conducting activities in California, or a "purposeful interjection" into the forum state's affairs. *Id.* at 1266, 1268.

In a third case, the court denied defendant's motion to dismiss where the defendant made a strong challenge to the admissibility of evidence submitted by plaintiff in support of jurisdiction, but did not expressly deny the facts alleged. The pivotal jurisdictional issue was whether defendant had shipped to the forum state a specific machine, which allegedly infringed plaintiff's patent. Defendant asserted that it had made no such sale in the state. Plaintiff met this assertion with testimony by its district sales manager that he had seen one machine operating at a site within the state. The sales manager further testified that he had been told that the machine had been supplied or installed by one of defendant's distributors, and he "believe[d] that [defendant] knew" that a distributor had sold the machine in the state.

In fact, the machine was not sold by defendant. However, purchase records made available to plaintiff in discovery showed that one of the machines in question had been sold at another location within the state. In its reply, defendant strongly objected to the obvious hearsay in the sales manager's declaration, but had to stop short of denying that it had ever sold the machine in the state.

In denying the motion to dismiss, the court ruled that the plaintiff need not "come forward with the evidence it will present at trial" in support of jurisdiction. Rather it is sufficient for the plaintiff to set forth facts sufficient to make out a *prima facie* case. The court noted that "defen-



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On CREDITOR'S RIGHTS

Liability insurance, necessary to any business, can be crucial to a financially distressed company. Businesses rely on insurance to protect against — and fund the defense of — claims based on employee negligence, environmental contamination, personal injuries resulting from defective products, and a wide range of other liabilities.

When the policyholder files for bankruptcy, insurance takes on even greater significance. An operating Chapter 11 debtor must have adequate liability insurance to protect the bankruptcy estate from post-petition tort claims carrying the favored status of administrative expenses. *Reading Co. v. Brown*, 391 U.S. 471 (1968). Directors and officers ("D&O's") of a distressed company, unable to rely on the corporation to indemnify them against shareholder claims, will require D&O insurance as a condition of continuing service. The company's right to recover reimbursement for losses (for environmental contamination or injuries from defective products, for example) may also represent a major asset of the bankruptcy case, as it did in the *Johns-Manville* and *A.H. Robins* cases.

A bankruptcy filing imposes a new layer of complexity on the legal rights and relationships among the policyholder and its co-insureds, insurers, and liability claimants. Issues arise regarding the scope of the automatic bankruptcy stay, the bankruptcy court's jurisdiction, and ownership of the policy and its proceeds, to name just a few. Yet there is surprisingly little case law in this area, and much of what exists is fact-specific, confusing, or in conflict. Here are a few more or less generally accepted principles:

- Courts hold, almost universally, that a debtor's insurance policy is property of the bankruptcy estate. *In re Minoco Group of Companies*, 799 F.2d 517 (9th Cir. 1985). However, the proceeds of the policy may not be.
- The automatic stay (prohibiting, among other things, most lawsuits against debtors or exercise of "control" over estate property) prevents an insurer from canceling a debtor's policy, even if the insurer has that right under the policy's express language.
- On the other hand, most courts conclude that the automatic stay does not prevent one non-debtor (for example, a liability claimant or insurer) from suing another non-debtor (e.g., a D&O) to interpret or recover under the debtor's policy. And some courts, including the Ninth Circuit Bankruptcy Appellate Panel, have suggested that insurers may bring a declaratory relief coverage action against the debtor without violating the automatic stay. *In re Spaulding Composites Co., Inc.*, 207 B.R. 899 (BAP 9th, 1997). The rationale is that a declaratory relief action does not seek to recover on a claim or to control the insurance asset, but merely to determine the nature and extent of the bankruptcy estate's interest in the policy.

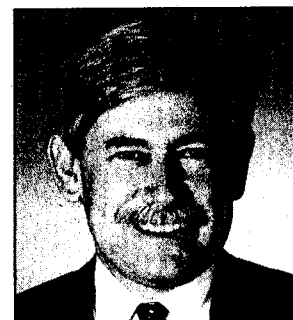
• The bankruptcy court has the discretionary power to temporarily enjoin non-debtor parties from litigation affecting a debtor's insurance policies; but many courts resist using that authority. See *In re Pintlar Corp.*, 124 F.3d 1310 (9th Cir. 1997).

• A significant issue in the context of securities litigation concerns the bankruptcy estate's control over a D&O policy. D&O policies parallel, though do not necessarily duplicate precisely, a corporation's obligation to indemnify its board and managers against liability incurred in the performance of their duties. Under a typical D&O policy, the insurer agrees to defend and indemnify the D&O's from specified types of liability, and to reimburse payments the company makes to defend or indemnify its D&O's. The insurer's liability is usually subject to a single policy limit, so any payments for defense costs deplete the available defense and liability coverage dollar for dollar. Although the company arranges for the policy and pays the premiums, the D&O's are usually designated as "insureds" under the policy, and rely on its availability in accepting their positions with the debtor.

Often both securities litigation and bankruptcy follow closely on the heels of a public company's disclosure of significant bad news. The automatic stay prevents (and economic reality discourages) prosecution of the litigation against the insolvent issuer, but the D&O's are not protected by the automatic stay. In this setting, the D&O's want the policy to fund their defense, and ultimately its shareholders see the

policy as a major potential source of recovery, so on this issue they align with the D&O's they have sued. At the same time, the debtor corporation (the "owner" of the policy) may wish to conserve the policy to fund its own settlement with the plaintiffs, to reimburse it for amounts previously paid to defend the D&O's, or just to hold in reserve for other anticipated claims.

Most courts have resolved this conflict in favor of the D&O's, permitting them to draw on the policy to fund defense and settlement. For example, in *In re Daisy Systems Securities Litigation*, 132 B.R. 752, Fed. Sec. L. Rep. ¶96,190 (N.D. Cal. 1991), Judge Spencer Williams held that proceeds of the debtor's D&O policy were not property of its bankruptcy estate, and therefore could be used to fund the D&O's settlement of securities litigation against them, despite the bankruptcy trustee's objection. A word of caution — the policy/proceeds distinction is not universally accepted, and an insurer may in any event be unwilling to pay most or all of policy limits to fund a settlement for fewer than all co-insureds, thereby leaving the insurer exposed to the non-settling insureds' claim of breach of the duty of good faith and fair dealing. See *Shell Oil Co. v. National Union*, 44 Cal. 4th 1633 (1996).



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dants, who hold the relevant information, have not denied the truth of the conclusions drawn by [the sales manager]." It held that although hearsay, the testimony was sufficient to make the *prima facie* showing required to establish personal jurisdiction on a motion to dismiss.

In each of these three cases, the party with an apparently correct technical argument failed, presumably because the court disapproved of the party's apparent efforts to manipulate the facts, either to create or eliminate jurisdiction in an inappropriate forum.

Lesson Two: Offer the Court an Alternative Forum

Judges are understandably reluctant to dismiss cases on purely procedural grounds, allowing a defendant to evade what might be a meritorious claim. Defendants considering a motion to dismiss therefore should strive to reassure the court that they are not trying to take advantage of a technicality to side-step a meritorious claim.

One means of conveying that message is to combine the motion to dismiss with an alternative request for transfer to the preferred venue, under 28 U.S.C. §1404, 28 U.S.C. §1406, or both. Section 1404 provides for a transfer on grounds of convenience. Section 1406 permits transfer of a case "to any district or division in which it could have been brought" where the transfer would be in the "interests of justice."

Defendants may be reluctant to move in the alternative for a transfer, thinking that the court will "take the easy way out" by summarily denying the motion to dismiss and granting the transfer. Experience shows, however, that the mere fact that the motion seeks transfer in the alternative does not mean that the court will automatically deny the motion to dismiss. For example, in the case of *Figi Graphics* discussed above, the court granted the motion to dismiss and never reached the alternative motion to transfer.

Furthermore, it would be the rare defendant who is not subject to personal jurisdiction somewhere in the United States. Thus, even where a defendant obtains a dismissal, the plaintiff may simply refile the case in another district. By using the alternative motion to transfer, a defendant can better control where the case will be tried, rather than allowing the plaintiff to choose the alternative forum.

From plaintiff's point of view, although it may seem counterintuitive to do so, an alternative countermotion for a transfer "in the interests of justice" under 28 U.S.C. §1406 can sometimes provide a valuable hedge against the possibility of an outright dismissal. For example, the alternative motion may be a wise approach where the statute of limitations threatens to run, and the plaintiff would not have time to refile in another district, or where it will be difficult or expensive for the plaintiff to serve the defendant again. A transfer by the initial court may also prevent the dismissed defendant from selecting its preferred forum by quickly filing a new suit as a declaratory judgment plaintiff.

Through the alternative motion, the plaintiff is essentially asking that, if the court finds that personal jurisdiction

is lacking, the court should transfer the action to another district rather than dismiss it. (Note that although a court lacking both venue and personal jurisdiction may still order a §1406 transfer, see *Goldlawr, Inc. v. Heiman*, 369 U.S. 463 (1962), it is error for a court to order both a dismissal and a transfer, see *Hollyanne Corp. v. TFT, Inc.*, 1999 WL 1190967 at *2, 53USPQ2d 1201 (Fed. Cir. 1999)).

Plaintiff in one recent case attempted to employ the section 1406(a) transfer technique, but waited too long to do so. On the original motion to dismiss for lack of personal jurisdiction in Texas, defendant moved in the alternative for a §1404 transfer to California. Plaintiff opposed both the motion to dismiss and the alternative motion. The court granted the motion to dismiss, and thus never reached the alternative motion for transfer. Although defendant had admitted that it was amenable to suit in California, refileing the suit would mean that the plaintiff would have to serve the defendant again. Since defendant was a foreign corporation subject to service only through the Hague Convention, the requirement for re-service was costly and time-consuming.

Notwithstanding its earlier opposition to the transfer,

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Rules for Winning Trials

cance of these "soft spots" on their own, rather than having it force fed to them, all the better.

Keep it Simple

KISS — "Keep it simple, stupid" — is the watchword of every good trial lawyer. Anyone with a law degree can show a jury how educated or smart or skillful they are. But that does not win lawsuits. What wins trials is the ability to present even a complex business dispute in such a way that the average man on the street not only understands what happened, but understands that the only "fair result" is for your client to prevail. If the jury cannot understand the transaction, it will be very difficult for them to understand that your client should win. A few, simple, common sense themes that appeal to the jury's basic sense of right and wrong are far more effective than elaborately spun and elegantly crafted syllogisms. If the jury thinks you are the smartest or the smoothest lawyer in the courtroom, but they don't identify personally with your client's plight and "feel in their gut" that fairness compels a verdict in your client's favor, you might get the "best lawyer" award, but the other side will get the verdict. An effective trial lawyer's goal is to win trials for his clients, not praise for his skills.

There will be some cases where even the best lawyer on earth cannot effectively follow these basic trial principles. My advice is to settle those kinds of cases.

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On MEDIATION

The issue of mediation confidentiality is being debated in many states and is a developing area of the law nationally. Recently, this subject has been the focus of numerous ADR programs around the country. Confidentiality also is a significant issue among those organizations (American Bar Association, Society of Professionals in Dispute Resolution, American Arbitration Association, and others) involved in preparing and commenting on the Uniform Mediation Act, a draft of which is expected to be issued in April 2001. Those of us who frequently mediate cases know that confidentiality is essential to good mediation practice because it frees the parties to be candid with the mediator and with each other. That candor encourages prompt resolution.

A few mediation horror stories are being discussed, and these reflect a growing concern about the possible erosion of confidentiality. Take, for example, a case arising from the construction of a fixed rail transit project in a large East Coast city. The local Metropolitan Transit Authority (MTA) sued, claiming major defects. Defendants included the general contractors for various phases of the project, a host of subcontractors and suppliers and, of course, a number of insurance carriers. A prominent mediator was called to help the parties resolve the case. All parties signed a confidentiality agreement.

After a number of mediation sessions, the MTA went to court to enforce a settlement it claimed was reached at mediation. The MTA's motion to enforce the settlement included many details about the mediation negotiations. In response, the opposing party sought sanctions against the MTA for violating the confidentiality agreement. However, the opposition papers also included a discussion of confidential mediation communications.

Finally, although the confidentiality agreement stated that the mediator could not be called as a witness, he filed an affidavit, without first seeking a protective order. In his affidavit, he discussed the importance of confidentiality in mediation but went on to say that, "without revealing confidential communications," he could state unequivocally that there had been no settlement.

By contrast, in California, mediation participants have hardly given confidentiality a second thought because of strong protective statutes, especially California Evidence Code section 1119. That statute covers all communications, starting before the first call to the mediator's office. It includes preliminary discussions about the mediation with the adversary or with the mediator and even inquiries about the mediator's experience and qualifications. In addition, section 703.5 of the California Evidence Code prohibits the testimony of a mediator concerning mediation negotiations and conduct.

However, three recent cases are raising questions about

the protection of mediation confidentiality in California. The first is *Rinaker v. Superior Court*, 62 Cal. App. 4th 155 (1998). In that case, a civil harassment suit brought by plaintiff Mr. Torres against two boys who allegedly threw rocks at his car was mediated. Later, as part of their defense in a juvenile delinquency proceeding, the two teens wanted to call the mediator to testify that Mr. Torres did not actually see them throw the stones. Despite sections 1119 and 703.5, the mediator was ordered to testify in camera at a probable cause hearing. In that case, the teens' constitutional right to confront and cross-examine, including the right to impeach, took precedence over mediation confidentiality.

The second case is more recent, *Olam v. Congress Mortgage Co.*, 1999 WL 909731 (N.D. Cal.). The *Olam* case was a real estate matter that was mediated to resolution. After signing a written settlement agreement, Ms. Olam attempted to disavow it as invalid, claiming that she had been incapable of giving legal consent. Both parties waived confidentiality and asked the court to compel the mediator to testify about his perceptions of her capacity to contract during the mediation. After careful consideration, U.S. Magistrate Judge Wayne D. Brazil ordered the mediator to testify about Ms. Olam's capacity to contract and, ultimately, granted enforcement of the settlement agreement.

The third case, *Foxgate Homeowners' Association, Inc. v. Bramalea California, Inc.* 2000 WL 218353 (Ct.App. Feb. 25, 2000) was just reported. This construction defect case was ordered to mediation by the court. The mediator required the parties to appear with their experts for five days of negotiations. Foxgate appeared pursuant to the order, but Bramalea was represented only by counsel. After the first day, the mediator cancelled the proceedings because Bramalea's counsel was unwilling to bring in his experts. Based on a report prepared by the mediator, the trial judge sanctioned Bramalea's attorney. Among other things, the mediator reported that counsel's agenda was to thwart the mediation process by delaying and otherwise obstructing the proceedings. In *Foxgate*, the court ruled that a trial judge can consider a mediator's report when deciding whether counsel has mediated in good faith. While the court acknowledged that confidentiality is essential to successful mediation, it also recognized the importance of meaningful, good faith participation by all parties.

Arguably, these cases present unusual circumstances and do not suggest that compelling California mediators to testify will become routine. They do suggest, however, that sections 1119 and 703.5 are not ironclad and may be open to further development over the next few years.

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plaintiff made an extraordinary motion for reconsideration under Rules 59 and 60, asking the court to vacate its dismissal and instead transfer the case to California. Even though plaintiff was ultimately successful in its belated request for a transfer, it could have saved both time and money by moving for the \$1406 transfer in the alternative in the first instance.

A second case involved competing suits filed in Texas and California. The alleged patent infringer filed an action in Texas seeking a declaration of non-infringement. Several weeks later, the patent owner sued in California and moved to dismiss or transfer the Texas action.

Defendant faced an uphill battle on its motion to dismiss or transfer the first-filed Texas action. As a general rule in patent cases the law "favors the forum of the first-filed action, whether or not it is a declaratory judgment action." *Genentech, Inc. v. Eli Lilly & Co.*, 998 F.2d 931, 937 (Fed. Cir. 1993), *cert. denied*, 114 S. Ct. 1126 (1994). Nevertheless, the defendant asserted that dismissal or a \$1404 convenience transfer was proper because, based on an earlier settlement between the parties the first-to-file rule should not apply, and because, as the patent owner, it was the injured party and "true" plaintiff. Defendant argued that the alleged infringer's suit in Texas was an improper "strike suit" filed in response to defendant's cease-and-desist letter (a prerequisite to suit under the settlement agreement) for the sole purpose of depriving the patent owner of its choice of the California forum. Perhaps most persuasively, defendant also pointed out that all six of the inventors lived in California, that defendant was a California corporation with its principal place of business in California, and that the alleged patent infringement had occurred in California.

The district court accepted the magistrate's recommendation to transfer the action to California. The court first declined to exercise its discretion to entertain the suit for a declaration of non-infringement, based largely on its conclusion that plaintiff "filed this declaratory judgment action for the sole purpose of securing a favorable forum in anticipation" of litigation. The court noted that to reward the alleged infringer for winning the race to the courthouse would "penalize [the patent owner] who made a good faith effort to resolve the matter without the assistance of the Courts through its cease and desist letter." Citing the convenience factors, the court ordered the case transferred to California for consolidation with the related case pending there.

In truth, the lessons we have learned in the field of intellectual property are really just specific applications of principles that make good sense in any substantive area of litigation: steer clear of "clever" arguments that elevate form over substance, and consider alternatives that will afford you a fallback position if things don't go as planned.

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Managing a High Technology Case

time, while an alleged common flaw in computer technology or related advertising would seem to present a good argument for certification of a class of California residents, another stumbling block is presented when many different manufacturers or retail defendants are named.

Normally, a consumer class representative must have standing to assert the claim against the defendant. In other words, the class representatives must be members of the class they purport to represent. *East Texas Motor Freight Systems, Inc. v. Rodriguez* (1977) 431 U.S. 395, 403; *Baltimore Football Club, Inc. v. Superior Court* (1985) 171 Cal.App.3d 352, 359. In the context of multiple defendants, some defendants have argued that the named plaintiffs collectively must have purchased their equipment through or from each named retail or manufacturer defendant. See e.g., *Dean Witter Reynolds, Inc. v. Superior Court* (1989) 211 Cal.App.3d 758, 772 (noting that "[t]he suitability of the unfair competition claims for class action treatment must be tested by principles developed under the general class action statute, Code of Civil Procedure section 382"); *Reese v. Wal-Mart Stores, Inc.* (1999) 73 Cal.App.4th 1225, 1239-40 (certification of class alleging, among other things, section 17200 claims denied under standards of CCP section 382). Thus, an unfair competition class action with only one or two class representatives may be subject to demurrer by those defendants who did not manufacture or sell the product purchased by the class representatives, even though privity normally is not required under sections 17200 or 17500. This is an unsettled issue under California law, but plaintiffs attorneys may have to find enough class representatives so that at least one has a direct claim against each of the retail and/or manufacturing defendants.

The distinctions between these two methods for asserting high tech unfair competition cases make a substantial difference. A class action, with its incumbent fiduciary duties to absent putative class members, is much more complex and expensive. As in any class action, discovery regarding the proposed class members can be expensive and intrusive. Class certification briefing will often be protracted, contentious and expensive. Settlement is very complex. Even after the parties have agreed upon the terms of a settlement and have drafted and executed a Settlement Agreement, a number of class approval steps remain. The Court will need to provisionally certify the class for purposes of settlement and then preliminarily approve the settlement. Notice of the settlement must be provided to class members by the best reasonable means. Class members must then be provided with the opportunity to opt out or object. Next, the Court must give final approval to the settlement and enter a stipulated judgment against each of the defendants. And finally, the distributions must be made. This process can take six months or more. Moreover, because the class approval process is post-settlement, the plaintiffs' lawyers generally are not able to obtain any additional attorneys' fees if the process

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takes longer or is more complicated than expected.

A private attorney general action is much simpler, because it does not raise any of the complicating class action duties or mechanisms. This simplicity, however, renders the settlement much more limited. With a consumer class action settlement, where proper notice is given, class members are provided with the opportunity to object or opt out and final court approval is obtained, the defendants should be entitled to *res judicata* effect for all class members. In other words, the complicated class settlement procedures offer defendants peace from any of the consumers in the class with regard to the alleged defects or misrepresentations. (It will not bar actions by persons not in the class, such as consumers in other states or excluded commercial entities.) By contrast, the settlement of the private attorney general action may not preclude further suits alleging the same claims. While some authorities indicate that *res judicata* effect may be obtainable in a private attorney general action if the parties can convince the California Attorney General to intervene and approve the settlement, such intervention is difficult to obtain, time-consuming and expensive. Moreover, a critical open issue remains as to whether any "restitution" paid would be credited against restitution claims in subsequent cases. (These issues also may be addressed by the Supreme Court in *Kraus*.) From the defendants' perspective, all that presently can be assured is that settlement of the private attorney general cases fully precludes only the named plaintiff(s), although any remedial actions taken by the defendants in settlement should help prevent or at least dissuade others from bringing subsequent actions.

Given this difference in preclusive effect, defendants are inclined to offer more to settle a case where class allegations are made, since they know they are buying a more comprehensive peace. By the same token though, all parties will have to spend more time and expense negotiating and documenting a class settlement. Accordingly, some plaintiffs' firms prefer the private attorney general actions for their simplicity and potential for a "quick and dirty" payment of attorneys' fees coupled with remedial advertising or other non-monetary relief.

Managing The Case Toward Resolution

A trial lawyer representing a defendant in these cases instinctively will not want to settle and will want to force the plaintiffs to prove their case. Defendants focus on the minimal, if any, damage incurred by a consumer whose computer equipment may, for example, operate some marginal percentage more slowly than described in advertisements. If this alleged "misrepresentation" can be fully remedied by a disclaimer that the advertised speed is a maximum, or that the machine operates at variable speeds, how is the consumer possibly damaged?

Against this consideration, the defense lawyer (and his/her client) often must weigh the legal costs of defending the case and the additional costs of client executive and managerial time in responding to discovery and interacting with counsel. Especially where many defendants are involved, written discovery and depositions concerning the technical issues often will cost many multiples more than even the initial settlement demand by the

plaintiffs. And when this demand is divided among several defendants and balanced against the costs and risks of litigation, it becomes difficult for the client not to want to commence settlement discussions immediately.

Unless the case can be resolved by a quick and small payment of attorneys' fees and inexpensive remedial action, mediation is often a good strategy. Many judges, such as the Honorable William Cahill in San Francisco, are known for their skill and expertise in these areas. Counsel should contact the judge's chambers to see if the court would be interested in assisting. These mediations may take several sessions before it can be determined if the case can be resolved, so a judge who can manage his or her schedule to provide multiple three or more hour sessions is essential. Alternatively, mediators from JAMS, AAA or private law firms may be retained.

The focus of these mediations is normally on the technology. A well-prepared plaintiff will have fully investigated and prepared its case prior to filing and can present its Opening Statement, supported by graphics and even experts. The plaintiff will immediately wish to attack the notion that the alleged harm is *de minimus*. For example, where the complaint challenges the quality of the software provided "free" with a computer, the plaintiff will want to establish how the pre-loaded software differs from the same software titles available on the retail market. While the defendants will argue that the consumer was not charged for the software and thus cannot complain if it is less extensive than the retail version of other products, the plaintiff must be ready to demonstrate that the consumer didn't receive the benefit of the represented bargain and has to spend additional money to purchase fully functional software that should have come with the challenged product.

The defendants will want to thoroughly understand and explain to the mediator the alleged system or promotional flaws. If there is some difference in the pre-packaged software, the defendants will want to be ready, with both packages, to demonstrate the negligible difference in performance or value to the consumer. Where the plaintiff challenges the advertising description, the defendants will want to establish that the alleged misrepresentation makes no difference to the normal consumer. Finally, defendants will want to make sure the mediator understands any actions the client has taken to remedy the alleged deficiency. In this way, the mediator can be enlisted to advocate to the plaintiff that its injunctive (and restitutionary) case may be weak since there is little left to enjoin or remedy.

To the extent possible, treat your mediation like an informal evidentiary hearing. If the plaintiff challenges performance, bring in two computers that are fairly configured to isolate the alleged deficiencies. Run identical copies of the same program to demonstrate the actual difference, or lack thereof, between the two configurations. Have your expert ready to back you up, field questions from the court, and rebut the other side. Let the mediator see and touch your computer equipment to establish your good faith and validate your position. As in any other

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trial or hearing, use graphic evidence every chance you get to explain, reinforce and prove your position.

Ultimately, the side that is better prepared and better presents its position will be apt to obtain a settlement closer to its desired range. From the defendants' perspective — even with the very broad case law in this area — if it can be persuasively shown that no real damage results to the consumer by virtue of plaintiff's allegations, the plaintiff will be hard-pressed to stand for anything but a nuisance value settlement. And if the plaintiffs' offer remains unacceptably high, your case is well prepared for substantive discovery and trial.

If a settlement appears possible in a class action unfair competition case, all counsel must be careful to satisfy their duties to the putative class. In reviewing the portion of a class settlement related to payment of attorneys' fees, the California courts look to "whether, at the time a fee sharing agreement is reached, class counsel are placed in a position that might endanger the fair representation of their clients...." *Dunk v. Ford Motor Co.* (1996) 48 Cal.App.4th 1794, 1809. Cautious counsel will seek agreement in principle on all substantive terms, and only then discuss what attorneys' fees will be paid. If agreement can be reached on the fee issue, then the entire settlement may be memorialized in the Settlement Agreement.

Prompt and Prudent Remedial Action

Often, the unfair competition claim against a high technology client will involve a claimed deficiency in promotional materials. Where the plaintiff claims that computer advertisements do not accurately describe, for example, the associated software or performance of the hardware, the client should consider prompt modification of its promotional materials to address the issue; updated advertisements and web sites could reference the maximum or variable speed of the hardware or the limitations of the associated software. Prompt remedial action should undercut the plaintiffs' claim for injunctive relief and even ongoing restitution. Evidence of such remedial action should be excluded from any liability determination by Evidence Code section 1151 (excluding evidence of subsequent safety measures). In sum, common sense and the law support prompt and prudent action to curtail any future problems.

Remedial action also is appropriate where an inadvertent flaw is discovered in high technology equipment after it is sold to the public. One California appellate case has rejected an unfair competition claim where the defendant took immediate and thorough action to remedy post-sale problems. In *Klein v. Earth Elements, Inc.* (1997) 59 Cal.App.4th 965, a consumer sued a pet food distributor under section 17200 for its distribution of contaminated dog food. The court affirmed the granting of summary judgment for the defendant, observing that "the unintentional distribution of a defective product is beyond the scope and policy of the 'unlawful' prong of section 17200." *Id.* at 969. Noting the defendant's "exemplary"

conduct in attempting to abate the harm, the court emphasized that "the company's act was *accidental* and, once discovered, it moved quickly to abate the harm." *Id.* at 970 (emphasis in original).

Klein is an important case for high technology defendants faced with section 17200 claims for an alleged "defect" discovered after the product is sold. Problems discovered post-sale should not support an unfair competition claim where the error was accidental and, upon discovery, the company takes prompt remedial steps.

Conclusion

While state law unfair competition cases brought against high technology clients present challenges of vague standards of proof, complex technical issues, sizeable potential awards of restitution, and substantial attorneys' fees, the relatively small risk of liability in these cases demand that they be closely managed. Active and immediate education of the plaintiff as to the limitations of his/her case and exploration of early resolution paths are often advisable. Where remedial steps can address or clarify the purported deficiency, the client often should consider prompt action.

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