

# Barth REPORT

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## Supreme Court Addresses Trade Dress Design Issue

A children's clothing manufacturer designs a line of baby clothes featuring a combination of certain uniform design elements: seersucker fabric; large bold appliques integrated into large collars and pockets on the garment; and full-cut bodies. The product line is also marked by the absence of printed images, alphanumeric characters, three-dimensional features or heavy ornamentation such as bibs or fringe — all features frequently found on children's clothing. Can the manufacturer protect the design of this product line as "inherently distinctive" trade dress?

Courts have split on the issue of whether product design features — such as the shape, size, color, texture and material of a product — should be analyzed under the same distinctiveness framework employed in traditional trademark cases or by some alternative test. In *Wal-Mart Stores, Inc. v. Samara Brothers, Inc.*, the Supreme

Court finally addressed this issue. Retail giant Wal-Mart argued that, unlike other types of trade dress and trademarks, product designs should never be considered "dis-

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Stephanie Powers Skaff

## Evaluation Committee Responds to Ninth Circuit Concerns

In the early spring of 1999, I appointed a distinguished 10-member Evaluation Committee "to examine the existing policies, practices, and administrative structure of the Ninth Circuit Court of Appeals, in order to make recommendations to its judges to improve the delivery of justice in the region it serves." This is part of the Ninth Circuit Court of Appeals' effort to provide a constructive response to some of the perceived concerns about the court's operations in relation to the proposal to restructure the court into autonomous divisions. This approach, the court believes, is a far more responsible manner of addressing and resolving legitimate concerns than the imposition of a disruptive and untested appellate restructuring with countless unanticipated and counterproductive side effects.



Hon. Procter Hug, Jr.

### Membership and Objective

The Evaluation Committee, chaired by Senior Circuit Judge David R. Thompson of San Diego and consisting of circuit judges from each of the court's three administrative units, a representative of the district court bench, a prominent scholar of the federal appellate courts, and an experienced appellate practitioner, has been meeting regularly for the last nine months to investigate and study concerns and issues raised in relation to the Ninth Circuit Court of Appeals. The committee has focused on consistency of decisions, regional sensitivity, productivity and delay, and the *en banc* process. In addition to meeting regularly and reviewing research work by the court's staff attorneys, the committee has heard from academics and has conducted bench-bar focus groups at a variety of loca-

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### *Evaluation Committee Responds*

tions in the circuit to obtain the views and suggestions of the Ninth Circuit bar. It has also widely circulated a detailed call for comments from judges, lawyers, and other interested parties from across the circuit and across the country. The preliminary results of this initiative have been encouraging. As an ongoing process, it should continue to yield positive benefits for circuit operations for years to come.

#### Consistency of Law

In the area of consistency of decisions, while there is no objective evidence that Ninth Circuit decisions are subject to greater inconsistency than those in other circuits, the perception remains that such a large circuit cannot avoid inconsistencies with so many panels issuing so many opinions. The committee has focused its efforts on strengthening the court's ability to recognize potential or perceived conflicts early and address them directly and immediately. Several innovative approaches are under consideration, including (1) an "electronic mailbox" through which judges and lawyers can notify the court of perceived conflicts; (2) the use of staff attorneys' specialized expertise and objective criteria to spot potential conflicts and sensitive decisions and bring them to the court's attention for extra scrutiny prior to publication; and (3) the use of internal review to check all opinions for consistency before they are released.

#### Regionalism

The committee has suggested an experiment involving the regional assignment of judges in response to various concerns about the need for a regional perspective in appellate decision making. The court has already adopted and implemented a recommendation that at least one judge who resides in the administrative unit (northern, middle, southern) where the case originated be assigned to the appellate panel hearing that case. Also, the court is conducting an experiment to hold panel sittings in a greater number of cities across the circuit and combine them with bench-bar activities to increase outreach to and communication with all parts of the region. This past year alone the court has conducted oral arguments and bench/bar meetings in Anchorage, Coeur d'Alene (Idaho), Missoula (Mont. ), San Diego, Phoenix, and Honolulu, in addition to its regular sittings in Pasadena, San Francisco, Portland, and Seattle.

#### Productivity

The court has achieved great gains in productivity from the use of its innovative motions and screening calendars. Every month a screening panel of three judges sits in San Francisco to consider less complex cases that are readily resolved by the application of clearly defined circuit precedent. These screening panels will decide an average of 340 motions and dispose of an average of 140 appeals on the merits. The committee is considering other approaches to increasing productivity, including (1) in-

creased "batching" of cases with the same issues or involving the same statute before the same argument panel for quicker dispositions; and (2) designating "lead cases" in which the panel decision would affect a whole series of following cases with a common issue. The court is expected to experiment with these and other combinations of proposals to see if it can continue to make productivity gains without additional resources.

#### En Banc Process

The Ninth Circuit believes its unique limited *en banc* process is an efficient and effective use of scarce institutional resources that operates in a manner that respects the needs and interests of each judge to have a role in the process of declaring circuit law. After a three-judge panel has issued its opinion in a case, any judge on the court, including a senior judge, may call for a rehearing *en banc* and write memos in support of the call. This results in an insightful exchange where every active and senior member of the court is able to express a view on the call and on the underlying substantive legal issues in the case. At the end of this exchange, all of the active judges on the court vote on whether to take the case *en banc*. If a majority is not attained, it represents a decision of the full court that the panel opinion should stand. By tradition and understanding in the Ninth Circuit, limited *en banc* decisions are fully accepted by the court as being the final decision of the court as a whole. Since 1980 when Congress authorized the court to employ the limited *en banc* process, there have been more than 170 limited *en banc* decisions, one third of which were unanimous and three quarters of which were rendered by a majority of 8 to 3 or greater. This is a strong indication that a full-court *en banc* would have reached the same decision.

The Evaluation Committee recognized that some observers perceive that the *en banc* decision may not reflect the views of all of the judges because not all of the active judges actually sit on the *en banc* court. While statistical study has shown that the 11-judge court does fairly represent the court as a whole, the court is as concerned with perception as with reality, and the committee has recommended an increase in the size of the *en banc* court.

Some observers, including the United States Department of Justice and the Circuit Justice, have suggested that the court take more cases *en banc* each year. Both of these suggestions — relating to the size of the *en banc* court and the vote required to go *en banc*, along with the requirement of geographical representation on all panels mentioned above — are the subject of proposed legislation by Senator Dianne Feinstein. The court has voted to endorse Senator Feinstein's bill as a reasoned, responsible alternative to the radical restructuring proposed by S. 253, The Federal Ninth Circuit Reorganization Act of 1999. Anticipating that the number of *en bancs* will increase as a result of changes to the process, the court has adopted a new procedure, on an experimental basis, for the *en banc* court to sit quarterly throughout the year to keep pace with the additional hearings required.

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In addition, the court last summer discussed and referred to its Advisory Rules Committee the subject of citation to unpublished memorandum decisions. This is a sampling of the many issues explored and decisions made by the Evaluation Committee as the court seeks to fashion appropriate responses to perceived concerns about its operations. These and other proposals are developed by the committee and then are periodically taken to the full court for further consideration and possible approval and implementation. The process is an ongoing one and reflects the Ninth Circuit's continuing commitment and willingness to re-evaluate itself and to further the process of experimentation and innovation that will lead to even greater efficiency and effectiveness in the years to come.

*The Hon. Procter Hug, Jr., is Chief Judge of the United States Court of Appeals for the Ninth Circuit. He wishes to thank Mark Mendenhall, former Assistant Circuit Executive, for his assistance in the preparation of this article.*



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### *Trade Dress Design Issue*

inctive" without a showing of secondary meaning. Garment manufacturer Samara Brothers maintained that all unique trade dress, including unique product designs, should be considered inherently distinctive. The Supreme Court unanimously sided with Wal-Mart, holding that a product's *design* is distinctive, and therefore protectible as trade dress, only upon a showing of acquired or "secondary" meaning. *Wal-Mart Stores, Inc. v. Samara Brothers, Inc.*, 120 S.Ct. 1339 (March 22, 2000).

The good news for retailers and manufacturers is that, by directly confronting the differences between the "distinctiveness" of product design and other types of trade dress, the *Wal-Mart* case promises a measure of certainty in the often unpredictable landscape of trademark law. The bad news, however, is that the same "bright line" that promises predictability for product design cases may simply shift litigation to other issues, like whether a particular trade dress constitutes design or packaging, or whether a particular product design has acquired distinctiveness or "secondary" meaning.

From a practical perspective, the most significant impact of the *Wal-Mart* decision may fall outside of the trademark context entirely. By raising the bar for trade dress claims, the decision likely will lead to a increased number of companies hedging their bets with other intellectual property law alternatives, like copyrights and design patents, to protect their most valuable product designs.

#### Trade Dress Distinctiveness

Traditional trademark disputes center on the use of words or logos to identify a product or service. "Trade dress" disputes, in contrast, arise when a producer or

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## *California's Anti-SLAPP Remedy Protects Rights*

**Y**our new client sits nervously in your office. Originally she was concerned about a new shopping center that Mammon Corporation, the big developer, planned to build in her neighborhood. She went to a zoning board meeting and spoke out against it. She joined a local citizens' group working for a development moratorium in the city council and helped raise money for them. She helped distribute leaflets saying that the project would damage the residential character of the area. And then Mammon sued her, personally, as well as the citizens' group and 100 Doe defendants, for a million dollars *each* for defamation, interference with prospective advantage, and trade libel. Now your client is concerned not about the shopping center, but about how she can protect herself from Mammon, with its comparatively limitless resources, and what this will cost her in legal fees.

It is clear that your client's activity was protected under the state and federal constitutions, which protect not only free speech but the right to petition for redress of grievances. She was petitioning the zoning board and the city council, so her conduct is constitutionally privileged. Her activity was also privileged under Civil Code § 47, which protects utterances in the course of official proceedings. But she is still facing a huge lawsuit by a rich corporation, and just the cost of resisting discovery would probably bankrupt her.

Mammon's maneuver is a classic SLAPP suit — the word is an acronym for "strategic lawsuit against public participation." A SLAPP filer typically does not care if it loses the case — its purpose is not to win, but to intimidate and to distract. It seems as if both goals may have been accomplished. Your client is afraid to continue opposing the project, and her energies have been refocused from the public issue of the shopping center to the private question of her own defense. The citizens' group is probably similarly distracted, and its resources diverted into resisting this action. Anyone not yet involved in the fight against the shopping center will hesitate before volunteering to become a Doe defendant and having to defend a million-dollar lawsuit against Mammon. And the whole exercise is tax-deductible for Mammon (although not for your client).

In 1992, after several attempts, then-Senator (now Attorney General) Bill Lockyer finally succeeded in enacting a remedy for this abuse of the judicial process. His bill, which became Code of Civil Procedure § 425.16, provided that when a cause of action arose "from an act in furtherance" of the constitutional rights of petition or free



**Jerome I. Braun**

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### California's Anti-SLAPP Remedy

speech in connection with a public issue, the SLAPP target could bring a special motion to strike the cause of action. The SLAPP filer could defeat the motion if it could show a probability of prevailing on its claim, but no such showing would be likely where (as in your client's case) the activity complained of was clearly protected and privileged. The motion to strike would be heard and decided before an answer was required in the underlying action, and would automatically stay discovery. This means your client (if she wins the motion) will not need costly pleadings or discovery defense. And best of all, she can recover your fees from Mammon.

The California anti-SLAPP law thus diminishes the advantage to be gained by slapping an opponent. Instead of enmeshing the target in expensive litigation, the tables are turned — the filer rather than the target is on the defensive, and can be out of court (and out of pocket) very quickly, on a simple motion, usually decided (as your client's would be) as a matter of law. As recognized by the first appellate court to hear a case under the statute, an effective anti-SLAPP remedy must provide for a "fast and inexpensive unmasking and dismissal of SLAPPS." *Wilcox v. Superior Court*, 27 Cal.App. 4th 809, 823 (1994).

The anti-SLAPP law has been used very successfully in a significant number of California cases. No one knows just how many there have been (or how successful the law has been in deterring SLAPP filings), because on the surface SLAPP suits look like ordinary tort actions and it is hard to separate them out for analysis. That should change soon — a 1999 amendment requires any party filing or opposing an anti-SLAPP motion to send the Judicial Council (for statistical purposes) a copy of the caption page, and any related order, petition or appeal. See CCP § 425.16(k)(1). But a review of the published appellate decisions under the statute show the target prevailing in about 80% of the cases. And many of those going the other way were disapproved by the Supreme Court in *Briggs v. Eden Council for Hope and Opportunity*, 19 Cal. 4th 1106 (1999), its only decision so far interpreting the statute.

The scope of protection is wide. Section 425.16(e) states that

As used in this section, "act in furtherance of a person's right of petition or free speech under the United States or California Constitution in connection with a public issue" includes: (1) any written or oral statement or writing made before a legislative, executive, or judicial proceeding, or any other official proceeding authorized by law; (2) any written or oral statement or writing made in connection with an issue under consideration or review by a legislative, executive, or judicial body, or any other official proceeding authorized by law; (3) any written or oral statement or writing made in a place open to the public or a public forum in connection with an issue of public interest; (4) or any other conduct in furtherance of the exercise of the constitutional right of petition or the constitutional right of free speech in connection with a public issue or an issue of public interest.

It is thus clear from the language, and clearer now that the Supreme Court has spoken to this issue in *Briggs*, that statements made in or in connection with an official pro-

ceeding do not need to relate to "public" issues in order to be protected against SLAPP suits, that public statements on public issues do not need an official connection, and that acts in aid of the rights of speech and petition (such as your client's raising money for her group) are just as protected as are the rights themselves.

The anti-SLAPP remedy is not only useful for citizen activists. It also protects newspapers reporting on issues before government agencies, see *Lafayette Morehouse, Inc. v. Chronicle Publishing Co.*, 37 Cal.App. 4th 855 (1995). It protects statements made in campaigns for office, see *Matson v. Dvorak*, 40 Cal.App. 4th 539 (1995) (public office), *Beilenson v. Superior Court*, 44 Cal.App. 4th 944 (1996) (same); *Macias v. Hartwell*, 55 Cal.App. 4th 669 (1997) (union office). It even protects speech by government officials, see *Bradbury v. Superior Court*, 49 Cal.App. 4th 1108 (1996) (district attorney); *Ingram v. Flippo*, 74 Cal.App. 4th 1280 (1999) (same). And like the litigation privilege, it protects communications preliminary to an actual proceeding, see *Dove Audio, Inc. v. Rosenfeld, Meyer & Susman*, 47 Cal.App. 4th 777 (1996), and in support of it, see *Wilcox v. Superior Court*, 27 Cal.App. 4th 809 (1994).

The anti-SLAPP remedy has been successfully invoked in many diverse circumstances. Examples include:

- a professor sued for criticizing a consultant's report which recommended building a strip mall on an archaeological site, see *Dixon v. Superior Court*, 30 Cal.App. 4th 733 (1994);
- a former church member who sued his former church, won, and then became the target of a retaliatory lawsuit, see *Church of Scientology v. Wollersheim*, 42 Cal.App. 4th 628 (1996);
- an employee who asked her employer not to include a certain charity on its Christmas giving list, see *Averill v. Superior Court*, 42 Cal.App. 4th 1170 (1996);
- a newspaper sued for an article stating that a political consultant who had developed statewide campaigns on morality and domestic violence issues had himself been accused of spousal abuse, see *Sipple v. Foundation for National Progress*, 71 Cal.App. 4th 226 (1999);
- a non-profit organization which helped tenants file complaints in HUD and small claims proceedings, see *Briggs v. Eden Council for Hope and Opportunity*, 19 Cal. 4th 1106 (1999); and even
- the heirs of Audrey Hepburn, sued for contacting other celebrities to confirm their support for an action for misapplication of royalties, see *Dove Audio, Inc. v. Rosenfeld, Meyer & Susman*, 47 Cal.App. 4th 777 (1996).

Section 425.16 has been amended three times in its short history — the most important amendment, in 1997, required the statute to be broadly construed. In 1999 CCP § 904.1(13) was added to make denial of a special motion to strike directly appealable, so it is no longer necessary to seek interlocutory review by writ. Improvement is still possible — for example, if a target could raise a claim of malicious prosecution as a cross-action rather than having to bring a subsequent separate action, cynical filers would face the possibility of a real penalty for abus-

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ing the judicial process rather than merely lose the benefits of abuse.

Nevertheless, California's anti-SLAPP statute is the strongest in the country. Fewer than a dozen states have any anti-SLAPP remedies at all, and none match the scope and protections available to California litigants. One important question — the applicability of § 425.16 in federal court — is still being resolved. In *United States ex rel. Newsbham v. Lockheed Missiles & Space Co.*, 171 F.3d 1208 (9th Cir. 1999), the Ninth Circuit held that under the *Erie* doctrine the special motion to strike (and the attorney fee provision) could be used in federal court, as long as there was no "collision" with the Federal Rules. At this writing in Spring 2000 the district courts have applied *Newsbham* with mixed effect. For example, in *Globetrotter Software, Inc. v. Elan Computer Group, Inc.*, 63 F.Supp. 2d 1127 (N.D. Cal. 1999), the court held that § 425.16 could be used for pendent claims but not for federal question claims. And in *Rogers v. Home Shopping Network, Inc.*, 57 F.Supp. 2d 973 (C.D. Cal. 1999), Judge Dean Pregerson held (in a thoughtfully reasoned decision) that applying § 425.16 to require defendant to meet a motion to strike before discovery conflicted with F.R. Civ. P. 56 (governing summary judgment). Although § 425.16(g) allows a judge, "for good cause shown," to permit specified discovery notwithstanding the automatic stay, the court held this procedure conflicted with that of Rule 56. Judge Pregerson also set out some guidelines *obiter dictum*, stating that a motion to strike based on insufficiencies in the complaint or failure of proof would be treated as a motion to dismiss under F.R. Civ. P. 12(b)(6) (although the attorney fee provisions would still apply), 57 F.Supp. 2d at 983, but that under *Newsbham* a § 425.16 motion might lie if based on a legal issue alone, *id.* at 980. This is an important qualification, as many anti-SLAPP motions turn not on disputed facts but on strictly legal questions under constitutional provisions and immunity statutes. Until the application of § 425.16 is more clearly defined by the Ninth Circuit, the *Rogers* case will be required reading for counsel considering an anti-SLAPP motion in federal court.

The availability of the anti-SLAPP remedy is perhaps not as well known as it should be — see *Pinnacle Holdings, Inc. v. Simon*, 31 Cal. App. 4th 1430, 1437 (1995) ("had respondents utilized the procedure set out in Code of Civil Procedure section 425.16, the court might well have granted the motion"). Counsel would do well to consider invoking § 425.16 whenever a complaint (or even a threat of litigation) against a client seems grounded on the client's participation in any aspect of the governmental process, whether executive, legislative, judicial or administrative, or on a comment on an issue "of public interest," or on any activity "in furtherance" of protected conduct. This is so no matter what causes of action are alleged — there is no need to prepare substantive defenses if the action complained of is privileged. Judicious use of § 425.16 can protect targets while at the same time helping hold filers to acceptable standards of ethical practice.

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## Defeating the Malicious Prosecution Claim

It has been said that the lawyer's best friend is a client with a grudge and a healthy bank account. But what if the angry party with the war chest is the defendant who just prevailed against your client, and now intends to exact revenge through a malicious prosecution suit? Or what if your client is the prevailing defendant, and now wants you to recover its legal fees and more by suing the unsuccessful plaintiff? Disgruntled litigants are increasingly fighting back against claims they regard as frivolous, but malicious prosecution remains a disfavored cause of action in California and a difficult claim to prove. Knowing the hurdles a party must surmount in order to prevail may provide early leverage to defeat a malicious prosecution claim, or to discourage its filing in the first place.

### Establishing a Lack of Probable Cause

To establish a cause of action for malicious prosecution, a plaintiff must prove that (1) the prior action was commenced by or at the direction of the defendant, and was pursued to a legal termination in his favor, (2) was brought without probable cause, and (3) was initiated with malice. *Sheldon Appel Co. v. Albert & Oliker* (1989) 47 Cal.3d 863, 871; *Robbins v. Blecher* (1997) 52 Cal.App.4th 886, 892-893. The malicious prosecution tort has long been recognized as having a chilling effect on ordinary citizens' willingness to bring a dispute to court, and therefore, is a disfavored cause of action. *Sheldon Appel Co., supra* at 872; *Kendall-Jackson Winery, Ltd. v. Superior Court* (1999) 76 Cal.App.4th 970, modified, \_\_\_ Cal.App.4th \_\_\_, 2000 Daily Journal D.A.R. 138. The elements of the tort have been carefully circumscribed so that litigants with potentially valid claims will not be deterred from bringing their claims to court. *Sheldon Appel Co., supra*. To further avoid improperly deterring individuals from resorting to the courts, the key issue — the existence or absence of probable cause — is a question of law for a court to decide. *Id.* at 875.

Probable cause is not the same as legal cause. If it were, every plaintiff who loses a case would be liable in a subsequent action for malicious prosecution. *Lucchesi v. Gianni Uniack* (1984) 158 Cal.App.3d 777, 785. Similarly, an attorney is not an insurer that his client will prevail in the litigation. His only duty is to avoid prosecuting untenable claims. *Williams v. Coombs* (1986) 179 Cal.App.3d 626, 640. Put another way, it is not "true charges" that the law seeks to ensure, but merely "legally tenable" claims.



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## Defeating the Malicious Prosecution Claim

Proof of favorable termination does not create a conflict of interest on the issue of probable cause, nor does proof of the element of malice. *Nicholson v. Lucas* (1994) 21 Cal.App.4th 1657, 1665; *Leonardini v. Shell Oil Co.* (1989) 216 Cal.App.3d 547, 567, cert. denied, 498 U.S. 919 (1990).

The Supreme Court in *Sheldon Appel Co.* defined the test for probable cause:

"[T]he probable cause element calls on the trial court to make an objective determination of the 'reasonableness' of the defendant's conduct, i.e., to determine whether, on the basis of the facts known to the defendant, the institution of the prior action was legally tenable. The resolution of that question of law calls for the application of an objective standard to the facts on which the defendant acted."

*Id.* at 878. If the facts upon which the defendant acted in bringing the prior action are in dispute, they must be decided by a jury before the court can determine the issue of probable cause. *Ball v. Rawles* (1892) 93 Cal. 222, 227, quoted by *Sheldon Appel Co.*, *supra*, at 877. However, the only relevant factual issue is which facts were known to the defendant when he filed the prior action, not whether they were true or their particular significance. Thus, "[w]hen there are no disputed questions of fact about [the defendant's] preparation and knowledge prior to the institution of the proceeding giving rise to the malicious prosecution claim," the probable cause issue is properly determined by the trial court. *Nicholson v. Lucas*, *supra*, at 1665. If the trial court determines that the prior action was objectively reasonable, the plaintiff has failed to meet the threshold requirement of demonstrating an absence of probable cause and the defendant is entitled to prevail. *Sheldon Appel Co.*, *supra*, at 878.

In defining the nature of probable cause, the *Sheldon Appel Court* rejected the suggestion in *Williams v. Coombs* that probable cause be measured by "whether a prudent attorney, after such investigation of the facts and research of the law as the circumstances reasonably warrant, would have considered the action to be tenable on the theory advanced." *Id.* at 885. Instead, it adopted a more liberal test from *In re Marriage of Flaberty* (1982) 31 Cal.3d 367, 350, in which the Supreme Court had held that an appeal would be found frivolous only if "any reasonable attorney would agree that the appeal is totally and completely without merit." The Court explained: "[W]e believe that the less stringent *Flaberty* standard more appropriately reflects the important public policy of avoiding the chilling of novel or debatable legal claims." *Id.* Therefore, it modified the *Flaberty* standard and announced the new test for probable cause in malicious prosecution cases: "whether any reasonable attorney would have thought the claim tenable." *Id.* at 886. In other words, to establish that the underlying lawsuit was instituted without probable cause, the plaintiff in the malicious prosecution suit must prove that based on the facts known to the lawyers when they filed the lawsuit, no rea-

sonable attorney would have thought that the claims in the action were tenable. *Sheldon Appel Co.*, *supra*; *Copenbarger v. International Ins. Co.* (1996) 46 Cal.App.4th 961, 964.

The traditional rule that the existence of probable cause is judged solely on the basis of the facts known to the malicious prosecution defendant when it filed the prior lawsuit was rejected in *Hufstедler; Kaus & Ettinger v. Superior Court* (1996) 42 Cal.App.4th 55, 65. In *Hufstедler*, the Court of Appeal considered evidence of the malicious prosecution plaintiff's actions learned during the course of discovery in the underlying lawsuit, and the fact that all of his motions had been denied by the prior court, to reach its conclusion that the attorneys had probable cause to prosecute the suit. The court explained:

"[W]here, as here, the record in the underlying action was fully developed, a court can and should decide the question of probable cause by reference to the undisputed facts contained in that record, and where, as here, undisputed evidence establishes an objectively reasonable basis for instituting the underlying action, a 'dispute' about what the attorney knew or did not know at the time she filed the underlying action is irrelevant."

*Id.* at 62. Despite approving language in *dictum* in other cases, see, e.g., *Downey Venture v. LMI Ins. Co.* (1998) 66 Cal.App.4th 478, 497-498, the *Hufstедler* holding remains controversial. It was criticized by some commentators, and the Fifth District Court of Appeal expressly modified a recent opinion to delete a statement that the objective evaluation of legal tenability could be based on "subsequent events in the litigation." *Kendall-Jackson Winery, Ltd. v. Superior Court*, *supra*.

The *Hufstедler* holding received a boost in another recent decision by the Second District Court of Appeal which suggested that evidence discovered after the underlying action was filed may furnish a defense to a subsequent malicious prosecution lawsuit. In *Roberts v. Sentry Life Insurance* (1999) 76 Cal.App.4th 375, 383, the court held that the denial of a motion for summary judgment in the prior action "normally establishes there was probable cause to sue, thus barring a later malicious prosecution suit." Denial of summary judgment is a reliable indicator of probable cause, the court reasoned, because summary judgment motions usually are heard only after full discovery develops the evidence relevant to the claim, and the judge denying the motion is impartial and "thus, likely will agree with some hypothetical 'reasonable lawyers.'" *Id.* at 383-384. Thus, without acknowledging the controversial implications of its conclusion, the court assumed that evidence developed during discovery is relevant and admissible in determining the existence of probable cause at the time the plaintiff filed the suit. It also assumed that the trial court's denial of summary judgment indicates probable cause to sue, a dubious assumption given the myriad reasons such motions may be denied, and ignored that even an impartial trial judge may be reversed on a writ by the court of appeal. The decision is perhaps more reliable as a gauge of some

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BARRY P. GOODE

## On ENVIRONMENTAL LAW

"The Congress shall have power to...regulate Commerce...among the several States"

As an environmental lawyer, you are, of course, intimately familiar with the Supreme Court's treatment of the Commerce Clause over the past two hundred years. You recall the path from *Gibbons v. Ogden* to *E.C. Knight* and *Schechter Poultry*, the turn it took in *N.L.R.B. v. Jones & Laughlin Steel* and how it led to cases such as *Wickard* and *Heart of Atlanta Motel*.

You don't? Well it's time to fire up those old brain traces. For while you were focused on environmental law, the Rehnquist Court grew attentive to the Commerce Clause. Now it has granted certiorari in an environmental case that questions the limits of the federal government's Commerce Clause powers.

The case involves the extent to which Congress may regulate an *intrastate* activity because it affects *interstate* commerce. As the Chief Justice explained in *United States v. Lopez*, 514 U.S. 549 (1995), the Supreme Court has taken different approaches to this question. At times, in the nineteenth century, the Court simply held certain types of intrastate activity — such as "manufacturing," and "mining" — to be outside the scope of the Commerce Clause power. (It upheld laws regulating interstate commerce if they caused only "incidental regulation" of intrastate commerce.) In the first part of the twentieth century, the Court examined whether an intrastate transaction had a "direct" or "indirect" effect on interstate commerce, allowing Congressional regulation of the former but not the latter.

In the famous "switch in time that saved nine," the Court permitted Congressional regulation of intrastate activities that "have such a close and substantial relation to interstate commerce that their control is essential or appropriate to protect that commerce from burdens and obstructions." *NLRB v. Jones & Laughlin Steel Corp.*, 301 U.S. 1, 37 (1937). In the years that followed, that test was phrased in different ways in different cases.

In *Lopez* a majority of the Court undertook to settle at least one issue raised by the post-*NLRB* cases. It held that an intrastate activity must "substantially affect" (not merely "affect") interstate commerce, if Congress is to have power to regulate it. *Lopez* also discussed whether the intrastate activity must be commercial in nature if its substantial effect on interstate commerce is to be subject to federal regulation.

A couple of months ago, the Court addressed that issue too. In *United States v. Morrison*, 120 S.Ct. 1740 (May 15, 2000) the Court stated: "[I]n those cases where we have

sustained federal regulation of intrastate activity based upon the activity's substantial effects on interstate commerce, the activity in question has been some sort of economic endeavor."

That leaves a third piece: Often, the impact of the intrastate activity would not be felt but for the aggregate impact of many intrastate actors. So, you may recall, in *Wickard v. Filburn*, Congress could regulate the amount of wheat a single farmer grew for home use, because the aggregate production of all farmers (each engaged only in intrastate activity) had a significant effect on the nationwide price of wheat.

Which brings us to the environmental law. For fifteen years, the Corps of Engineers and EPA have asserted federal jurisdiction over wetlands "the use, degradation or destruction of which could affect interstate...commerce." 33 C.F.R. § 328.3(a)(3), 40 C.F.R. § 122.2 ("would affect or could affect"). Similarly, under the so-called "migratory bird rule," those agencies have exercised jurisdiction over waters "which are or would be used as habitat by migratory birds which cross state lines." 51 Fed. Reg. 41217, 53 Fed. Reg. 20763. The "aggregate affect" of many individual intrastate activities is sometimes cited to justify this assertion of jurisdiction.

Justice Thomas observed the tension between these environmental laws test and *Lopez* when he dissented from the denial of certiorari in *Cargill v. United States*, 516 U.S. 955 (1995). There, the Corps based its jurisdiction on the migratory bird rule, which Justice Thomas found "even more farfetched than th[e] jurisdictional basis" offered and rejected in *Lopez*. *Id.* at 958.

Since then, one Court of Appeals has held the Corps' jurisdictional test invalid. *United States v. Wilson*, 133 F.3d 251 (4th Cir. 1997). The Seventh Circuit has taken the opposite view, finding the aggregate result of filling wetlands "substantially affects" interstate commerce. *Solid Waste Agency of Northern Cook County v. U.S. Army Corps of Engineers*, 191 F.3d 845 (7th Cir. 1999) ("SWANCC").

But just days after handing down *Morrison*, the Supreme Court granted certiorari in *SWANCC*. So now, the Court will determine whether the rules under which the Corps has regulated wetlands are constitutional. It seems likely to explore the extent to which "aggregate effects" can provide the basis of federal jurisdiction. Whether this will have broader ramifications remains to be seen.

Thus, the Commerce Clause comes to our environmental practice. Maybe the law really is a seamless web, for the vibrations from other strands are about to be felt in our little corner of the gossamer.



Barry P. Goode

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### Trade Dress Design Issue

manufacturer seeks to protect the *appearance or design* of their products.

To prevail on either a trademark or trade dress claim, a plaintiff must demonstrate three basic elements: (1) distinctiveness, (2) nonfunctionality, and (3) likelihood of consumer confusion. *Kendall-Jackson Winery, Ltd v. E & J Gallo Winery*, 150 F3d 1042, 1046 (9th Cir. 1998). The first element — distinctiveness — can be established either by showing that a mark or dress is “inherently distinctive” or by demonstrating that the mark or dress has acquired distinctiveness (also referred to as “secondary meaning”) by use in the market.

Classic trademark cases are analyzed for distinctiveness using the framework articulated by Judge Friendly in *Abercombie & Fitch Co. v. Hunting World*, 537 F2d 4 (2d Cir. 1976), which categorized marks as (1) generic, (2) descriptive, (3) suggestive, or (4) arbitrary or fanciful. Words having a generic meaning receive no trademark protection. Descriptive terms, which describe the attributes of a product, receive protection only if they have acquired “secondary meaning” by use in the market. “Suggestive” terms are words that require imagination to reach a conclusion regarding the nature of the underlying product. Suggestive marks, as well as arbitrary and fanciful marks, are considered “inherently distinctive” and are entitled to protection without proof of secondary meaning.

Courts generally have had little difficulty applying this analysis to trade dress disputes that involve packaging—where the claimed “trade dress” is separate from the underlying product. For example, dog food packaging resembling a skyscraper would be considered arbitrary or fanciful—both because of the uniqueness of the packaging and the lack of nexus between the packaging and the product. In contrast, packaging frozen waffles in a box the shape and color of a waffle would be a descriptive trade dress, protectible only with proof of secondary meaning.

Transplanting the traditional distinctiveness analysis to product *designs* has proven much more difficult. Unlike packaging cases, in product design actions the claimed trade dress consists of features of the product itself. As a result, it is difficult to translate the framework articulated in *Abercombie*. Asking whether the shape of a particular chair “describes” a chair, for example, seems nonsensical.

More importantly, the *Abercombie* trademark categories do not necessarily serve to identify the types of design that deserve protection under traditional trademark policy. For example, although a blouse festooned with butterflies and brightly-colored flowers might be “fanciful” under a dictionary definition, the design alone may convey no source-identifying message to the consumer. In contrast, a very simple design (think Rolex watch) may trigger immediate brand recognition — albeit a recognition that generally reflects acquired (rather than inherent) distinctiveness.

#### The Impact of the Wal-Mart Decision

In *Wal-Mart*, the Supreme Court confronted the differ-

ence between the “distinctiveness” of product design and other types of trade dress, and resolved the difference by looking to the underlying policy of trademark law: consumer protection.

Consumers should not be deprived of the benefits of competition with regard to the utilitarian and esthetic purposes that product design ordinarily serves by a rule of law that facilitates plausible threats of suit against new entrants based upon alleged inherent distinctiveness.

120 S.Ct. at 1343. Following this reasoning, the Court established a bright line rule that product design (in contrast to product packaging) will be found distinctive, and thus protectible under the Lanham Act, *only* upon a showing of secondary meaning.

Although the bright line rule announced in *Wal-Mart* promises some measure of certainty in “true” product design cases, it may shift litigation to other potentially significant trade dress issues.

First, in cases falling at the margin, the *Wal-Mart* decision may spawn additional argument over whether the claimed trade dress actually constitutes “product packaging” capable of being inherently distinctive, or “product design” requiring a showing of secondary meaning. The decision erects a presumption to minimize skirmishes over this issue, instructing lower courts to “err on the side of caution and classify ambiguous trade dress as product design, thereby requiring secondary meaning.” *Id.* at 1345. Despite this presumption, however, by excepting trade dress “akin to packaging” from its announced holding, the *Wal-Mart* decision opens the door to certain important cases — the design of restaurants, web sites, and retail stores, for example — falling on the “product packaging” side of the trade dress line.

The second issue left unanswered by the decision in *Wal-Mart* may prove more difficult in the long run: What evidence establishes secondary meaning in the product design context?

Litigation over the issue of secondary meaning, traditionally a jury question, may well nullify any gains made by *Wal-Mart*’s bright line rule on inherent distinctiveness. Secondary meaning is difficult to prove because “no precise guidelines are applicable and...each case must, therefore, be decided on its facts.” *American Footwear Corp. v. General Footwear Co.*, 609 F2d 655, 663 (2d Cir. 1979). As such, issues formerly raised in the context of inherent distinctiveness may resurface under the guise of determining secondary meaning. For example, one test for inherent distinctiveness applied by a number of courts prior to *Wal-Mart* considered whether the claimed trade dress

was a common basic shape or design, whether it was unique or unusual in a particular field, and whether it was a mere refinement of a commonly-adopted and well-known form of ornamentation for a particular class of goods viewed by the public as a dress or ornamentation for the goods.

*Seabrook Foods, Inc. v. Bar-Well Foods, Ltd.*, 568 F2d 1342 (Ct. Cl. 1977). Similar factors might be found relevant in determining whether a particular product design has acquired meaning in the eyes of consumers after only a short period of time in the market, for example, or despite use on only a single product in a line of goods.

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CHARLES R. RICE

## On SECURITIES

**T**he SEC has complained to the *Wall Street Journal* that a recent local decision is a "blow to the government effort" to enforce the insider trading laws in Silicon Valley. See *SEC v. Truong*, 2000 U.S. Dist. LEXIS 6505 (N.D. Cal. April 12, 2000). Unfortunately, that analysis will become a self-fulfilling prophecy if the SEC does not learn the right lessons from the *Truong* decision. (In the interests of full disclosure, I should mention that my colleague Jahan Raissi was one of the successful defense lawyers.)

### Suspicious Trading

The SEC had sued Hanh Truong, a software manager at Molecular Dynamics, Inc. ("MDI"), two of his brothers, and several friends for allegedly using material, nonpublic information to sell (and short-sell) MDI stock just before a negative quarterly announcement. According to the SEC, the volume, timing, and success of defendants' stock trading indicated that they had used inside information. Even though Truong was not a senior manager and all of the senior MDI managers who had known the bad news denied telling him, the SEC claimed that Truong had had access to inside information because of MDI's open cubicle environment.

Judge Spencer Williams granted partial summary judgment to defendants, finding no evidence that they had possessed, much less used, any particular inside information before certain trades. Judge Williams relied on the Ninth Circuit's holding in *U.S. v. Smith*, 155 F.3d 1051 (9th Cir. 1998), that the government must prove that the defendant "used the inside information in formulating or consummating" the stock trades. *Id.* at 1070 n. 28 (emphasis added). See Friese and Chan, "The Evolving Insider Trading Debate," *ABTL Report* (March 1999).

Judge Williams rejected the central premise of the SEC's case: that suspicious trading, by itself, could warrant an inference that the defendant must have illegally used inside information. *Truong* at \*31. Allowing a jury to draw such an inference from suspicious trading alone, the court reasoned, "would relieve the SEC of its burden to identify the [inside] information, prove its materiality and prove possession and use" by the defendants. *Id.* Nor could the SEC prove possession and use by showing "access" to inside information from "the mere open-cubicle environment" of MDI. *Id.* at \*35. Otherwise, the court reasoned, "virtually everyone in Silicon Valley...who has merely normal professional relationships with senior management must be considered to have access to confi-

dential information for insider trading purposes." *Id.*

### Trading Your Own Company

It may seem fishy to sell all of your own company's stock, especially just before a drop in the market. Unlike Pete Rose betting against his own baseball team, however, an employee must be permitted, just like any other shareholder, to recognize that "what goes up may come down." The securities laws allow employees to bet for and against their own companies — as long as their bets are not based on material nonpublic information.

**E**mployees do not necessarily have an unfair advantage when trading their own stock. A mid-level employee is not really any better informed about what will affect the stock price than analysts and other traders. To the contrary, market professionals usually have greater access to material financial information than all but the most senior management. Employees may have a "feel" for what is happening, but that "feel" may not be very helpful in guessing the market's next move. It should not make an employee's trading illegal.

The SEC wants to be allowed to prove that an employee was using illegal insider information by simply showing that the trading was suspicious, in hindsight, because of its volume, timing, and success. Such a rule, however, would shift the burden to the employee to defend his trading without any proof that he had any particular information that was both material and nonpublic.

### Prosecutorial Discretion

The SEC has publicly defended its reliance on circumstantial evidence in the *Truong* case, but it should be reconsidering why the case was brought in the first place. The agency invested five years of effort on this matter, but never uncovered any evidence that defendants had any specific inside information. Unfortunately, institutional momentum apparently resulted in charges being brought even though there was no "smoking gun."

Despite the SEC's public comments, this case will not necessarily be a blow to its insider trading enforcement. The SEC must remember that no one wins when it accuses someone of fraud without enough evidence. Both the agency and the "vindicated" defendants lose time, money, and public stature. The agency will better serve the interests of justice and the investing public by electing not to prosecute marginal cases. Such discretion would strengthen, not weaken, the SEC's enforcement efforts as a whole.

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Charles R. Rice



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## Trade Dress Design Issue

Perhaps an even greater threat, however, is that *Wal-Mart* will make appellate courts more willing to modify the traditional evidentiary requirements for proving secondary meaning. Before *Wal-Mart*, courts generally held plaintiffs to a vigorous evidentiary standard so that secondary meaning in product configuration cases would "generally not be easy to establish." *Duraco Products, Inc. v. Joy Plastic Enterprises, Ltd.*, 40 F3d 1431, 1453 (3d Cir. 1994). In light of *Wal-Mart*, litigants likely will argue for modified measures of secondary meaning that are tailored more specifically to the product design context.

For product design, different secondary meaning considerations may be implicated depending on the industry and type of design. In the fashion industry, for example, a designer gown may gain secondary meaning based on a single wearing by a high-profile celebrity. In the furniture industry, in contrast, secondary meaning may be established by more traditional means, including years of consistent or repetitive design elements incorporated into an entire line of products, or advertising focusing on certain key product design features. Until appellate courts provide guidance on this issue, the uncertain contours of the secondary meaning inquiry may overshadow the predictability promised by *Wal-Mart*.

### Conclusion

The *Wal-Mart* decision brings a much needed degree of certainty to a small (but important) corner of the trademark world. Manufacturers and retailers defending against "true" product design trade dress infringement suits can be assured that, following *Wal-Mart*, the owner of the product design must demonstrate secondary meaning. The decision stops short, however, of resolving those cases that will inevitably fall at the margins between product design and product packaging. Perhaps even more troubling, *Wal-Mart* fails to establish limits on secondary meaning that will prevent frivolous or anticompetitive trade dress infringement claims from eluding summary judgment on the issue of distinctiveness.

The most significant effect of the *Wal-Mart* decision may be felt in intellectual property law areas other than trademark, however. By sharply curtailing the availability of trade dress protection, the *Wal-Mart* decision forces potential plaintiffs to pursue alternative avenues, such as copyrights and design patents, for protection of their product designs. As a result, the potential decrease in trade dress litigation stemming from the *Wal-Mart* decision may eventually be matched by a concomitant increase in copyright and patent infringement suits. In the wake of *Wal-Mart*, companies pursuing or defending against product design infringement claims should be prepared to litigate on multiple intellectual property law fronts.

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## Defeating the Malicious Prosecution Claim

courts' antipathy to malicious prosecution claims.

In *Kendall-Jackson Winery, supra*, the court of appeal suggested an alternative basis for considering evidence of the malicious prosecution plaintiff's alleged bad acts, even if they were not known to the defendant when it filed the underlying lawsuit. In doing so, it reminded observers that other defenses to the tort exist. The court held that the defendant in a malicious prosecution suit can plead the unclean hands of the plaintiff as an affirmative defense, and rejected a narrow interpretation of the doctrine:

"[A]ny evidence of plaintiff's unclean hands in relation to the transaction before the court or which affects the equitable relations between the litigants in the matter before the court should be available to enable the court to effect a fair result in the litigation. The equitable principles underlying the doctrine militate against limiting the unclean hands defense in a malicious prosecution claim to misconduct that bears on the defendant's decision to file the prior action."

*Id.* at 985. The court cited two malicious prosecution cases in which summary judgment had been granted based on an unclean hands defense. *DeRosa v. Transamerica Title Ins. Co.* (1989) 213 Cal.App.3d 1390, 1397; *Pond v. Insurance Co. of North America* (1984) 151 Cal.App.3d 280, 286, 290-291.

### Establishing Favorable Termination

To establish its cause of action for malicious prosecution, a plaintiff also must prove that the prior action was commenced by or at the direction of the defendant and was pursued to a legal termination in its, plaintiff's, favor. *Sheldon Appel Co., supra*. The Supreme Court observed that a "favorable termination" does not occur merely because the plaintiff has prevailed in the underlying action. *Lackner v. LaCroix* (1979) 25 Cal.3d 747, 751. The termination must be "inconsistent with wrongdoing" to constitute a favorable termination. *Jaffe v. Stone* (1941) 18 Cal.2d 146, 150, *quoted with approval, supra* at 751 n.2. The termination must reflect on the merits of the underlying action. *Id.* at 750; *Eells v. Rosenblum* (1995) 36 Cal.App.4th 1848, 1854.

The mere fact that the prior action was dismissed "with prejudice" does not satisfy the requirement in the absence of an actual consideration of the merits. *See, e.g., Zeavin v. Lee* (1982) 136 Cal.App.3d 766. Nor should the doctrine of *res judicata*, which is concerned solely with the need for finality, be confused with a favorable termination which must necessarily reflect on the malicious prosecution plaintiff's innocence. *Dalaney v. American Pacific Holding Corp.* (1996) 42 Cal.App.4th 822, 829. A termination by dismissal is favorable when it reflects the opinion of either the trial court or the prosecuting party that the action lacked merit or if pursued would result in a decision in favor of the defendant. The focus is not on the malicious prosecution plaintiff's opinion of its innocence, but on the opinion of the dismissing

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party. *Cantu v. Resolution Trust Corp.* (1992) 4 Cal.App. 4th 857, 881.

If the dismissal is on technical grounds or for procedural reasons, it does not constitute a favorable termination. *Lackner v. LaCroix, supra*. The Second District Court of Appeal explained: "The test is whether or not the termination tends to indicate the innocence of the defendant or simply involves technical, procedural or other reasons that are not inconsistent with the defendant's guilt." *Eells v. Rosenblum, supra*. A dismissal that does not unambiguously reflect the dismissing party's opinion that the case lacked merit is not a favorable termination. Thus, a "resolution of the underlying litigation that leaves some doubt as to the defendant's innocence or liability is not a favorable termination, and bars that party from bringing a malicious prosecution action against the underlying plaintiff." *Villa v. Cole* (1992) 4 Cal.App. 4th 1327, 1335 (emphasis in original).

Therefore, for example, there was no favorable termination of the prior lawsuit if it was dismissed based on the statute of limitations (*Lackner v. LaCroix, supra*) or the statute of frauds and parol evidence rule (*Hall v. Harker* (1999) 69 Cal.App.4th 836); was voluntarily dismissed as premature (*Eells v. Robinson, supra*); or was terminated as a result of negotiation, settlement, and agreement. *Dalaney v. American Pacific Holding Corp., supra*; *Webb v. Youman* (1967) 248 Cal.App.2d 851, 853. See also, *Coleman v. Gulf Ins. Group* (1986) 41 Cal.3d 782, 792 n.9; *Villa v. Cole, supra*. When the prior suit is dismissed pursuant to a settlement, it is irrelevant that the malicious prosecution plaintiff was not a signatory to the settlement agreement between the other parties. "The dismissal of a party who refuses to participate in a settlement concluded by other parties does not constitute a favorable termination for the nonsettling party." *Cantu v. Resolution Trust Corp., supra* at 883; accord, *Oprian v. Goldrich, Kest & Associates* (1990) 220 Cal.App.3d 337, 344; *Haight v. Handweiler* (1988) 191 Cal.App.3d 85, 89.

A dismissal to avoid the payment of further attorneys' fees is not on the merits, and simply reflects a practical decision that further litigation will be too expensive to pursue. *Oprian v. Goldrich, Kest & Associates, supra*, at 345. "It would be a sad day indeed if a litigant and his or her attorney could not dismiss an action to avoid further fees and costs, simply because they were fearful such a dismissal would result in a malicious prosecution action." *Id.* at 344. Furthermore, a change in the evidence that results in the voluntary dismissal of an untenable claim should not automatically give rise to a malicious prosecution suit. "[I]f the pleading originally advanced a tenable theory but subsequent research or discovery proves it to be untenable, the pleading should be amended to change or delete it." *Bertero v. National General Corp.* (1974) 13 Cal.3d 43, 57. No liability should attach where a party voluntarily drops a claim because the discovery of additional facts renders it untenable. Such amendment does not constitute a favorable termination, and a malicious prosecution claim based on such amendment is inconsistent with public policy. As the court noted in *Leonardini v. Shell Oil Co., supra*, at 571:

"[T]he law favors the early resolution of disputes, including voluntary dismissal of suits when the plaintiff becomes convinced he cannot prevail or otherwise chooses to forgo the action. This policy would be ill-served by a rule which would virtually compel the plaintiff to continue his litigation in order to place himself in the best posture for defense of a malicious prosecution action."

*Accord, Oprian v. Goldrich, Kest & Associates, supra.*

If a defendant seeks and obtains the dismissal of the prior lawsuit on a procedural ground, it is barred from bringing a subsequent malicious prosecution lawsuit. In *Warren v. Wasserman, Comden & Casselman* (1990) 220 Cal.App.3d 1297, the court held that the dismissal of the underlying lawsuit on statute of limitations grounds did not constitute a favorable termination that would support a malicious prosecution claim. *Id.* at 1304. The court rejected the malicious prosecution plaintiff's attempt to circumvent the procedural ground for the dismissal by alleging that the defendants had prosecuted the underlying action with the knowledge that the statute had run. Notwithstanding the allegation of wrongful subjective intent, the court refused to look behind the plain procedural grounds for the dismissal, and affirmed summary judgment for the defendant attorneys. It instructed:

"[I]f a litigant wants to pursue a malicious prosecution action under those circumstances, he must eschew the procedural defense, forego the easy termination, and obtain a favorable judgment on the merits."

*Id.* at 1303. Otherwise, the court explained, the policy reasons for requiring a favorable termination could be thwarted simply by alleging ulterior motives and wrongful intent on the part of the defendants. Thus, for example, if the plaintiff's actions in the prior suit reflect a lack of confidence in the merits, the defendant should unambiguously move to dismiss for failure to prosecute the action, a dismissal which is not on technical or procedural grounds. See, e.g., *Minasian v. Sapse* (1978) 80 Cal.App.3d 823, 827. If it fails to do this, a malicious prosecution suit is barred. *Warren v. Wasserman, Comden & Casselman, supra.*

The defendant in the prior lawsuit is limited to the terms of the order dismissing the action, and may not go behind the judgment or introduce evidence of prior conduct in the case to interpret the ruling. Thus, in *Freidberg v. Cox* (1987) 197 Cal.App.3d 381, 385, the Court of Appeal stated:

"The criterion...is the decree itself in that action. The court in the action for malicious prosecution will not make a separate investigation and retry each separate allegation without reference to the result of the previous suit as a whole."

The Supreme Court cited *Freidberg* approvingly in *Crowley v. Kattleman* (1994) 8 Cal.4th 666, and confirmed that whether a prior action terminated favorably would be determined from the face of the judgment. The Supreme Court approved *Freidberg's* refusal to permit the malicious prosecution plaintiff to go behind the judgment. *Id.* at 684-685.

#### Concessions By the Client

An attorney may be sued and held separately liable for malicious prosecution where there is no probable cause

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## Defeating the Malicious Prosecution Claim

and no tenable basis for pursuing the underlying action. *Westamco Investment Co. v. Lee* (1999) 69 Cal.App.4th 481. However, even if the plaintiff's actions cast doubt on the merits of the suit, such inference cannot be imputed to the plaintiff's lawyer. The client is not the agent of the attorney. When the underlying case is dismissed because of the client's conduct, that conduct will not be attributed to the lawyer for purposes of favorable termination. *Zeavin v. Lee, supra*, 136 Cal.App.3d at 772-73; *De La Pena v. Wolfe* (1986) 177 Cal.App.3d 481.

In *Zeavin*, a malicious prosecution lawsuit was brought against a lawyer who had sued two doctors for medical malpractice. The malpractice case was dismissed with prejudice after the underlying plaintiff refused to cooperate with her lawyer and refused to provide discovery. The malicious prosecution plaintiffs argued that the lawyer's client had abandoned her lawsuit because it lacked merit, and this constituted a favorable termination that would support their claim against the lawyer. However, the Second District Court of Appeal refused to attribute the client's implied concession to the attorney. *Id.* at 771-772. It distinguished the situation in *Minasian v. Sapse, supra*, where a malicious prosecution claim was permitted to proceed based on the malicious prosecution defendant's own failure to prosecute the underlying action. "That rule should not be extended to make every lawyer who files an action on behalf of a client the insurer of the client's adversary in that action." *Id.* at 772. The Second District refused to interpret the client's abandonment of the claim as a concession by the lawyer:

"While it may sometimes be proper to hold that a prior action was unfavorably terminated against a party solely because of her conduct in refusing to cooperate or make discovery or by reason of her unilateral abandonment of that action, the attorney is not the insurer of his client's conduct, and the law wisely places no burden on that party's attorney solely by reason of his client's conduct in that regard."

*Id.* at 773 (emphasis in original). It held there was no favorable termination which would support a malicious prosecution claim against the attorney. *Id.* In *De La Pena v. Wolfe, supra*, the Second District affirmed the *Zeavin* rule that the client is not the representative of the lawyer for purposes of favorable termination, and noted a further ground for its ruling: any concession by the client that the case lacked merit could not be binding on the attorney in that case because he had not represented the client when the abandonment occurred. *Id.* at 494-85.

### Proving an Improper Purpose

The third element of the malicious prosecution cause of action, malice, goes to the malicious prosecution defendant's intent in initiating the prior action. *Sheldon Appel, supra*, at 874. The test is legal malice, not actual hostility or ill will toward the plaintiff, although the latter also may be present. *Sierra Club Foundation v. Graham* (1999) 72

Cal.App.4th 1135, 1157.

Malice is present when proceedings are instituted primarily for an improper purpose. Evidence of an improper purpose include: "(1) the person initiating [the suit] does not believe that his claim may be held valid; (2) the proceedings are begun primarily because of hostility or ill will; (3) the proceedings are initiated solely for the purpose of depriving the person against whom they are initiated of a beneficial use of property; (4) the proceedings are initiated for the purpose of forcing a settlement which has no relation to the merits of the claim." *Albertson v. Raboff* (1956) 46 Cal.2d 375, 383. However, subjective intent cannot be inferred merely from an absence of probable cause. *Downey Venture v. LMI Ins. Co., supra*, at 498.

Since the malice element of the malicious prosecution cause of action is necessarily subjective, it affords fewer opportunities to dispose of the claim by motion. However, since the malicious prosecution plaintiff must establish all three elements to prove its case — probable cause, favorable termination, and malice — the party faced with the claim has ample opportunities to defeat it.

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