ASSOCIATION OF BUSINESS TRIAL LAWYERS
SAN DIEGO

abtl REPORT

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Meet the Magistrate: Judge Skomal

By Olga May, Esq.

Judge Bernard Skomal

Magistrate Judge Bernard Skomal comes from a background that is unusual on the federal bench – he is a former criminal defense lawyer with more than 25 years of experience. As a long-time trial lawyer with a busy downtown practice, Judge Skomal brings a no-nonsense attitude and a direct and practical perspective to his new job.

Judge Skomal first came to San Diego as a second-year law student, when he became a legal intern with the Federal Defenders of San Diego, Inc. During his first summer, he tried his hand at everything, including making court appearances. The bulk of the Federal Defenders' caseload was illegal immigration cases, and his fluency in written and spoken Spanish proved especially valuable to the office. Judge Skomal loved the job, and the feeling was mutual. He was offered the "Chief Legal Intern" position during his next school year and, after graduation, came on staff full-time. That often meant working nights and weekends. He stayed with Federal Defenders for six years, first as a trial attorney and then as a senior trial attorney. "The training and trial experience were rigorous, but worth it." He litigated a full spectrum of federal cases, including immigration, narcotics, drug kingpin, complex conspiracy, fraud, RICO, and tax offenses. Armed with this experience, he opened his own practice in an office space shared with two former

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It's Not Easy Going Green . . . But It Can Be Done Legally: How Employers Can Be Environmentally Conscious Without Getting Sued

By Michael S. Kalt, Esq.

Michael S. Kalt, Esq.

"Corporate social responsibility" (CSR) initiatives continue to increase in popularity as employers consider the social, ethical and environmental affects of their businesses. These initiatives have the potential to produce significant benefits, including protecting the environment, improving public opinion, reducing costs, and enhancing employee retention and recruitment. Indeed, as the lines between work and private

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Inside

President's Letter

By Mark C. Zebrowski, President ABTL San Diego

Mark Zebrowski

Thanks to all of you for the opportunity to serve as the President of the San Diego ABTL chapter and for supporting the chapter this year. I would like to address two topics.

First, another call for your vocal support of judicial independence in the election process. As reported by Adam Cohen in a November 10, 2010 *Time Magazine* article:

> It was one of the more striking results from last week's elections: three Iowa Supreme Court justices who joined last year's pro-gay-marriage ruling were voted out of office. Opponents of gay marriage celebrated, confident that a miscarriage of justice had been corrected at the ballot box, but they were wrong. The removal of these three judges — all highly respected jurists, appointed by both Republican and Democratic governors — should send a shiver down the spine of anyone who cares about the American system of justice.

According to Mr. Cohen, anti-gay-marriage activists in Iowa and across the country poured as much as $800,000 into the state to defeat the three Justices who were up for a retention vote.

An independent judiciary is vital to our profession, our clients and our system of government. Sitting judges are inherently vulnerable to election challenges by organized, well-funded individuals or groups with political agendas, and special interest groups are focusing their attention on taking control of the judiciary through the ballot box. Judicial election challenges raise concerns about the independence of sitting judges who may be tempted to consider the impact of a decision on their ability to retain their positions, as well as the independence of challengers who are supported by special interest groups with political agendas. Therefore, it is important that we as trial lawyers continue to speak out for judicial independence and support our judges in the election process as ABTL did in the last San Diego County elections.

Second, I ask that you please stay involved with ABTL and get others involved as well.

The emergence of computers and the Internet was expected to make us more efficient. Indeed it has. This increased efficiency should allow us more time to do the things we would love to do if we were not working. It appears that one of the things we most love to do when we are not working is to spend time on our computers and the Internet.

Computers and the Internet can help us learn, shop, bank, and keep in touch with others. However, can they really provide a "social network?" It wasn't too long ago that someone whose "social network" involved a computer was a "geek." Maybe even today, our social networking should at least include occasionally getting together with other people in one place in the real world, not the cyber world.

Can you watch a speech, a concert or a comedian on line by yourself? Of course. Is it the same as being there in person with other people? Of course not.

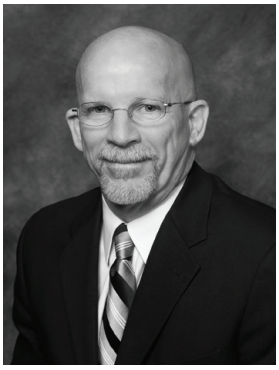
ABTL offers the bench and bar an opportunity to socialize, network, exchange ideas, develop relationships and learn together in person through dinner meetings, judicial brown bag lunches, leadership development committee programs, annual seminars and board and committee service. It offers the opportunity to hear interesting, topical presentations from outstanding speakers. And it provides the opportunity to engage with others face to face, not screen to screen.

Much is said about civility and mentoring in our profession. Both require personal relationships, not electronic relationships. So I urge you to attend and participate in ABTL programs and take advantage of the opportunity to disconnect from the Internet and connect with others in your professional community. It will be time well spent.

See you at future ABTL meetings. ▲

Reasonable Royalties under the California Uniform Trade Secrets Act - What Does "Provable" Mean Under Civil Code Section 3426.3(b)?

By James D. Crosby



James D. Crosby

California's Uniform Trade Secrets Act ("CUTSA"), Civil Code sections 3426 et. seq., provides exclusive remedies for misappropriation of trade secrets in California. CUTSA preempts common law claims of trade secret misappropriation and other common law claims, such as conversion, unfair competition and unjust enrichment, based on the same nucleus of facts as the misappropriation claim.[1]

Under the CUTSA, a plaintiff may recover damages for the actual loss caused by the misappropriation, and also for the unjust enrichment caused by misappropriation that is not taken into account in computing damages for actual loss.[2] If neither damages nor unjust enrichment caused by misappropriation are "provable," the court may order payment of a reasonable royalty.[3] A reasonable royalty is a court directed fee imposed upon a defendant for use of a misappropriated trade secret. A reasonable royalty award attempts to measure a hypothetically agreed value of what the defendant wrongfully obtained from the plaintiff. By means of a "suppositious meeting" between the parties, the court calculates what the parties would have agreed to as a fair licensing price at the time that the misappropriation occurred.[4]

There is little California authority directly addressing the factors relevant to a reasonable royalty determination. A recent case from the Northern District of California[5] cited to a

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Tips From The Trenches: "Integrity Is Good Business," An Interview With Judge Rudi Brewster.

By Mark C. Mazzarella

Mark Mazzarella

The "law biz" just ain't what it used to be. Just ask any lawyer who remembers the "good old days" (and they're becoming more of an endangered species every year), when clients were as loyal to their attorneys as attorneys were to clients, when adversaries shook hands and went out for a drink after the most hard fought case, and when no lawyer who wanted to "work in this town" would dare "pull a fast one." Today, we call it "ethics, professionalism and civility." Back then, they didn't need fancy words for it. It was just the way it was, and the way the natural order of things demanded it to be. Everyone knew everyone else in town who did like work, both professionally and personally, and acted like friends whose paths will cross many times over their careers are given to act.

But that was then. Now is, well.....different. And, we can't just blame whatever erosion we have experienced of the more noble qualities which our profession has to offer on out of town carpet baggers, the swelling numbers of new lawyers, or the advent of the "big firm." We all have to take personal responsibility for maintaining the highest level of integrity in our profession. And if we do, we'll all be better off. Just ask one of San Diego's elder statesmen, Judge Rudi Brewster. And I did. This edition of Tips From the Trenches is the result. The message from Judge Brewster, as the title of this article suggests, is INTEGRITY IS GOOD BUSINESS.

I suspect most of you either know Judge Brewster, or at least know of him. Judge Brewster was among the most well respected and successful trial lawyers anywhere during the 24 years before he became an equally highly regarded member of the Federal District Court bench 26 years ago. But when asked, "What do you believe every lawyer and judge should strive most diligently to achieve, and cherish the most when successful?" his answer reveals why Judge Brewster was selected as the 2005 recipient of the American Inn of Court's Professionalism Award in the Ninth Circuit for "the highest standards of the legal profession and the rule of law."

Judge Brewster: The legal system depends upon the integrity of all of us who make it work. Therefore, the greatest contribution we can make is to further the reputation of our system of justice as a place where honesty, integrity and the rule of law reign supreme. If we do that, everything else will take care of itself.

MCM: But aren't there times when those who are honest, ethical and professional are at a disadvantage when pitted against those who are not?

Judge Brewster: I have never found that to be the case in my 50 years in the courtroom. Someone may realize a short-term gain acting poorly; but it will always come back to haunt him or her in the long run.

MCM: Aren't there times when being completely candid can have a negative impact on a jury? For example, when a lawyer admits a mistake in trial, doesn't that hurt his or her credibility with the jury?

Judge Brewster: Again, I've never seen a time, either as a trial lawyer, or as a judge, when a jury didn't respond positively to an attorney's candor. They'll forgive you for making a mistake; and even respect you and find you more credible when you do. The truth sets everyone free.

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MCM: Can you give me an example?

Judge Brewster: Sure, I recall an air crash case I tried at least 30 years ago. My expert agreed with the National Transportation Safety Board investigators as to the cause of the accident; and so did I. After spending almost three hours in opening statement, cross-examining the plaintiff's witnesses, and putting on my client's engineers, and even my own expert, it dawned on me the night after my expert testified, that we had it wrong. That night I went over my new theory about how the accident must have happened with my expert and he agreed with me. I knew we would take some serious heat from the plaintiff's lawyer if we suddenly retracted everything we'd been saying for weeks. But I had no choice.

The next day I recalled and impeached my own expert. I asked him to explain how and why we had come to the wrong conclusion, and what made us suddenly realize what must have happened. Sure, the plaintiff's attorney had a field day with our sudden about-face. But the jury, which came to a defense verdict, appreciated our candor.

MCM: Have you seen the opposite result when a lawyer isn't candid with a jury?

Judge Brewster: Absolutely, both when the lawyer himself or herself tries to pull the wool over the jury's eyes, and when one of the parties does. One case stands out in my memory because, without a doubt, it resulted in jury nullification.

I represented a 19-year-old kid who, after "repairing" the brakes on his car, made it all of two blocks before they gave out and he rear-ended the plaintiff. There was no question about liability, just the amount of damages. The plaintiff, a forklift operator, claimed he was off work for 18 months because he couldn't look up, or move his arms, without pain. To make a long story short, we (along with the plaintiff's own attorney) discovered during trial that during his 18 months of disability, the plaintiff had never missed a week of his bowling league, and his scores had actually gone up! Defense verdict.

MCM: That raises the question, If your client lies, how do you keep that from tainting you as well?

Judge Brewster: The best way is to pick your clients carefully. Don't just accept everything your client says as the Gospel. With all the resources available on the web today, you can avoid many surprises with a little due diligence on your own client. Chances are the other side is doing its homework.

As the saying goes, "It takes a lifetime to build a great reputation, and only a moment to ruin one." Unsavory clients will not only do unsavory things, they will expect the same of you. And, if they are willing to bend, or ignore the truth altogether, when they're adverse to someone else, don't expect any better treatment when you end up crosswise with them because of an unfavorable result, or a dispute over the bill, or worst of all, they surprise you by lying on the stand.

MCM: What if they do lie when testifying and you know it?

Judge Brewster: You'll have the greatest conflict there is. On the one hand, you are sworn to be a zealous advocate and to protect your client's confidences. On the other hand, as an officer of the court, you have sworn to uphold the law, and abide by the Rules of Professional Conduct that require you to never lie to or mislead the court, or to let anyone else do so, even your own client. Although I am aware of no satisfying solution, there have been various procedures embraced judicially, ranging from allowing counsel to withdraw, to recommending counsel to simply put his client on the stand (which client is insisting on), let the client testify without your questioning, and then not mention that false testimony further in the case. The only thing I can recommend is to research your situation thoroughly, and don't hesitate to share your problem with the trial court. That probably will be in chambers with opposing counsel present. You may be able to avoid that predicament if you make it clear to your client, by word and deed, that you will not sanction deceit of any kind long before your client takes the stand.

MCM: In today's competitive legal market, do you think there is a risk that a lawyer will have problems attracting clients with the repu-

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tation as a "goody two shoes."

Judge Brewster: First, I don't think a reputation for unfailing integrity should lead to the conclusion that a lawyer is anything but tough and tenacious. Still, I'm sure there will be some clients who will shy away from a lawyer known to have uncompromising integrity; and there will be some lawyers who won't refer business to that type of lawyer. But lawyers shouldn't want that kind of client or business anyway. I'm telling you, you'll regret it if you lower your standards. If someone is looking for a sleazy lawyer, let them go down the street.

MCM: How important do you think integrity is to an attorney's ultimate success in this profession?

Judge Brewster: Always displaying the highest level of integrity is good for business. It will attract the kind of clients, referrals, business and respect that makes for not just a personally rewarding career, but a financially successful one as well. Integrity doesn't cost a dime, and it will pay off every single time. It will make a lawyer wealthy not just financially, but also when measured in terms of the respect and admiration one enjoys from colleagues, clients, judges, the public and, perhaps most important, himself, or herself.

MCM: Thank you Judge Brewster. If anyone is living proof that the highest level of integrity and ethics leads to the greatest personal and professional success, it's you.

P.S.: While not part of the interview with Judge Brewster for this article, I can't help but recount a story Judge Brewster told me almost 20 years ago about a time when he was personally faced with a great ethical dilemma as a new trial judge, and how he resolved it.

It seems the day before a big trial Judge Brewster received an envelope bearing the plaintiff's law firm's letterhead which contained nothing, except $15,000 in $100 bills. While pondering his response, a second envelope was received, this one bearing the defendant's letterhead, and containing $10,000 in $100 bills. All night Judge Brewster reflected on what he should do. By morning he had decided. After the two lawyers arrived in his courtroom, Judge Brewster told them both exactly what had happened. He then announced, on the record of course, that upon reflection he had decided that the only fair thing for him to do was to refund $5,000 to the plaintiff, and to try the case on the merits!

The moral of the story??? Even Federal Court Judges have a sense of humor! ▲

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Article Submission

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Authors are responsible for Shephardizing and proofreading their submissions.

Articles should be no more than 2500 words with citations in end notes.

Skomal

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colleagues: attorney Ezekiel Cortez and Cynthia Aaron, who is now a Fourth District Court of Appeal Justice.

During his private practice years Judge Skomal specialized in both federal and state criminal defense and was certified by the California State Bar as a criminal law specialist. He successfully represented defendants in numerous high-profile cases. In United States v. Pulaski ,he defended the top salesman who had solicited investors for J. David Dominelli, the financier convicted of security fraud. The case against Edward Pulaski, Jr. was built, in part, on the testimony of Dominelli's former live-in companion and mayor of Del Mar, Nancy Hoover Hunter. That was one of the biggest fraud cases in California history. The trial resulted in a hung jury and dismissal of the charges against Pulaski.

In United States v. Edmonds, known as the "Poway Shooting Case," he represented the confidential informant whose information was used by federal agencies and led to their shooting of an innocent homeowner in Poway. The prosecution blamed the shooting on the informant, but the defense argued that the federal agencies should not have relied on the information. The trial ended in a hung jury on all counts involving the shooting.

In 2008 and 2009, Judge Skomal was recognized by the San Diego Daily Transcript as a Top Attorney in Criminal Defense.

Private practice was for many years engaging, challenging, and rewarding. But becoming a judge always held something of a special interest and promise. Ever since he judged his first moot court competition in law school, Judge Skomal felt he would both enjoy the job and be good at assessing a case and helping resolve it. In 2009, when the Southern District started looking for another magistrate judge, he seriously considered applying and was encouraged by Magistrate Judge William Gallo.

Needless to say, Judge Skomal had a smooth transition into the judge's role as far as his criminal caseload is concerned. He is intimately familiar with all the procedural and substantive details. He knows what to look for in the record, even if the defense attorney is less than prepared. In his court, the defendant's interests will always be protected.

The transition to the civil law arena, although not a homecoming, has held few surprises for the seasoned trial lawyer. He will take all the time necessary to learn anew area of law before making any decisions. Most importantly, he has the ability to evaluate a case quickly, pinpoint its strengths and witnesses, and gauge the jury appeal of the claims, parties and attorneys.

This ability is a great asset in conducting settlement conferences. Settlement is a part of the job Judge Skomal loves. "I have always had a knack for settling cases." Before the Early Neutral Evaluation Conference, he will read all the case materials, including the confidential briefs that should be submitted at least five days in advance. At the conference, often the first meeting of the parties and counsel, Judge Skomal can already diagnose the potential problems and outline the outcome. Hearing this evaluation and prognosis usually helps the parties put the case in perspective, realize its strengths and weaknesses, and possibly reconsider their plans. "If

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you have filed a complaint, it means you have already done an investigation. More discovery may be necessary, but in most cases, attorneys should already know how the case is likely to wind up. The sooner they can start working toward a solution, the better," he said. When meeting with the parties, Judge Skomal tries to talk "with people, not at people." Some cases settle there and then; others may come back for another settlement conference or continue the negotiations on their own. Judge Skomal always wants the case to be resolved in the best interests of the client and does not favor counsel whose concern over the recovery of their fees comes before their client's needs.

Judge Skomal is a great believer in diligence and efficiency. He has no time for delay. His chambers has very detailed rules on the Southern District's web site, and attorneys would be well-advised to read those before calling his law clerks. Requests for extensions will require a showing of the party's effort to meet the deadline and a good reason for additional time. The same diligence principles apply to discovery disputes. The parties are required to meet and confer as soon as a dispute arises, and to do so in person if they are located in the same district. If the parties want Judge Skomal to consider a discovery dispute, they must bring the dispute to his attention within 30 days after it arises. Any written discovery motion should be filed jointly and include a declaration of compliance with the meet and confer requirement, identification of the dispute, and the legal bases of the parties' positions. A sample of the joint motion format is included in the Chambers' Rules.

Judge Skomal expects the attorneys before him, including in their filed papers, to be professional, focus on the merits, move the case forward and refrain from personal attacks. "I don't want the personalities to get in the way."

Although serious about diligence and professionalism, Judge Skomal does not believe in heavy-handed penalties. "My job is not to punish people, but to work with people." Sanctions will not be flying for every transgression, but may be imposed, on a sliding scale, if the conduct is inexcusable.

When asked if he misses his private practice days, Judge Skomal responds that it was the right thing at the time, but his new job is exactly what he wants and is ready to do now. "I like being a judge. I have something new every day: law, facts, attorneys. You don't get that anywhere else." ▲

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For these and other articles of interest, visit and search www.abtl.org/reports

Trade Secrets

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long-standing New York patent case[6] for the relevant factors. If willful and malicious misappropriation exists, a plaintiff may also recover exemplary damages in an amount not exceeding twice any award for actual damages and unjust enrichment or awarded royalty.[7]

The "reasonable royalty" remedy is not cumulative to other measures of damage. It is an alternative remedy where other damages are not provable. Where damages are awarded, it is error to also order payment of royalties.[8] The CUTSA differs on this point from both the Uniform Trade Secrets Act and federal patent law, neither of which require actual damages and unjust enrichment to be unprovable before a reasonable royalty may be imposed.[9]

Under section 3426.3(b), the statutory precondition for the payment of a reasonable royalty is that neither damages nor unjust enrichment caused by misappropriation are "provable." [10] The recent case of *Ajaxo, Inc. v. E*Trade Financial Corporation*[11] serves to clarify the meaning of the term "provable" under the CUTSA damage provision. The *Ajaxo* case addresses whether unjust enrichment[12] is "provable" under section 3462.3(b) where legally sufficient evidence of unjust enrichment has been presented to the jury and the jury rejects that evidence as a matter of fact. Or, more simply put, whether "not proven to the jury" is the same as not "provable" under section 3462.3(b).

Earlier cases have generally addressed the "reasonable royalty" remedy where actual losses and unjust enrichment were not provable.[13] It is well-established in these cases that where damages and unjust enrichment cannot be established as a matter of law, the plaintiff may seek a reasonable royalty under section 3462.3(b).

But, the *Ajaxo* case appears to be the first California case to address the meaning of "provable" where the trier of fact finds that the defendant misappropriated trade secrets and plaintiff presents evidence of actual loss and/or unjust enrichment, but the trier finds, as a matter of fact, that there was no damage. In other words, assuming liability, if the plaintiff presents his damage or unjust enrichment case

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to a jury and the jury finds no damages, can the plaintiff then seek a reasonable royalty under section 3462.3(b) because actual loss and unjust enrichment were not "provable?" This is not an uncommon circumstance in trade secret misappropriation cases, especially in troubled economic times. For example, A steals a secret formula for a new drink from B. A starts a new business, attempts to utilize the secret formula to manufacture and sell the new drink, fails, makes no money, and shuts down. B sues A for misappropriation of the secret formula, but can't prove damages or unjust enrichment in part because A made no money from his misappropriation of the secret formula. As such, the *Ajaxo* case is important for plaintiffs in trade secret misappropriation litigation.

In the *Ajaxo* case, E*Trade had been found liable in an earlier trial for misappropriating trade secrets from *Ajaxo* relating to wireless stock trading. At the second trial, Ajaxo put on evidence of unjust enrichment to E*Trade arising from the misappropriation in the amount of $301 million. At the close of plaintiff's case, E*Trade moved for nonsuit. The trial judge denied that motion, finding there was enough evidence "to go to the jury" on unjust enrichment. E*Trade then presented evidence of considerably smaller losses and its expenses. The trial court instructed the jury that the amount of E*Trade's unjust enrichment was the value of E*Trade's benefit that would not have been achieved except for its misappropriation less the amount of E*Trade's reasonable expenses. The jury found that the value of the benefit conferred upon E*Trade by the misappropriation was $3.99 million and that E*Trade's reasonable expenses were $6.42 million, resulting in a significant net loss to E*Trade. In other words, because E*Trade had a net loss arising from the misappropriation, *Ajaxo* recovered no damages. The jury had considered and rejected *Ajaxo's* evidence of significant unjust enrichment to E*Trade from the misappropriation.

Following the verdict, *Ajaxo* asked the trial

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court to make an award of a reasonable royalty under the section 3462.3(b). E*Trade opposed the request, arguing that both actual losses and unjust enrichment were provable because there was evidence in the record to support either measure of damages. The trial court found that unjust enrichment was provable because the jury found that *Ajaxo* had proven unjust enrichment damages against E*Trade with no net amount in terms of actual damages, and denied the request for reasonable royalties.

On appeal, *Ajaxo* argued that unjust enrichment was not provable under section 3462.3(b) because the jury's verdict showed that E*Trade was not enriched, i.e., there was no award of damages. E*Trade argued that *Ajaxo* had presented evidence of unjust enrichment to the jury, but the jury had simply chosen not to believe it. In other words, unjust enrichment was "provable" but it had just not been proven. The question posed to the California court of appeal was whether unjust enrichment is provable under section 3426.3(b) where legally sufficient evidence of unjust enrichment is presented to the jury but rejected as a matter of fact. More simply, is "not proven" the same as "not provable?"

The *Ajaxo* appellate court reversed the trial court ruling denying the request for reasonable royalties. The court concluded where a defendant has not realized a profit or other calculable benefit as a result of his or her misappropriation of trade secrets, unjust enrichment is not provable within the meaning of section 3426.3(b), whether the lack of benefit is determined as a matter of law *or as a matter of fact.*[14] More simply put, not proven is tantamount to not provable under the section so as to allow a request for reasonable royalties.

One could argue that the *Ajaxo* decision is a bit of a stretch for the simple fact that if the legislature had intended the result in the *Ajaxo* case, it would have written the statute to read "If neither damages nor unjust enrichment caused by misappropriation are provable *or proven*, the court may order payment of a reasonable royalty . . ." But, the court in *Ajaxo* made compelling arguments based upon the

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legislative history of the CUTSA, prior common law and the various public policies at play. The court noted that the CUTSA was intended to codify common law which had allowed reasonable royalties when the plaintiff could not prove any loss and the defendant had made no profits.[15] But, to this author, the public policy argument was most compelling. The court stated that the risk of the defendants' venture, using the misappropriated secret, should not be placed on the injured plaintiff, but, rather, the defendants must bear the risk of failure themselves. The court also noted that the misappropriating defendant could achieve a number of non-pecuniary benefits by stealing a trade secret. In support of its ruling, the court stated that to hold otherwise would place the risk of loss on the wronged plaintiff, thereby discouraging innovation and potentially encouraging corporate thievery where anticipated profits might be minimal but other valuable but non-measurable benefits could accrue.[16]

E*Trade has petitioned for review by the California Supreme Court. The petition has been briefed. As of this writing, there has been no disposition.

The lesson of the *Ajaxo* decision for plaintiffs is simple - be prepared to present a request for an order of reasonable royalties in the event the jury determines that you have not proven unjust enrichment or actual loss. If the jury determines, as a matter of fact, that the defendant has not realized a profit or other calculable benefit as a result of the misappropriation, the plaintiff should request a reasonable royalty under section 3462.3(b), and be prepared to offer evidence to support the request for a royalty to the extent such evidence has not already been admitted.

A recent unpublished decision from the sixth appellate district, *San Jose Construction Co., Inc. v. Foust*,[17] hints at the danger of not making a request for royalties where the jury

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awards no damages for misappropriation. In that CUTSA case, the jury found that defendants had misappropriated plaintiff's trade secrets but awarded no damages. On appeal, the plaintiff contended that the jury erred by failing to award damages for unjust enrichment. The court of appeal affirmed the judgment, finding that the plaintiff had simply failed to meet its burden. The decision, written by the same judge who wrote the *Ajaxo* decision, cited the *Ajaxo* decision in a footnote and noted, "In this case, however, plaintiff did not ask the trial court to award reasonable royalties." While there may very well have been valid reasons why the plaintiff in that case did not seek royalties after its damage case was rejected by the jury, the appellate court seemed to indicate that such a request would have been properly and, possibly, favorably considered by the trial court if it had been made.

On the defense side, needless to say, the defendant must be prepared to meet a request for royalties in the event the jury finds misappropriation but no damages. A defense verdict on damages and unjust enrichment is likely not the end for the defendant in a CUTSA misappropriation action. Rather, under *Ajaxo*, it is likely just the beginning of a second phase of the trial directed towards determining whether a royalty is proper and what that royalty should be. From the defendant's perspective, an *in limine* motion for bifurcation of a request for royalties under section 3462.3(b) from the case upon actual loss and unjust enrichment might be warranted. Evidence bearing upon issuance of a royalty order and the amount of the royalty may be inadmissible on issues of actual loss and unjust enrichment and the defense may want to keep such evidence, if harmful, away from a jury considering only actual loss and unjust enrichment.

Finally, even if the *Ajaxo* decision allows a request for reasonable royalties under the circumstances discussed in this article, such an award is not guaranteed. The statute provides only that the court "may" order payment of a reasonable royalty.[18] The judicially-recognized factors bearing upon the issuance of such an order and what the royalty amount should be will the subject of a subsequent article. ▲

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1. *K.C. Multimedia, Inc. v. Bank of America Technology & Operations, Inc*. 171 Cal.App.4th 939, 954-956 (2009); *Silvaco Data Systems v. Intel Corp*. 184 Cal. App.4th 210, 232-236 (2010).
2. Cal. Civ. Proc. Code § 3426.3(a).
3. Cal. Civ. Proc. Code § 3426.3(b).
4. *Vermont Microsystems, Inc. v. Autodesk, Inc*. F.3d 449, 451 (1998).
5. *02 Micro International Limited v. Monolithic Power Systems, Inc*. 399 F.Supp.2d 1064, 1078 (N.D. CA. 2005).
6. *Georgia-Pacific v. United States Plywood Corp*. 318 F.Supp 1116, 1120 (S.D.N.Y. 1970).
7. Cal. Civ. Proc. Code § 3426.3(c).
8. *Robert L. Cloud & Associates , Inc. v. Mikesell* 69 Cal. App.4th 1141, 1149-1151 (1999); *Morlife v. Perry* 56 Cal.App.4th 1514, 1528-1529 (1997).
9. *Cacique, Inc. v. Robert Reiser & Company, Inc*. 169 F.3d 619, 623 (1999).
10. Cal. Civ. Proc. Code § 3426.3(b)
11. 187 Cal.App.4th 1295 (2010).
12. The *Ajaxo* case focuses on proof of unjust enrichment, but the analysis should be the same for damages under section 3426.3(b).
13. For example: *Vermont Microsystems, Inc. v. Autodesk, Inc*. 138 F.3d 449 (1998); *Cacique, Inc. v. Robert Reiser & Company, Inc*. 169 F.3d 619 (1999); *02 Micro International Limited v. Monolithic Power Systems, Inc*, 399 F.Supp.2d 1064 (2005).
14. *Ajaxo, supra,* 187 Cal.App.4th at 1313.
15. Citing *Spray Cooler, Inc v. Crampton* 377 Mass. 159, 171, fn. 10, 385 N.E.2d 1349 (1979) and *University Computing C. V. Lykes-Youngstown Corp*. 504 F.2d 518, 535 (5th Cir. 1974).
16. *Ajaxo, supra,* 187 Cal.App.4th at 1313.
17. 2010 WL 4305047 (2010); 2010 Cal.App. Unpub. LEXIS 8636.
18. Cal. Civ. Proc. Code § 3426.3(b)

Going Green

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life continue to blur, employees who conserve at home are expecting their employers to do the same. Recent surveys suggest most respondents, and particularly younger employees, overwhelmingly prefer to work for employers with good "CSR" practices.

However, since "no good deed goes unpunished," California employers hope their efforts to "go green" do not accidentally push them into the red by creating substantial legal liability. Accordingly, this article will highlight some common human resource "green"-related practices and attendant legal and practical considerations.

The "Paperless Office"

Reducing paper consumption through electronic checks, wage statements and time records is an increasingly popular employer initiative. Fortunately, California law provides some bright-line rules for reducing paper usage while complying with wage and hour technicalities.

For example, the traditional "paper" paycheck may soon go extinct as employers increasingly turn to "direct deposit." Recent surveys suggest nearly 70 percent of employers are using direct deposit, and still more employees would prefer this method. Labor Code section 213 authorizes "direct deposit" of employee wages provided the employee elects this payment mechanism, the employee chooses the location, and the deposit is made in a financial institution located (but not necessarily headquartered) in California. Direct deposit of "final wages" is also now permitted provided the employer complies with applicable statutory deadlines for "final wage" payments.

Similarly, some employers have adopted

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"payroll debit cards" or "pay cards" which essentially are plastic cards with magnetically encoded information that allows employees to access funds from their respective accounts on designated pay days. The Division of Labor Standards Enforcement (DLSE) has recently approved usage of such cards provided employers comply with the general requirements for "direct deposits" (discussed above) and the employee has immediate access to the entire amount without discount.

Labor Code section 226 requires employers to provide employees with "itemized" wage statements or face statutory penalties. Not surprisingly perhaps, employers using "paperless pay checks" have also considered "paperless" (or electronic) wage statements. Since 2006, the DLSE has authorized employers to provide electronic wage statements as long as the electronic version contains all legally-required information and is available the same day as the wages; the employee retains the right to receive a written copy; the employee has reasonable personal access to the electronic copy and can print a paper copy without charge, and the employer utilizes sufficient safeguards to maintain confidential information.

Employers must also comply with general record-keeping requirements for pay-related documents, including maintaining them for three years, permitting inspection by current and former employees, and making hard copies available for DLSE inspection in California, even if the electronic database is outside California. Unlike "direct deposits," employers currently need not obtain employee approval for electronic wage statements.

The traditional "punch in" time clock may be a relic soon as employers are increasingly using electronic time records to satisfy their legal duty to maintain accurate time records for non-exempt employees. The California Labor Commissioner has permitted such electronic time records under certain circumstances, provided the employer ensures the accuracy of these records; the employer bears the burden of proving hours worked if the electronic version is lost due to mechanical/electronic failure; and the employer must provide printed copies upon employee or Labor Commissioner request.

Employers are increasingly distributing handbooks and key personnel policies electronically to reduce paper usage, decrease printing/distribution costs, and permit easy revision. There are no federal or state laws directly regulating electronic handbooks although there are a number of indirect legal and practical considerations employers should consider. For instance, electronic distribution does not eliminate the employer's general duty to "post" certain information (ex. EEO posters) or potentially to hand-deliver certain information (UEI pamphlets). Employers may also need to provide non-electronic versions of policies to accommodate disabled employees. Employers must also consider how they will ensure employees receive, review, and acknowledge receipt of key policies such as at-will disclaimers, harassment policies or arbitration agreements.

Other practical considerations for electronic handbooks include how the employer will ensure all employees can access, review and understand these electronic policies and whether both electronic and non-electronic versions are required, and if so, whether multiple versions will cost more than they save? Other considerations include how the employer will track changes to demonstrate which policies were in effect when, and how employers will assuage employee concerns about employer monitoring which policies an employee accesses (ex. alcohol rehabilitation, maternity leave, etc.)?

Other Considerations of "Going Paperless"

Employers must also consider the practical and legal obligations that result from using and storing employee-related information in an electronic versus paper format. For instance, a number of Labor Code provisions (ex. sections 226, 432 and 1198.5) permit employees to inspect and, in some cases print, particular records pertaining to them. Employers must consider how they will address employee requests to inspect their personnel files or pay-related

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records if stored electronically and potentially in different databases. Another consideration is how going "paperless" might create additional obligations in future electronic discovery disputes and whether these "e-discovery" costs will outweigh the initial costs savings. Employers should review their retention policies to ensure electronically-stored information is not disposed of prematurely or accidentally maintained forever.

Ironically, electronically-stored employee information is arguably less safe than the paper version previously stored in Human Resources' locked cabinet drawers, and a single hacker might access numerous employee files simultaneously resulting in huge employer costs. Many states, including California, impose considerable legal obligations on employers to notify employees about potential unauthorized access. Thus, employers should review their computer/data protection policy, evaluate their technical safeguards (i.e., encryption software) and outline how data will be stored and accessed. Employers should also understand their legal obligations for security breaches and know how they will respond. Employers must also understand their obligations under the Fair and Accurate Credit Transaction Act to safely dispose of personal information, including when discarding computers or other electronic media containing such information.

Telecommuting

"Telecommuting" potentially presents a win-win-win situation for the environment, employees and employers as pollution decreases, employees benefit from increased work/life balance, and employers save on office space, amongst other benefits. But not all positions are amenable to telecommuting, and since technology is currently outpacing the law, employers must again anticipate numerous legal and practical risks with remotely-connected employees. Initially, employers might consider whether other alternatives (ex. carpools, alternative workweek schedules, subsidizing the cost of public transportation, etc.) might be more beneficial.

Employers also need to consider numerous wage and hour issues for non-exempt employees including how to limit and track hours worked, prevent unauthorized overtime, and ensure meal/rest periods are taken. Employers might also consider how telecommuting might affect ADA/FEHA accommodation issues to extent workplace physical attendance is no longer an essential job function. Another consideration is how confidential information will be accessed and protected, and potential ownership issues regarding property used during telecommuting. While OSHA does not currently require home office inspections, employers should consider employee safety generally and potential workers' compensation issues.

Reduced Energy Consumption

Many employers are also attempting to reduce energy costs by shutting off lights, reducing office temperatures and sharing offices. In doing so, employers need to remember their general obligation to provide a safe work environment, and consider potentially-applicable specific state or federal regulations (ex. OSHA, Cal-OSHA) applicable to them. For instance employers are reminded of their Wage Order obligation to generally maintain reasonably comfortable temperatures "consistent with industry-wide standards for the nature of the process and the work performed." This more general duty is also subject to a more specific Wage Order duty to maintain temperatures of at least 68 degrees in bathrooms, resting rooms and changing rooms during hours of use. ▲

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New & Noteworthy Case Decisions

Court of Appeal Reaffirms Tough Standard for Malicious Prosecution Claims to Survive Anti-SLAPP Motions

Antounian v. Louis Vuitton Malletier, __ Cal.App.4th __, 2010 WL 3751500 (September 28, 2010)

The court of appeal recently affirmed how difficult it is for malicious prosecution claims to survive anti-SLAPP motions. In the initial action, luxury goods manufacturers sued several businesses in federal court, including plaintiffs, after an investigation uncovered counterfeiting activity in downtown Los Angeles. The federal court denied plaintiffs' motion for summary judgment based on reports which suggested that the illegal activity occurred in the vicinity of plaintiffs' business. Some of the reports were later recanted. The federal court later granted a motion brought by the manufacturers to dismiss plaintiffs and awarded them legal fees. Plaintiffs then sued for malicious prosecution. The trial court granted defendants' anti-SLAPP motion. The court of appeal affirmed.

To survive the anti-SLAPP motion, plaintiffs were required to show prima facie that the initial action: (1) terminated in their favor, (2) was prosecuted without probable cause and (3) was initiated with malice. The court of appeal concluded that plaintiffs failed to meet their burden on all three prongs.

The test for the central element – probable cause – is a legal question as to whether an objectively reasonable attorney would have thought the claim was tenable. "[P]robable cause to bring an action does not depend on it being meritorious, as such but upon it being arguably tenable, i.e., not so completely lacking in merit that no reasonable attorney would have thought the claim tenable." Interim adverse judgments – such as the denial of summary judgment motions – typically establish probable cause sufficient to defeat a malicious prosecution claim, unless the ruling is induced by materially false facts. The court of appeal determined that the adverse summary judgment ruling in the initial proceeding was conclusive proof of probable cause (even though some of the supporting evidence was later recanted due to mistake.)

The court of appeal went on to hold that lack of probable cause alone is insufficient to prove the third element, malice. "Even if [plaintiffs] had shown that the lawsuit was not tenable … more would have been required for a showing that the lawsuit was initiated and prosecuted with malice. Certainly – given that there was probable cause to institute and prosecute the lawsuit – their malice argument fails."

Lastly, the court of appeal determined that the underlying lawsuit had not been terminated in plaintiffs' favor. While plaintiffs were awarded their attorneys' fees, the voluntary dismissal did not reflect any opinion on the merits of the federal action. Thus, it could not support a malicious prosecution claim.

This ruling further affirms the high burden a plaintiff must meet to survive anti-SLAPP motions.

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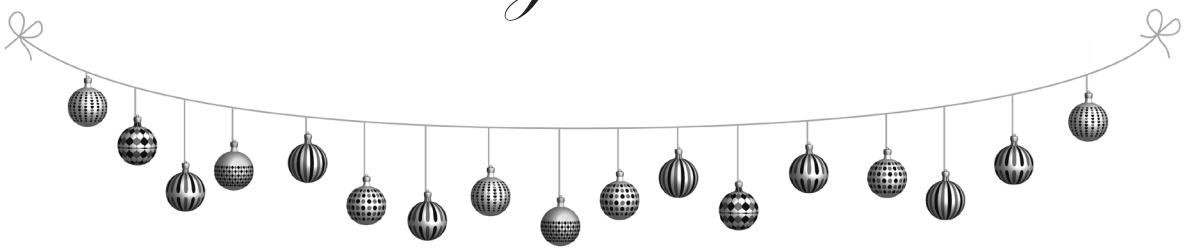

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