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For all the right reasons . . . we made history!
One thing we can always count on is change. As the economy teeters between recession and recovery, many lawyers are seeing their practices change, and change can be unsettling. But this is not entirely bad, even if it constitutes a crisis, as change often leads to opportunity.

Therefore, we need to learn to embrace change and adapt, even if we cannot predict what will happen.

The key to adapting is to keep learning and growing, including being willing to take on new areas, no matter how long we have practiced. One of the best ways to learn and grow is through continuing legal education. Even though some lawyers may see the minimum continuing legal education requirements as a nuisance—scrambling to meet them at the last minute and perhaps looking for shortcuts to accumulate credits—the requirements rightfully force us to stay current in our fields of expertise and give us the tools to grow our practices. Lawyers in California actually have it easy, as we are required only to have 25 hours of CLE every three years. In comparison, as a California CPA, I am required to have 80 hours of continuing education every two years in order to keep my CPA license current.

Yet perhaps because of my practice area—taxation—I have never found satisfying the California CPA continuing education requirements to be a problem. Tax is an area of constant change, and tax professionals must spend a substantial amount of time to keep current, even just to spot the issues. As the economy changes, so do the tax issues we face. The potential for new opportunities is in part what keeps the practice exciting. And I am sure this is true in other practice areas.

Lawyers must acknowledge that, to a certain extent, our practices are the same as any other business, which is something we may easily forget when getting lost in our day-to-day work. But this does not necessarily mean that we must constantly reinvent ourselves. Rather, we must keep evaluating the marketplace and do our best to foresee what lies ahead. Strategic planning does not guarantee that new opportunities will materialize, but we need to be prepared for, and willing to accept, new opportunities when they do arise.

Of course, another way to keep up is by reading Los Angeles Lawyer. This is the end of my tenure as chair of the magazine’s Editorial Board. It has been an incredible pleasure to oversee a group of attorneys who have dedicated a significant portion of their time—without receiving any CLE credit—to developing articles from our peers that help all of us stay current in our particular areas of law. I am very proud that the magazine will be in very good hands as my successor, Angela Davis, shares the same passion for advancing our profession. Not to be forgotten are the professional staff, whose oversight of the magazine and attention to detail are remarkable.

So if you are facing change and uncertainty in your practice, do not despair. Realize that this is an ongoing and normal part of all our careers. Keep learning, reading, growing, and enjoying your work and life. And if you want a rewarding and challenging experience that will help you and your practice, seek out and donate your time to any number of worthwhile activities within the legal profession. For me, serving on the Los Angeles Lawyer Editorial Board is one of those opportunities.
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Reemployment Rights

Thank you so much for publishing the Barristers Tips article “Reemployment Rights for Returning Military Personnel” by Jenai Sumida in the April 2008 issue. My friend’s husband returned from military service and reentered the civilian work force recently. His hours were significantly cut and he is now under great financial hardship. It is important that we Americans do what we can to protect those who protect us.

Tanya Balam

Thank you so much for publishing the “Reemployment Rights” article by Jenai Sumida in the April 2008 issue. My friend’s husband returned from military service and reentered the civilian work force recently. His hours were significantly cut and he is now under great financial hardship. It is important that we Americans do what we can to protect those who protect us.

Tanya Balam

I realize that the From the Chair column by Chad C. Coombs in the March 2008 issue occupies only two-thirds of a page, but the topic of e-mail is much larger and significant and ought to have several pages devoted to it.

I commend to everyone a little book titled Send: The Essential Guide to Email for Office and Home, by David Shipley and Will Schwalbe. The book is a comprehensive guide to e-mail for personal and office use. It explains how the technology works—something most users don’t know or understand, leading to chaos and disaster. Do not think for a moment that hitting the Delete button deletes anything. With e-mail, you have created a permanent record no matter how good you think your computer skills may be. The book then guides the reader through e-protocols (who receives the e-mail, who gets a cc, who gets a bcc, and, for god’s sake, do not touch the Reply All button), e-manners, and e-drafting (including that all-important, eye-catching subject line). It helps you use e-mail effectively and to avoid the career-ending electronic bombshell.

In an increasingly informal and lazy world, we tend to hit that Send button too soon and too often, clogging our in-boxes, constantly diverting our attention, disclosing critical information to the wrong people, and too often escalating a problem that would have never occurred had we only gotten up from our desk and walked over to our colleague’s office to have a chat. One example: A multimillion-dollar real estate deal just closed, and everyone at XYZ Corp. is very excited to have sold the property. Unable to contain himself, one moron sends an e-mail to his buddy in the cubicle next door saying, “Sure glad we closed before they discovered the hazmat dump on the lower 40.” (True story from a forensic computer expert.) Enough said.

Stephany Yablow

Thank you for publishing “The Green Way” issue. I am thrilled to see Los Angeles Lawyer addressing green legal issues. I was particularly encouraged by the article “Tax and Financial Incentives for Green Building” by Jason R. Busch, Rosemary A. Colliver, and Janet F. Jacobs, Tax Tips, January 2008).

I hope practitioners will use this article when advising clients that building green is no longer detrimental to the bottom line but rather can be beneficial to a project’s budget now and in the future.

Lauren Liebes

Correction

In “Mark My Words” by Jonathan L. Handel, which appeared in the April 2008 issue, two cross references in the endnotes are incorrect. Endnote 53 should read “See text, supra, at note 4” (not note 2). Endnote 57 should read “See text, supra, at notes 15-18” (not notes 13-16). Los Angeles Lawyer regrets the errors.

Articles Solicited

To Our Readers: Los Angeles Lawyer encourages the submission of legal articles. Manuscripts and query letters should be sent to: Los Angeles Lawyer, P. O. Box 55020, Los Angeles, CA 90055.

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Ten Rules for Success in the Practice of Law

THROUGH TRIAL AND ERROR, I have learned many lessons that may improve your abilities as a lawyer. Here are my personal top 10.

First, always be civil, even to those who are not. Some attorneys cannot control their emotions, have a need to needle or insult, or have severely challenged diplomatic skills. Do not take their bait, which can lead to unnecessary additional work, ex parte motions, motions to compel, and blown deals. For example, if personally attacked at a deposition, I never offer a rejoinder but instead note that counsel has so acted, which defuses the situation and takes the wind out of the opponent’s sails. Thwart repeated attempts at antagonism with this tactic and you will cause them to peter out. Try and work issues out. Only sweat the big stuff. When it is settlement time, a great help is having opposing counsel not only respect you but like you as well. Attorneys are advocates. Argument is a component of the job. Skilled and admired attorneys do not personalize or antagonize their opponents. Be a class act. At my office, we agree to additional time for discovery and other professional courtesies even when opposing counsel will not. Sometimes courtesy pays off.

A second lesson I have learned is, bond with the jury. Trials are serious business, so demonstrate to the jury you are on top of your case. Respect them and the system. Stand when they enter the courtroom. Do not be a comedian. Be organized, passionate, and straightforward, and through action demonstrate you believe in your case 100 percent. Treat everyone in the courtroom with decency, including opposing counsel, the opposing party, and court staff. Get the jury to like you, which some lawyers believe is the single most important aspect of a trial.

Third, do not wait until the last minute. Preparation is the name of the game. Anticipate at every stage how to make the most economic use of your time and resources. Stay on top of the law and any developments that can improve your skills. Attend seminars and conferences. Fourth, be quick. When a mistake occurs, do not despair. Rather, quickly rectify it, if at all possible. Code of Civil Procedure Section 473 is there for a reason.

Fifth, pick the right client and case. Do the type of work you can and should do. Do not be a jack of all trades. Do not be tempted by fees if the client gives you the creeps or if you do not feel right about the case. There is plenty of work out there for all of us. The savvy lawyer knows what cases to turn down.

Sixth, make a record. It is imperative that you know how to, and do, make a record. You may have to make or defend an appeal. Lay the issue out at trial and get the ruling and reasoning on the record. Beware of off-the-record proceedings, and when they do occur and may cause harm to your case, put your objection on the record. No judge should be upset when you make a record. Indeed, the intelligent and experienced attorney always does so, and the court will respect you for doing so.

Seventh, do not take the judge on. To challenge a judge is to indicate a total loss of respect for that judicial officer. Never get personal with a judge, but stand up for the rights of your client. All judges must be respected, though they may not deserve it. Some judges should not be on the bench, but the courtroom is not the place to let them know this. Sometimes a judge can be begrudgingly brought around to your point of view, but when you lose the judge, you lose the case, at least in that venue. It is a fine art for the consummate advocate to be tough and hold his or her ground with grace and class. The corollary is not to try to fool the judge or opposing counsel. The consequences of this can be dire. Keep your self-respect.

Eighth, join bar associations. Join one or more bar associations and get to know those who labor in the same trenches and those who work in other disciplines. You will find a pool of knowledge and experience waiting to be tapped, referrals to be made, and camaraderie. Learn from the masters and winners and get to know them. Bar associations are support groups that can be fun and interesting. Lawyers must market their skills. Network at bar events, post on e-mail lists in applicable specialties, give your time to worthy causes that advance justice or social issues, accept any opportunity to speak to civic and industry groups, and over time business will come to you. Reputations are built by accretion. My practice skyrocketed when I became active in, and eventually a member of the Board of Governors of, CAALA (Consumer Attorneys Association of Los Angeles) because I was exposed to new areas of the law in which I could effectively practice. I made numerous new acquaintances who provided sound practice tips based on experience. I also met lawyers with whom my firm joined on larger cases.

Ninth, cut your losses when you have to. Do not be stubborn; be realistic. The case worth doing on principle is also, by definition, a lost cause. When your case is a dog, get it resolved by settlement, mediation, common sense, and realistic expectations.

Tenth, lead a balanced life. Family comes first in life, and with it comes being physically fit. Do not work too hard, and do work smart. Smell the roses, have friends, listen to and perhaps make music, travel, read, cook, have joie de vivre. Follow the advice of legendary coach John Wooden: Do not get too high after a win, or too low after a defeat. He says: “Success is peace of mind, which is a direct result of self-satisfaction in knowing you made the effort to do your best to become the best that you are capable of becoming.”

Neville L. Johnson is a partner at Johnson & Johnson LLP in Beverly Hills specializing in entertainment, media, business, and class action litigation.
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IN CALIFORNIA, AN ORAL CONTRACT, with some notable exceptions, has the same binding effect as a written contract. The formation of any oral contract generally requires agreement by the parties to all material or essential terms, even though other terms may be left open for future negotiation and resolution. Depending upon the context, parties can meet the material or essential threshold by agreeing to merely a few terms. For example, in California, courts have held that the essential terms of an oral employment agreement are: 1) the parties, 2) time and place of employment, 3) salary, and 4) general category of employment.

But what exactly is a material or essential term? The question of materiality arises for virtually all businesses—and the entertainment industry in particular—in which oral and unsigned employment contracts, as well as informal partnership and joint venture agreements, are necessary and customary day-to-day activities. Questions of materiality and enforceability apply not only to verbal agreements but also unsigned deal memos, confirming letters, and short form agreements. A client may ask, “Do I have a contract, even though I never signed anything?” What advice should a lawyer provide? To what authorities and elements of the agreement should a lawyer look to prove—or disprove—the existence of a binding oral contract?

Practitioners who look to the CACI jury instructions for meaningful guidance regarding what constitutes a material or essential contract term will not find what they are seeking. Since 2003, the CACI instructions are the official civil jury instructions for use in California. BAJI civil jury instructions likewise provide no real answer for the meaning of materiality. In any event, BAJI instructions are no longer officially approved by state court rules since California’s adoption of the CACI jury instructions.

Courts have addressed the issue, however, and offered some guidance without providing bright-line definitions. For example, the court in Kruse v. Bank of America stated that a meeting of minds on the material terms is essential to the formation of a contract. Therefore, when “the only (and the complete) subject matter that is under consideration is left for further negotiation and agreement, there is no contract, not for vagueness or indefiniteness of terms but for lack of any terms.” Thus, “if an essential element is reserved for the future agreement of both parties, the promise can give rise to no legal obligation until such future agreement.” The Kruse court held that no contract was formed between the plaintiff borrower and the defendant bank when there was “a complete lacuna in the proof of essential terms of the claimed loan agreement: namely, the amount of the loan, the rate of interest, the terms of repayment, applicable loan fees and charges.”

Kruse, along with three other cases, illustrate that in California an agreement upon proposed goals or broad-based conceptual business agendas without a meeting of the minds on more concrete terms, duties, and obligations may not satisfy the materiality threshold. In Louis Lesser Enterprises, Ltd. v. Roeder, the parties signed letter agreements involving a land development project, and the plaintiffs alleged that the parties thereby created an enforceable joint venture agreement. The purported contract read:

The letter leaves many essential terms of their proposed business venture for future agreement—the nature of their mutual association (partnership, joint venture, corporation or other entity); the manner and form of transfer of defendants “options and vestings” in the property; the maximum cash distributions by each party; the nature and development of the land, etc....

Addressing the omission of material terms regarding the nature of the proposed enterprise, the court stated:

[The] nature of the development of the 200 acres, the very subject matter of the venture, is without agreement; true the improvement and development of the land contemplated the construction of “buildings of various types which it is proposed

Glen A. Rothstein is a litigation partner specializing in entertainment law at the Beverly Hills law firm of Rosenfeld, Meyer & Susman, LLP.
should be either sold or rented”…but there is no understanding of the kind of improvements, type or number of buildings to be constructed, proposed cost, or the nature of the development.”10

In Weddington Productions, Inc v. Flick, the court held that a settlement agreement could not possibly exist when the parties—former partners in a sound effects editing business—were unable to reach agreement on critical terms of a sound library license following termination of their partnership.11 The court first held that a license agreement for the sound library was a material term of the broader settlement agreement, and, “therefore, if there was no licensing contract, there was no contract at all.”

The court then held that “no specifically enforceable license contract was ever formed” because the purported contract lacked material terms. These included “the scope of the license, permitted uses, grounds and procedures for termination, indemnity provisions, [and] whether the license would contain an arbitration clause or whether the right to jury trial would be preserved.”12

In a more recent case, Terry v. Conlan,13 the appellate court reversed an order enforcing a settlement agreement in which the parties had agreed to certain “goals” of the settlement but had not agreed to the “means of achieving the goals.” The goals included each party receiving a particular property, with one property to be held in trust. The means involved whether the property in trust would be managed by an independent trustee as well as what type of trust would be created. The court held that the means in dispute were material because they “had a significant financial impact on the parties.” Thus there was no meeting of the minds, and no enforceable settlement agreement.14

**Employment Contracts and Joint Venture Agreements**

Published California appellate decisions show that there is often a lower threshold for finding enforceable oral agreements involving the performance of entertainment-related services. For example, in Skirball v. RICO Radio Pictures, Inc.,15 the court found the existence of an oral contract between a producer and motion picture studio when only the basic terms of a film contract—the story, the leading actor, and money considerations—were agreed to, even though numerous other subsequently negotiated terms were not.

Kerner v. Hughes Tool Company16 is surprisingly, and mistakenly, ignored by many entertainment litigators. It provides one of the best published examples of the low threshold required for the formation of an enforceable, unsigned entertainment-related agreement. The plaintiff, a producer and the entertainment director of the defendant hotel, negotiated for the performance, in the defendant’s main showroom, of a production of My Fair Lady. The parties exchanged signed letters that specified the price that the defendant would pay and the length of the show’s run (a minimum of one year). A new managing director took over the operations of the hotel and told the plaintiff that no agreement existed between the parties.

The Kerner court first noted that a “contract must evidence a meeting of the minds on the essential elements of the agreement.” It then held:

Defendant contends the contract here fails for want of agreement on the essential elements of starting date, identity of performers, responsibility for stagehands, and allocation of pre-production expenses. The letters of 27 June 1968 and 4 August 1968 constituted a sufficient agreement to support the contract. The basic obligations were drawn: plaintiff would provide a production of “My Fair Lady” with orchestra; defendant would pay $75,000 per week for a minimum of one year. Expert testimony showed...
that comparable agreements were often made on a handshake and simple written memorandum. Some elements of the agreement were not specified in the written memorandum, but it does not follow the parties had not agreed on the essential elements or that they intended to negotiate essential elements at some later time.17

Thus, according to the court, the parties generally agreed on the services to be rendered, the payments to be made, and the term of employment. Nothing more was necessary to convince the court that the parties had entered into a binding and enforceable employment contract.

Plaintiffs seeking to enforce oral partnership or joint venture agreements18 often must address the issue of materiality.19 Parties frequently have agreed to nothing more than collaborating upon a broad-based conceptual project or business plan without expressly agreeing upon other terms, such as the specific subject matter of the joint venture, the sharing of profits and losses and risk allocation, the parties’ respective control over the venture’s affairs and dealings with third parties, the exclusivity of the parties’ services, the source funding, the parties’ respective management and representation, the ownership of the rights to the venture, and the parties’ respective services and credits.

Plaintiffs may attempt to use California’s Uniform Partnership Act (UPA) to supply missing terms in these situations. They do so by relying upon case law, including Holmes v. Lerner,20 which states that “parties who expressly agree to associate as co-owners with the intent to carry on a business for profit, have established a partnership…[and] once the elements of that definition are established, other provisions of the [Uniform Partnership Act] and the conduct of the parties supply the details of the agreement.”21

The defendant in Holmes argued that the absence of an explicit agreement to share profits precluded the plaintiff from proving the existence of a partnership agreement under the UPA. The court rejected this narrow argument but did not identify what material terms are necessary in all cases to create a partnership or joint venture agreement.

In Holmes, the court ultimately upheld the formation of an oral agreement to start a cosmetics company based on general statements, such as “We will…do everything” and “[I]t’s going to be our baby, and we’re going to work on it together.”22 The court did not find that these general statements constituted the material terms of the contract. Rather, the court found that the parties had actually discussed and agreed upon a number of material terms with a requisite degree of certainty to allow these general statements to be used as evidence that other enforceable terms had in fact been agreed upon.

The Holmes court found that an enforceable oral partnership agreement existed because the parties had agreed upon something more than a broad conceptual business agenda. The precise purpose and subject matter of the venture were discussed and agreed to: The parties would “start a cosmetics company based on the unusual colors developed by Plaintiff, identified by the urban theme and the exotic names.”23 Thus the parties actually agreed upon a business structure and a specific product to sell. The parties created a name for their concept: “Urban Decay.” The parties also agreed upon a business strategy, obtained a trademark for a company name, hired employees, conducted market and production research, and obtained financing.24 The parties also agreed on various business goals: They “discussed their plans for the company, and agreed that they would attempt to build it up and then sell it. [They] discussed the need to visit chemical companies and hire people to handle the daily operations for the company.”25 In short, the parties in Holmes were actually operating their business rather than just talking about it.

Bustamante v. Intuit, Inc.26 is a recent, less

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plaintiff-friendly, joint venture case involving an agreement to market computer software. The court held that the failure to reach a meeting of the minds on all material points prevented the formation of a contract even though the parties may have orally agreed to some of the terms or taken some action related to the agreement.27 The court explained:

The alleged agreement cannot withstand scrutiny even if it is considered as a composite of specific terms. First, rather than being definite, all of the following terms—which Bustamante represents as material—were actually unsettled both before and after the alleged commitment by Intuit: the form and amount of Bustamante’s compensation; the extent, duration, and nature of the management role, if any; the amount of Intuit’s royalty; the equity percentage held by [Bustamante]... Intuit, and other outside investors; and the liquidity path for both Bustamante and investors.28

Moreover, the evidence showed that a binding relationship was premised upon an essential condition that remained unfulfilled; the existence of a breach and a remedy.” By contrast, the court explained that the parties in Holmes, stating that in Holmes, “both parties had manifested their mutual intent to take Holmes’s idea and make it concrete by forming a company and engaging in the business together.” The court also noted that “the subsequent acts of the parties as they worked out the details [of their agreement] provided sufficient certainty to determine the existence of a breach and a remedy.” By contrast, the court explained that the parties in Bustamante “always understood that it would not be possible” to start their joint venture “without significant third-party involvement in the enterprise.” The court noted that “[c]learly there was no expression of a mutual consent to create a company without investor financing, which in turn could not be obtained without first ironing out the details of the contemplated network of relationships.”29

Fact Specific

Ultimately, the determination of whether an agreement contains material or essential terms will depend upon the specific facts and circumstances of each case.30 Litigators must focus on the objective words and conduct of the parties in weighing whether a trier of fact will ultimately be convinced that the parties intended to enter into a binding agreement. The paper trail and language used in drafts exchanged between the parties, part performance, payments, and the prior dealings of the parties are important examples of objective indicia of the intent to form a binding contract.

However, persuasive objective evidence, particularly regarding entertainment disputes, may be found in less obvious places. These include publicity and press releases drafted by the parties—either jointly or by the party seeking to avoid the obligation—and written agreements with third persons or entities, (such as other actors, writers, directors, or distributors) that make express reference to the unsigned agreement between the litigants. This type of documentation can be powerfully persuasive evidence. People generally do not make public announcements that they have a deal or represent to others in writing that they have reached an agreement with someone else unless they have an objective belief in their statements. This evidence may be much more compelling than the “he said, she said” testimony that is customarily involved in any oral contract case. It may also trump the usual battle between experts over what terms are customarily agreed upon within an industry before an enforceable agreement is reached.

Practical considerations are important and should not be ignored. Litigators must always know who their audience is. Commercial business disputes may involve arbitrators or discovery referees selected by the parties. These neutrals often are retired judges, and they may have authored published and unpublished opinions that show a willingness (or lack thereof) to find the existence of a binding contract in the absence of a signed piece of paper. Part of a lawyer’s due diligence should include online searches and other research for published and unpublished decisions as well as interviews or published articles that may provide hints regarding the opinions of a neutral about the enforceability of oral and unsigned contracts. While this research should certainly not be dispositive in the process of selecting an arbitrator or referee, it will help lawyers make decisions that are fully informed.

So what elements are necessary to make an oral or unsigned contract enforceable? Like so many, if not most, areas of the law, there is no one, clear, simple answer. Nevertheless, lawyers seeking to establish an enforceable oral agreement can take solace that case law exists establishing a low threshold for enforceability. Indeed, there are ways of proving an enforceable oral contract beyond the mere paper trail between the parties.

1 These include transfers of an exclusive interest in a copyrighted work (17 U.S.C. §204(a)) and agreements that must satisfy the statute of frauds, such as agreements that by their own terms cannot be performed within one year from the time of their making (Civ. Code §1624). A written agreement is also required before an injunction can be granted for breach of a personal services contract (Civ. Code §3423).

4 The BAJI jury instruction that comes closest to addressing the issue of materiality or essentiality is BAJI No. 10.66. However, California courts have recognized that even this instruction does not meaningfully tell jurors how to determine what is an essential contract term. See Alexander v. Codemasters Group Ltd., 104 Cal. App. 4th 129, 143, n.5 (2002).
6 Weddington Prods., Inc. v. Flick, 60 Cal. App. 4th 793, 812 (1998) (holding no valid settlement agreement when there was a lack of material terms in the agreement); Louis Lesser Enters., Ltd. v. Roeder, 209 Cal. App. 2d 401, 408 (1962) (holding no contract for joint venture on an action for accounting under the claimed joint venture).
7 Kruse, 202 Cal. App. 3d at 60.
9 Id. at 406.
10 Id. at 409.
11 Weddington, 60 Cal. App. 4th at 815.
12 Id..
14 Id. at 1449.
17 Id. at 933.
18 A joint venture is “virtually identical to a partnership.” Victor Valley Transit Auth. v. Workers Comp. Appeals Bd., 83 Cal. App. 4th 1068, 1076 (2000). The only distinction between the two is that a joint venture is limited to a “single purpose” or a “single series of transactions.” Bank of Cal. v. Connelly, 36 Cal. App. 3d 350, 364 (1973). See also Weiner v. Fleischman, 54 Cal. 3d 476, 482 (1991) (“From a legal standpoint, joint ventures and partnerships are virtually the same, and courts freely apply partnership law to joint ventures when appropriate.”). The provisions of the Uniform Partnership Act are equally applicable to joint ventures. See Victor Valley, 83 Cal. App. 4th at 1076.
19 See Levy v. Firks, 222 Cal. App. 2d 429, 433 (1963) (“An agreement to engage in a joint venture, like any other agreement, in order to be enforceable, must define the obligations intended to be assumed with sufficient certainty to enable a court, when comparing the conduct of the parties with their agreement, to determine whether the respective obligations have been performed or breached.”). See also Mindenberg v. Carmel Films Prods., Inc., 132 Cal. App. 2d 398, 601-02 (1955) (holding that broad statements, such as the parties have “agreed to go into business,” do not create joint venture relationships”).
21 Id. at 457.
22 Id. at 458.
23 Id.
24 Id. at 446.
25 Id. at 447.
27 Id. at 215.
28 Id. at 211.
29 Id. at 212.
Attorneys are often called upon to draft agreements intended to protect a client’s proprietary rights. The client may wish to prevent an employee from using information after leaving. Or, the client may want to keep its vendors or potential business partners from disclosing its information to the competition. In these situations, attorneys should consider advising their clients that courts may not recognize the proprietary right a client claims to have. Additionally, attorneys drafting agreements should be aware of the limitations that public policy and other laws place on proprietary information rights.

Unfortunately, confidentiality provisions and noncompetition clauses are often so broadly written that a party may believe that it has proprietary rights in virtually anything it chooses to designate as proprietary. A clause may, for example, claim protection for “all information, reports, studies...flow charts, diagrams and other tangible or intangible material,”1 with nothing more specific defining the items protected. Or, perhaps more frequently, the drafter will include a catchall generally prohibiting use or disclosure of “proprietary information or material.”2 In Fox Controls, Inc. v. Honeywell, a manufacturer of machine safety products argued that any document on which it stamped its company logo was proprietary and therefore protected.3

This argument, however, was handily rejected by the court hearing the case. As often as not, a recitation in a contract—although important—will not be determinative of the parties’ rights. As a leading opinion put it: “In self-serving ‘Whereas’ clauses, an employer cannot state that he is going to confide something unique and hush-hush, and then merely disclose the A-B-C’s or Mother Goose Rhymes....”4

So how can a party identify and protect proprietary rights that courts will recognize? In case law, possible sources of and limits on proprietary rights include the Uniform Trade Secrets Act (UTSA), statutory provisions barring restraints of trade, federal patent and copyright law, and the common law tort of misappropriation.5

The UTSA is an important reference point.
for any understanding of what proprietary rights are. Indeed, courts often refer to “proprietary material and information” as essentially interchangeable with trade secrets governed by the act.6 The California Uniform Trade Secrets Act statute (UTSA) is found in Civil Code Sections 3426 et seq. To qualify as a trade secret under UTSA, material or information must be the sort that “[d]erives independent economic value, actual or potential, from not being generally known ...and...[i]s the subject of efforts that are reasonable under the circumstances to maintain its secrecy.”7

**Not Generally Known**

The first requirement—that the information is not generally known—may be met by compilations of data such as customer lists or other similar confidential information about customers.8 The misappropriation of customer lists, in particular, has been a frequent subject of trade secret law. As a California court explained in *Morlife, Inc. v. Perry:* “If an employer has expended time and effort identifying customers with particular needs or characteristics, courts will prohibit former employees from using this information to capture a share of the market. As a general principle, the more difficult information is to obtain, and the more time and resources expended by an employer in gathering it, the more likely a court will find such information constitutes a trade secret.”9

Outside of customer list cases, the first requirement may be an issue when a party seeks to enjoin a competitor or former employee from using information that is already available in the public domain—or, at least, to anyone in the particular trade or business.10 Trade secret law is similar to patent law in that there must be some degree of novelty or nonobviousness to the information claimed to derive its value from not being generally known. For example, in *Buffets, Inc. v. Kline,*11 an all-you-can-eat cafeteria chain contended that its recipes and “job manuals” on food preparation had been misappropriated by former employees and others who established a competing restaurant. The Ninth Circuit held that the recipes and manuals were not protected by the UTSA because they concerned “basic American dishes that are served in buffets across the United States.”12

If a contract seeks to prevent an employee or others from using information that does not qualify as a secret to those in the industry, the provision will likely be stricken for violating statutory prohibitions on unreasonably restraints of trade. In California, Business and Professions Code Section 16600 provides: “Except as provided in this chapter, every contract by which anyone is restrained from engaging in a lawful profession, trade, or business of any kind is to that extent void.” The point of Section 16600 is that employees’ lawful pursuit of their livelihood is generally to be encouraged. Employees setting up shop in competition with their former employer will necessarily be hindered from competing if they cannot use any information they gained during their former employment. As one federal appellate court opinion puts it: “[T]he right of an individual to follow and pursue the particular occupation for which he is best trained is a most fundamental right. Our society is extremely mobile and our free economy is based upon competition. One who has worked in a particular field cannot be compelled to erase from his mind all of the general skills, knowledge and expertise acquired through his experience. These skills are valuable to such employee in the market place for his services. Restraints cannot be lightly placed upon his right to compete in the area of his greatest worth.”13

A question that has come up with some frequency in cases outside California concerns whether the information that an employer seeks to prevent a former employee from using merely consists of generalized skill or knowledge of the occupation or is truly a trade secret. *FMC Corporation v. Cyprus Foote Mineral Company*14 is illustrative. In *FMC,* there were only two principal competitors in the highly technical field of lithium battery production, FMC and Foote. FMC’s onetime employee, Fickling, had been instrumental in FMC’s product development. After nearly 10 years at FMC and its predecessor, Fickling decided to jump ship and work for Foote. FMC filed a lawsuit seeking to enjoin Fickling from performing any research and development relating to lithium battery technologies. In denying FMC’s motion for a preliminary injunction, the North Carolina federal district court explained:

FMC asserts that it has trade secrets that implicate almost every stage in the production of battery-quality lithium metals. But the evidence offered in support of those assertions is very general, and FMC seeks an injunction that effectively precludes Fickling from doing any work in his general area of expertise. Under these circumstances, the Court finds that FMC has not shown that its processes, whatever they are, “derive[] independent actual or potential commercial value from not being generally known or readily ascertainable through independent development.”...Rather, FMC seeks something much broader than the protection of its trade secrets to which it is entitled under North Carolina’s Trade Secrets Protection Act and its confidentiality agreement with Fickling. FMC seeks to enjoin Fickling from performing any research and development for Foote in...areas that he worked in for FMC.15

The line between employee training and protectable trade secrets was also addressed in the California appellate opinion *Metro Traffic Control, Inc. v. Shadow Traffic Network.*16 In *Metro Traffic,* a traffic reporting service had a one-year contract with radio station KFWB. In one provision, KFWB acknowledged that Metro’s employees agreed in writing “to treat all traffic gathering and reporting procedures as confidential trade secrets of Metro and to not compete with Metro in the traffic reporting business during their employment and for one year following their termination.” When the contract year ended, KFWB did not renew with Metro and chose to use Shadow Traffic instead. Shadow immediately began building up its staff by procuring employees from competitors, including traffic reporters who had been under contract with Metro. According to the California Court of Appeal, whether Metro could enforce the ban on its former employees’ use of traffic gathering and reporting procedures hinged on whether Metro could show that the procedures amounted to protectable trade secrets, and it failed to do so. Metro Traffic argued that it had developed its procedures to satisfy KFWB’s “very strict and particular requirements regarding the quality, sound and personality of the anchors reporting over its airways....”17 That did not establish the existence of a protectable trade secret, however, according to the *Metro Traffic* court:

No doubt Metro conveyed to its employees KFWB’s preferences and requirements regarding word choice and factual reporting but that does not amount to the compilation of an intangible personal property right owned by the employer. Actors, musicians, athletes, and others are frequently trained, tutored, and coached to satisfy the requirements of their sponsors and audiences, but their talents belong to them to contract away as they please.18

*Metro Life* may be an extreme example, but plaintiffs in trade secrets cases should not expect to convince a court that the “not generally known” requirement is satisfied by general training.

**Effort to Maintain Secrecy**

The second element required to establish the existence of a trade secret—reasonable efforts
undertaken to maintain secrecy—has also inspired its share of litigation. The existence of a confidentiality clause is a good starting point for any argument that efforts were made to preserve secrecy, but that does not end the analysis. In *Pixion, Inc. v. Placeware Inc.*, the plaintiff and defendant entered into a license and distribution agreement as well as a nondisclosure agreement concerning the plaintiff’s Internet conferencing technology. After the license’s term ended, the defendant announced a new product that, the plaintiff contended, infringed the plaintiff’s patent and trade secrets. Regarding the trade secret claim, the defendant contended that, despite the nondisclosure agreement allegedly binding the defendant, the plaintiff had disclosed the same information to potential investors and the public generally, thus destroying secrecy. In holding that the majority of the claimed trade secrets had indeed been disclosed, the *Pixion* court explained:

*Pixion* contends that the various documents PlaceWare relies on to demonstrate public disclosure of *Pixion’s* trade secrets “were made available on a limited distribution basis” to prospective investors on a confidential basis, and were not publicly distributed. However, as PlaceWare points out, none of these documents were the subject of efforts to maintain their secrecy. There is no evidence that *Pixion’s* Business Plan and white papers contained any confidentiality restrictions or conditions. In addition, PlaceWare relies on a 1996 Technical Overview, available on *Pixion’s* public website, and a product review in *Computer Shopper* magazine. From the record here, the Court concludes that none of *Pixion’s* documents were confidential, and the descriptions of *PictureTalk* in them should be considered in evaluating *Pixion’s* public disclosure of its trade secrets.

*Pixion* is not an isolated instance in which seemingly highly technical information that might conceivably qualify for patent protection failed to qualify for trade secret protection. Indeed, the remarkable thing about *Pixion*, which also concerned patent law, is that the court rejected most of the trade secret claims but rather that any portion of the trade secret claims survived. The very act of obtaining a patent has repeatedly been held to destroy the secrecy of an invention for purposes of the UTSA. For example, in *Stutz Motor Car of America, Inc. v. Reebok International,* the plaintiff alleged that he had had discussions with Reebok about use of his air-cushioned shoe device and that Reebok subsequently infringed his patent and misappropriated his trade secrets in its “pump” shoe line.

The *Stutz* court ruled out the possibility that the plaintiff could assert a trade secret on the basis of information disclosed in his patent. As the *Stutz* court explained: “It is well established that disclosure of a trade secret in a patent places the information comprising the secret into the public domain. Once the information is in the public domain and the element of secrecy is gone, the trade secret is extinguished and ‘the patentee’s only protection is that afforded under the patent law.’”

Thus, upon obtaining a patent, a proprietary rights claimant must accept the protections of the patent laws only, to the extent they protect the information, and at the expense of trade secret protection. As the U.S. Supreme Court held in *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*: “Once an inventor has decided to lift the veil of secrecy from his work, he must choose the protection of a federal patent or the dedication of his idea to the public at large. As Judge Learned Hand once put it: ‘[I]t is a condition upon the inventor’s right to a patent that he shall not exploit his discovery competitively after it is ready for patenting; he must content himself with either secrecy or legal monopoly.’” Once a patent is obtained, there is no resorting to trade secret protection.

**Copyright**

The same principle does not hold for copyright protection, however. Copyright and trade secret laws are not mutually exclusive. If, for example, information is published to a limited group who are bound to keep the information confidential, the protections of copyright and trade secret law may be available. Indeed, works and inventions that—within the federal copyright scheme—are not published may receive protection under California’s common law of copyright, codified in Civil Code Section 980(b). It is therefore common to see the simultaneous assertion of claims of copyright, breach of license contract, and misappropriation of trade secret in cases involving technological innovations, particularly in cases involving computer software. In copyright cases, however, the distinction between what is and is not protected must be kept in mind. As the Ninth Circuit explained in *Buffets, Inc. v. Klinke*:

“[C]opyright does not protect an idea itself, only its particular expression….By contrast, trade secrets law protects the author’s very ideas if they possess some novelty and are undisclosed or disclosed only on the basis of confidentiality.”

If, as in *Klinke*, for example, a restaurant tries to prohibit competitors from serving the same type of food on the basis that the recipes are copyrighted, the effort will likely fail. The written expression of a recipe for meat loaf may be copyrightable, but not the idea of meat loaf. In software cases, by contrast, the person misappropriating may well have copied the “particular expression” of computer code as well as the idea, so the distinction may not lessen the protection afforded. On the other hand, if the defendant merely reverse engineered the invention or program, there is essentially nothing in copyright or trade secret law preventing the use of the idea. Nor is there likely any way a party may create such a prohibition through a confidentiality or noncompetition provision in a contract. As Judge Werdegar of the California Supreme Court wrote in the concurring opin-
ion in DVD Copy Control Association v. Bunner.26

Civil Code section 3426.1, subdivision (a) [of the CUTSA] defining “improper means,” states “[r]everse engineering...alone shall not be considered improper means....” [The] argument below that violation of a “click license” agreement prohibiting reverse engineering constituted the improper means does not appear to have merit....[N]owhere has it been recognized that a party wishing to protect proprietary information may employ a consumer form contract to, in effect, change the statutory definition of “improper means” under trade secret law to include reverse engineering....Moreover, if trade secret law did allow alleged trade secret holders to redefine “improper means” to include reverse engineering, it would likely be preempted by federal patent law, which alone grants universal protection for a limited time against the right to reverse engineer.27

Based on this reasoning, in order for claimed proprietary information to receive protection from the courts, there has to be an independent determination that the information qualifies as a trade secret or is patentable or copyrightable. One may therefore conclude that contract provisions attempting to prohibit use of proprietary information are superfluous—either the information qualifies as a trade secret or is patentable or copyrightable. One may therefore conclude that contract provisions attempting to prohibit use of proprietary information are superfluous—either the information qualifies for patent or trade secret protection or it does not, regardless of what the contract says. Indeed, the Metro Traffic opinion strongly suggests that. It holds: “Any attempt to restrict competition by the former employee by contract appears likely to be doomed under section 16600 of the Business and Professions Code, unless the restriction is carefully limited and the agreement protects merely a proprietary or property right of the employer recognized as entitled to protection under the general principles of unfair competition. In other words, it seems that the employer will be able to restrain by contract only that conduct of the former employee that would have been subject to judicial restraint under the law of unfair competition, absent the contract.”28

Metro Traffic, however, may be a case of bad facts making bad law. The case concerned an attempt to preclude radio correspondents from using their personalities in the pursuit of their careers, based on language in the contracts at issue. Moreover, there are at least a few opinions in which courts have held that information or material that may not qualify for protection under the federal laws or the CUTSA may still give rise to a common law misappropriation claim. Such a
claim requires a showing that “(1) the plaintiff has invested substantial time and money in development of its ‘property’; (2) the defendant has appropriated the [property] at little or no cost; and (3) the plaintiff has been injured by the defendant’s conduct.”

The opinions addressing this relatively obscure tort are few. Moreover, their focus has been on whether the common law claim was preempted by copyright or trade secret statutes. Other jurisdictions outside California have held that the tort is preempted, but California courts are in disagreement. Because the cases involve a tort, they have not addressed the policies underlying the prohibition on unreasonable restraints of trade. Given the strength of the policies encouraging competition and individual employees’ ability to pursue their calling, however, so long as no illegal or wrongful means are used to obtain information, it can be expected that when a definitive California opinion is written concerning the common law misappropriation tort, that opinion will dispose of it.

As one court addressing the policies undergirding restraint of trade statutes wrote: “[A]n employee after leaving the service of an employer may carry on the same business on his own and use for his own benefits the things he has learned while in the earlier employment. If this were not so an apprentice who has worked up through the stages of journeyman and master workman could never become an entrepreneur on his own behalf. Any such system of quasi-serfdom has long since passed away.” It would be anomalous indeed if an employer were unable to use an express agreement to prohibit an employee from using information gained on the job, based in large part on public policy, yet accomplish the same thing through a common law tort.

This is not to say that contract provisions attempting to protect proprietary information are without value. In cases in which misappropriation of trade secrets has been found, the existence of a confidentiality or non-competition agreement is always important. It can show that attempts were made to preserve confidentiality, which is one of the key elements of a trade secret claim. The courts will not, however, allow a drafter to transform information undeserving of protection into a basis for a legal claim.

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1 See, e.g., Financial Tech. Int’l v. Smith, 247 F. Supp. 2d 397, 402, 403 (S.D. N.Y. 2002) (broad confidentiality provision ambiguous); see also AMP Inc. v. Fleschhacker, 823 F. 2d 1199, 1203 (7th Cir. 1987) (“[C]ourts have warned plaintiffs of the risks they run by failing to identify specific trade secrets and instead producing long lists of general areas of information which contain unidentified trade secrets.”).

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Wage Scales

A flurry of recent court decisions have refined the contours of California’s wage and hour laws

Wage and hour litigation has increased dramatically since the late 1990s, and that growth has led to a steady flow of appellate opinions interpreting often arcane laws. In 2007, the California Supreme Court decided four significant wage and hour cases and granted review in three others. The California Court of Appeal issued 20 published and 6 unpublished wage and hour decisions of note. The federal courts in California produced 11 significant opinions regarding state wage laws. Aside from these highlights, many other wage and hour decisions were released in 2007. Practitioners are well advised to hit the books before addressing any wage and hour issue—and they should be prepared for more turbulence throughout 2008.

The California Supreme Court made its biggest foray ever into wage and hour law in 2007, issuing decisions addressing meal breaks (Murphy v. Kenneth Cole Productions, Inc.), unlawful deductions from wages (Prachasaisoradej v. Ralphs Grocery Company, Inc.), arbitration of wage and hour claims (Gentry v. Superior Court), and expense reimbursement (Gattuso v. Harte-Hanks Shoppers, Inc.).

In Murphy, a unanimous supreme court held that the additional hour of pay imposed under Labor Code Section 226.7 for missed meal or rest breaks is a “wage,” and a claim for its payment is subject to a three-year statute of limitation. In doing so, the court reversed the majority of court of appeal opinions on the issue. Interpreting Section 226.7 in light of the principle that “statutes governing conditions of employment are to be construed broadly in favor of protecting employees,” the Murphy court reasoned that the plain meaning of Section 226.7 “appears to indicate” that its monetary remedy is

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wages or “premium pay.” The noun “pay,” in its ordinary usage, is interchangeable with “wage,” and other provisions of the Labor Code use the terms interchangeably as well.

The court noted, however, that Section 226.7’s language was also “reasonably susceptible” to the interpretation that the remedy was a penalty, so it relied on the legislative history of Section 226.7 to settle the question of whether the imposed payment constitutes a wage. Noting that the original bill contained both a monetary remedy available to employees and a fixed penalty to be paid to the state, the court concluded that the former was more like premium pay for overtime or on-call time, and the latter more like a classic penalty provision. When the latter was removed from the bill, what remained was a wage obligation.

For more than a century, California law has consistently adhered to the principle that a statutory recovery is a penalty for limitations purposes when “an individual is allowed to recover against a wrong-doer, as a satisfaction for the wrong or injury suffered, and without reference to the actual damages sustained.” The fact that a penalty is not called a “penalty” is not controlling. What is controlling is whether the monetary recovery provided in Section 226.7 is proportionate to the injury. If employees lose 10 minutes of paid time off (the rest break), or the opportunity to go off the clock for 30 minutes (the meal break), they receive an hour of pay.

Murphy rejects a “functional” analysis of the issue, because none of the decisions in which the analysis has been used “involve the construction of Labor Code provisions, which are to be interpreted broadly in favor of the employee.” The Murphy court also held that Section 226.7 is proportional to the injury, because it is designed to compensate for noneconomic injuries as well as economic ones. Thus the monetary recovery is similar to premium pay for overtime, for time spent on standby at the place of employment, or for split shifts.

In Ralphs Grocery Company, Inc. v. Superior Court (Swanson), the Second District Court of Appeal held that any business expense that Labor Code Section 221 or the Wage Orders of the Industrial Welfare Commission (IWC) prohibit from being charged to an employee may not be deducted from gross revenue in calculating net profit if that net profit number is then used in calculating a profit-based bonus for employees. This business expenses include deductions for any part of the cost of workers’ compensation claims and most deductions for cash shortages, breakage, or loss of equipment for nonexempt employees.

In Prachasaisoradej, a closely divided California Supreme Court overruled Ralphs Grocery. The majority’s analysis focused on the definition of “wages” contained in Labor Code Section 200 and construed it to mean “the amount the employer has offered or promised to pay, or has paid pursuant to such an offer or promise as compensation for that employee’s labor.” Accordingly, an employer deducts costs or expenses from an employee’s wages “when it subtracts, withholds, sets off, or requires the employee to return, the compensation offered, promised, or paid as offered or promised, so that the employee, having performed the labor, actually receives or retains less than that paid, offered or promised compensation.”

The employer in Prachasaisoradej fully paid employees their base compensation, and the employees’ only expectation of bonus pay was based on the terms of the employer’s plan. Thus the calculation of their bonus based on net profits does not amount to a deduction from wages of the losses deducted from revenues to determine net profits.

In Gentry, the supreme court declined to adopt a bright-line rule urged by the plaintiffs that would have invalidated all class relief waivers in arbitration agreements covering wage and hour disputes. It chose instead to extend its decision in a consumer class action, Discover Bank v. Superior Court, to employment-related arbitration agreements.

Discover Bank v. Superior Court. The supreme court held that an employer can satisfy its obligation under Labor Code Section 2802 to reimburse employees for business expenses by paying them “enhanced compensation” (such as a higher salary or commission). It may do so only when 1) the pay scheme allows an employee “to apportion the enhanced compensation to determine what amount is reimbursement” and 2) the amount is sufficient to fully reimburse the employee.

Because automobile expenses were at issue in Gattsoso, the court also provided further guidance on this type of expense reimbursement. It held that an employer may properly reimburse an employee in three different ways: The employer can 1) pay employees “the automobile expenses that the employee actually and necessarily incurred,” 2) “multiply[ ] the work-required miles driven by a predetermined amount,” specifically, the per-mile rate established by the federal Internal Revenue Service for tax credits (50.6 cents in 2008), or 3) pay employees a regular “lump sum” (such as a “per diem, car allowance, [or] gas stipend”).

The Vanishing Administrative Exemption

In 2007, the California Court of Appeal continued to construe the administrative exemption to wage and hour laws to limit its application to high-level administrators. The
The additional hour of pay imposed under Labor Code Section 226.7 for missed meal or rest breaks is:
A. A statutory penalty.
B. A premium wage.

The limitations period applicable to claims under Labor Code Section 226.7 is:
A. One year.
B. Two years.
C. Three years.
D. Four years.

Labor Code Section 221 bars employers from offering employees bonus plans based on the net profits of a business.

Are all provisions in employment-related arbitration agreements that limit the right of an employee to seek class or group relief per se invalid under California law?
Yes.
No.

Must a court consider the practical obstacles to the vindication of the rights of other employees when deciding whether to compel individual arbitration of an employment dispute?
Yes.
No.

Must a court take into account whether other employees are likely to be aware of their legal rights when deciding whether to compel individual arbitration of an employment dispute?
Yes.
No.

Must a court consider the value of a plaintiff’s claim when deciding whether to compel individual arbitration of an employment dispute?
Yes.
No.

Must a court take into account the risk that the employer might retaliate against the plaintiff when deciding whether to compel individual arbitration of an employment dispute?
Yes.
No.

Labor Code Section 2802 requires an employer to reimburse the out-of-pocket expenses of an employee separately from the employee’s paycheck.

Which of the following is not an acceptable way of reimbursing employees for car expenses?
A. Paying actual expenses as they are incurred.
B. Paying a per diem or fixed allowance.
C. Paying an hourly rate that is higher than the rate for competing businesses, without any separate component for car expenses.
D. Paying the IRS per-mile rate.

If an employee consents to a per diem payment for car expenses, may the employee sue to recover actual car expenses in excess of the per diem?
Yes.
No.

California courts interpret exemptions from overtime pay requirements broadly in order to accommodate the business needs of employers.
True.
False.

Employees whose primary duty is to produce the product or service that the employer sells cannot qualify for the administrative exemption under California law.
True.
False.

In order to qualify for the administrative exemption under California law, an employee must either 1) participate in making policy for the employer, or 2) have a direct effect on general business operations.
True.
False.

The California Supreme Court is currently reviewing whether insurance claims adjusters are administratively exempt from overtime under state law.
True.
False.

Is “deliberate willful misclassification” a basis for imposing an overtime liability on an employer under California law?
Yes.
No.

Does the plaintiff bear the burden of proving that an overtime exemption is amenable to class treatment?
Yes.
No.

Is an employer required to ensure that employees cease work during meal breaks required under California law?
A. Yes.
B. No.
C. The question is not fully settled.

Is an employer required to ensure that employees cease work during meal breaks required under California law?
A. Yes.
B. No.
C. The question is not fully settled.

Does the issue of whether employers are required to ensure that employees cease work during meal breaks affect the suitability of meal break claims to class treatment?
Yes.
No.

The limitations period applicable to claims under California law?
A. One year.
B. Two years.
C. Three years.
D. Four years.

A premium wage.

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True.
False.
The majority did not need to resort to such a strained analysis to support its intuition that a legal secretary does not qualify for the administrative exemption. A legal secretary clearly engages in the type of work to which the administrative exemption might apply—“office or non-manual work”—but that work is not sufficiently important to be “directly related to management policies or general business operations.”

happily influenced by amended federal regulations.\textsuperscript{32} The end result was one of the largest wage and hour jury verdicts in California history—over $120 million.\textsuperscript{31} In a pair of 2007 decisions, the Second and Third Districts joined the First District in interpreting California’s administrative exemption more narrowly than the administrative exemption provided by the Federal Labor Standards Act (FLSA).

In \textit{Eicher v. Advanced Business Integrators, Inc.},\textsuperscript{32} the Third District addressed the requirement in the Wage Orders that an administratively exempt employee’s “duties and responsibilities involve…office or non-manual work directly related to management policies or general business operations….\textsuperscript{33} According to the court, an administratively exempt employee must either 1) “participate in policy making” or 2) “[a]lter the general business operations of the business.”\textsuperscript{34} Whether the employee falls into the first category or the second, the employee must have a “personal effect on the policy or general business operations.”\textsuperscript{35} If an employee fails to meet these criteria, he or she is a “production employee…whose primary duty is producing the commodity or commodities, whether goods or services, that the enterprise exists to produce.”\textsuperscript{36}

In \textit{Eicher}, the employee in question, a software consultant, was responsible for setting up the software sold by his employer on customers’ computer networks, and training customers’ employees to use the software. The court found that he was a nonexempt production worker who “regularly engaged in the core day-to-day business of” his employer.\textsuperscript{37}

In reaching this conclusion, the \textit{Eicher} court minimized the fact that the Wage Orders expressly provide that “[t]he activities constituting exempt work and non-exempt work shall be construed in the same manner as such terms are construed” in certain enumerated federal regulations.\textsuperscript{38} One of those regulations is former 29 C.F.R. Section 541.205, which is incorporated by reference in current state regulations. Section 541.205 directly contradicts the holding of \textit{Eicher}.

The regulation states that “the phrase ‘directly related to management policies or general business operations’ is not limited to persons who participate in the formulation of management policies or in the operation of the business as a whole.”\textsuperscript{39} Rather, it includes employees who carry out “major assignments” related to a “particular segment of the business.”\textsuperscript{40} \textit{Eicher} notes that the employer failed to cite the regulation in the trial court and rejected the sweep of the federal regulation by concluding that “we have found no evidence that California courts have found persuasive under California law this expansive definition of an exempt administrative employee.” Moreover, the court claimed that adopting the regulation would be contrary to the “command to interpret exemption statutes narrowly to protect employees.”\textsuperscript{41} Thus, \textit{Eicher} arguably stands not only for the proposition that an administratively exempt employee not only must have a “personal effect on the policy or general business operations”\textsuperscript{42} of the employer but that he or she must affect policies or operations of the business as a whole.

So \textit{Eicher} rests on shaky ground. The “command to interpret exemption statutes narrowly”\textsuperscript{43} has never been held to trump the rule that “[t]he test of ‘directly related to management policies or general business operations’ is also met by many persons employed as…claim agents and adjusters…. Since this only goes
to the importance of claims adjustment work in the majority’s view, it does not contradict the conclusion that, regardless of importance, the type of work performed by the claims adjusters in question is not administrative.54

By holding that the “administrative/production worker dichotomy” is a test for the type of work that counts as “administrative” rather than for the level of importance that satisfies the exemption, the Harris majority was forced to engage in verbal acrobatics. Some of these reveal that the distinction, relied on by the majority, between the type of work versus its importance is too weak to sustain the analysis—a point made by the dissent. The majority concluded that “producing the employer’s product is not a necessary condition for doing production, as opposed to administrative, work” and focused on the example of a legal secretary in a law firm. The secretary cannot “produce the firm’s product,” because if the secretary did, the firm would be engaging in the unauthorized practice of law. “But the work of the secretary is paradigmatically nonexempt production work. It has nothing to do with policy or general business operations (except in the sense that, like every employee’s work it is governed by policy).”55

The majority did not need to resort to such a strained analysis to support its intuition that a legal secretary does not qualify for the administrative exemption. A legal secretary clearly engages in the type of work to which the administrative exemption might apply—“office or non-manual work” —but that work is not sufficiently important to be “directly related to management policies or general business operations.”56 But applying this simpler, more straightforward analysis to the claims adjusters at issue in Harris would not have permitted the majority’s conclusion that they are nonexempt.57

The supreme court declined to review this question in Eicher but agreed to review Harris and stated the issue it would address: “Do claims adjusters employed by insurance companies fall within the administrative exemption...?” That statement should be broad enough to reach not only the reasoning in Harris but also Bell II.

Class Certification

Since the rise of wage and hour class actions, plaintiffs have argued without fail that “the employer creates the class.” In these cases, employers uniformly classified their employees as exempt without paying attention to variations in how individual employees perform their jobs. As a result, the employers cannot claim that these variations prevent class certification when employees challenge how they are classified. Over the years, the courts have gone both ways on this argument. Some judges accept it, others do not. In 2007, the First District decisively rejected it.

In Alba v. Papa John’s USA, Inc.,58 a federal district court certified a class of pizza shop managers asserting that they were misclassified as exempt. The court based its decision to certify on two grounds: 1) the employer “made the class” by uniformly classifying the managers as exempt, and 2) the employer imposed standardized operational practices on its stores.59 In doing so, the Alba court placed great reliance on earlier district court opinions that certified similar claims on similar grounds, such as Tierno v. Rite Aid Corporation60 and Wang v. Chinese Daily News, Inc.61

About a month after Alba was decided, the California Court of Appeal rejected the federal court’s rationale, as well as the rationale of Tierno and Wang, in Walsh v. IKON Office Solutions, Inc.62 The trial court in Walsh first certified, but later partially decertified, a class of copy service managers who claimed they were misclassified as exempt. Their claim was based on the ground that the application of the outside sales exemption raised inherently individualized issues concerning how managers allocated time to various job duties. The First District affirmed, rejecting as a matter of law the plaintiffs’ theory of “deliberate willful misclassification”: “In arguing that IKON could be liable without regard to the work the account managers performed, appellants assume that an employer is liable if it classifies employees without regard to the law or investigating what work they do, even if the employees were, in fact, subject to the exemption. While such action on the part of an employer may be “deliberate” and “willful,” it is not “misclassification.”63

The Walsh court also clarified an important procedural issue encountered in certifying wage and hour claims. Plaintiffs often argue that their burden of proof on a class certification motion is limited to proving that their overtime claim is amenable to class treatment. Since exemption is an affirmative defense rather than part of the plaintiff’s case-in-chief, individualized issues in applying an exemption defense should not prevent certification of an overtime claim. The First District squarely rejected this argument as well:

The affirmative defenses of the defendant must also be considered, because a defendant may defeat class certification by showing that an affirmative defense would raise issues specific to each potential class member and that the issues presented by the defense predominate over common issues.64 In a similar vein, Division One of the Fourth District issued an unpublished decision in Brinker Restaurant Corporation v. Superior Court65 reversing a class certification order. The order treated the question of “what [the employer] must do to comply with the Labor Code” as one that was predominant and common enough to justify class treatment. However, disputed legal issues involving the elements of a plaintiff’s claims are not the type of common issues that a trial court should consider in deciding whether to certify a class.

Nevertheless, in a pair of post-Walsh decisions, federal district courts adhered to the rule of Alba, Tierno, and Wang. In one of these cases, In re Wells Fargo Home Mortgage Overtime Pay Litigation,66 the court did not even acknowledge Walsh. It certified a class of home loan consultants, even though the employer “raised serious issues regarding individual variations among [class members’] job duties and experiences.”67 In the other, Krzesniak v. Cendant Corporation,68 the court distinguished Walsh by pointing out that the plaintiff was “not arguing that [the employer] could be liable without regard to the work [class members] performed,” as did the plaintiff in Walsh.69 However, in the very next paragraph the Krzesniak court chided the employer for “ignor[ing] the fact that Plaintiff is challenging Defendant’s policy of classifying all managers as exempt.”70 It held that “Defendants cannot, on the one hand, argue that all managers are exempt from overtime wages and, on the other hand, argue that the Court must inquire into the job duties of each manager in order to determine whether the manager is exempt.”71 This is, of course, precisely what Walsh held an employer could do—as a matter of law, a plaintiff cannot challenge an employer’s policy of uniform exempt classification without regard to whether the employees are, in fact, exempt.72

The individualized factual issues raised by the employer in Walsh were based on the different proportions of work time that managers devoted to their various duties.73 Similar strategies proved successful for employers in Vinole v. Countrypside Home Loans, Inc.,74 Maddock v. KB Homes, Inc.,75 and the Home Depot Overtime Cases.76 Vinole states the rule succinctly: “[I]n cases where exempt status [depends] upon individualized determination of an employee’s work, and where plaintiffs allege no standard policy how employees spend their time, common issues of law and fact may not predominate.”77

But when exempt status does not depend on individualized assessments of employees’ work, the court of appeal is more than willing to order certification, notwithstanding the “great discretion”78 possessed by trial courts over certification decisions. In Bell v. Superior Court,79 the Second District granted writ relief and reversed a denial of class cer-
Murphy answered a host of questions concerning In 2007 the California Supreme Court Unresolved Break Issues for each class member.80 worst and did not require a separate inquiry be resolved on a terminal-by-terminal basis at worst and did not require a separate inquiry for each class member.80

Unresolved Break Issues

In 2007 the California Supreme Court answered a host of questions concerning California’s meal and rest break laws in Murphy, but it left many others unanswered.81 Probably the next big issue in meal break litigation—and one that Murphy does not settle—is whether employers must force employees to stop working to take a meal break, or whether the employer satisfies its obligations under Labor Code Section 512 when it provides a timely opportunity for employees to punch out and take a break. No similar debate exists for rest breaks. The Division of Labor Standards Enforcement (DLSE) takes the position that an employer satisfies its rest break obligations by giving employees the opportunity to take timely breaks. Employees may decline to take a break if they wish. However, employers have “an affirmative obligation to ensure that workers are actually relieved of all duty” during meal breaks.82

In White v. Starbucks Corporation,83 a federal district court rejected the DLSE’s position, holding that an employer need only offer meal breaks, and that to recover premium wages under Labor Code Section 226.7, the “employee must show that he was forced to forego his meal breaks as opposed to merely showing that he did not take them regardless of the reason.” The rule endorsed by the DLSE “would be impossible to implement for significant sectors of the mercantile industry (and other industries) in which large employers may have hundreds or thousands of employees working multiple shifts.”84

Brinker cites White with apparent approval, although the Fourth District ultimately declined to rule on the issue, remanding it to the trial court for determination.85 At the request of the court of appeal, the supreme court summarily granted review of Brinker, vacated the initial unpublished opinion, and remanded the case back to the court of appeal. It seems likely that the Fourth District will issue a new, and published, opinion in 2008. In early 2008, a second federal district court issued an opinion concurring with, and extending the reasoning of, White. In Brown v. Federal Express Corporation,86 the court concluded that the language of Labor Code Sections 226.7, 512, and the Wage Orders was “consistent with an obligation to make [meal] breaks available, rather than to force employees to take breaks.”87 “Indeed,” noted the Brown court, “in characterizing violations of California meal period obligations in Murphy, the California Supreme Court repeatedly described it as an obligation not to force employees to work through breaks.”88 Furthermore, the DLSE’s position “would also create perverse incentives” for employees to violate employer meal break policies in order to collect extra pay.89

Whether an employer satisfies its obligation to provide a meal or rest break by giving employees a timely opportunity to take breaks, or whether the employer is required to make employees stop working during breaks, has significant implications for class certification of break claims. For example, the Brinker court held that if there is no dispute over the fact that an employer need only provide an opportunity for a rest break, “any showing on a class basis that plaintiffs or other members of the proposed class missed rest breaks or took shortened rest breaks would not necessarily establish, without further individual proof” that an employer broke the law.90 Brown reaches a similar conclusion.91 Whether the DLSE’s views on an employer’s “affirmative obligation” regarding meal breaks is correct or not should be

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highly pertinent to class certification of meal break claims.

This question was accorded its proper place in Brinker and Brown. Other class certification decisions in 2007 made assumptions about the issue without any serious consideration of it. In Alba, for example, a federal district court certified a class of pizza shop employees asserting meal and rest break claims based solely on a uniform policy. The court gave no consideration to the issue of whether an employer is in compliance by providing break opportunities but not requiring employees to take them, and did not differentiate between meal and rest claims.

Two other class certification decisions are consistent with White, although they provide no specific analysis of the issue. In Bell v. Superior Court, the Second District affirmed denial of class certification on meal and rest break claims asserted by truck drivers, even though the court reversed denial of the overtime claim. It held that the employer's evidence that routes were scheduled to permit breaks, and that at least some drivers do take breaks, was sufficient to compel affirmance. It did not engage in any discussion of the provide/require issue but noted that the disputed evidence that drivers had the opportunity to take meal breaks constituted substantial evidence from which the trial court could infer "that any driver who did not take the necessary breaks did so for reasons which require independent adjudication."

Similarly, in Blackwell v. SkyWest Airlines, Inc., a federal district court denied class certification to airline ground agents asserting, inter alia, meal break claims. The court based its holding that the meal period claim "requires a highly individualized factual inquiry" on three facts: First, the employer had a patchwork quilt of time tracking systems that did not cover the entire class. Second, the employer permitted supervisors at different airports and duty stations to implement varying meal break policies. Third, there was evidence that some employees—including the class representative—"disobeyed oral directives from supervisors to take their meal breaks." Although the opinion does not contain any discussion of the provide/require issue, the latter point is consistent only with the conclusion that employers are not obliged to require employees to take meal breaks.

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1 Murphy v. Kenneth Cole Prods., Inc. 40 Cal. 4th 1094 (2007).
5 In so doing, Murphy foreshadows the court’s later
opinion in Prachasaisoradej. See Prachasaisoradej, 42 Cal. 4th at 228. The manner in which the Prachasaisoradej court construed the definition of “wages” is not consistent with the conclusion that Labor Code §226.7 imposes a wage obligation.

Murphy, 40 Cal. 4th at 1104.

Id. at 1105-11.


See, e.g., People v. Triplett, 48 Cal. 4th 233, 252 (1996) (holding that fee for contract cancellation is a penalty, since the defendant was obliged to pay a plaintiff “other than what is necessary to compensate him for a legal damage”); County of San Diego v. Milotz, 46 Cal. 2d 761, 766 (1956) (reduction of court reporter’s fees when transcript is not timely filed is a penalty).

Murphy, 40 Cal. 4th at 1111 n.13.

Id. at 1111-14.


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Id. at 1111-14.


Id. at 1111-14.


Id. at 463.

Id. at 462.

Id. at 477 (Baxter, J., dissenting).

Id. at 1375 (quoting Perry v. Thomas, 482 U.S. 483, 493 n.9 (1987)).

Gentry, 42 Cal. 4th at 465.

Gentry, 42 Cal. 4th at 465.


Id. at 462.

Id. at 463.

Id. at 462.

Id. at 477 (Baxter, J., dissenting).


Gentry, 42 Cal. 4th at 465.

Gentry, 42 Cal. 4th at 465.

Gentry, 42 Cal. 4th at 465.

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Gentry, 42 Cal. 4th at 465.

Gentry, 42 Cal. 4th at 465.

Gentry, 42 Cal. 4th at 465.
The Harris majority never suggests that Eicher’s interpretation of “substantial importance” is wrong. To the contrary, it cites Eicher with approval. Harris, 64 Cal. Rptr. 3d at 557. It simply does not adopt Eicher’s analysis.


According to the dissent, “The majority’s analysis is complex. Mine is not.” Harris, 64 Cal. Rptr. 3d at 571.

In re Wells Fargo Home Mortgage Overtime Pay Litig., 2007 WL 3045994 (N.D. Cal. 2007). (affirming denial of class certification when evidence showed wide disagreement between the parties concerning the amount of exempt work performed by retail assistant managers potentially subject to the executive exemption).

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Terminations of copyright transfers are subject to the exacting statutory framework of the 1976 Copyright Act

In 1938—long before he or anyone else realized how successful a writer he would become—Nobel Prize winner John Steinbeck sold “sole, exclusive and open-ended publication rights” to The Grapes of Wrath, Of Mice and Men, Tortilla Flat, and 10 other literary works to Viking Press. The agreement was to remain in effect as long as Viking kept the works “in print and for sale.”

In 2004, Steinbeck’s son and granddaughter served notice on Penguin Books, Viking’s successor-in-interest, that they were terminating the 1938 agreement. They did not do so based on any alleged breach or default. They did so under a federal law that entitles authors or their heirs, after a prescribed number of years, to terminate past transfers of copyright interests and to recapture ongoing ownership and control over the affected works, even when the rights were granted “in perpetuity” and regardless of the amount of compensation originally paid to the author. This same law was used just this year by an author’s heirs to recapture ownership and control over rights to the Superman copyright, which the author had assigned to Detective Comics—also, coincidentally, in 1938—for $130.

Terminations of copyright transfers present some of the most complicated issues in copyright law. The statute that governs terminations is complex and technical, and what little case law exists leaves many questions unanswered. For authors and their heirs, however, terminations are the gift that keeps on giving. And for copyright attorneys, terminations of copyright transfers, although potentially fraught with peril, are a highly stimulating practice area at the forefront of the law.

The ability to terminate a copyright transfer is an innovation of the amended 1976 Copyright Act. While the “termination right” may strike many as an unprecedented restraint on freedom of contract, the right has its origins in a provision of the 1909 Copyright Act. Works first securing copyright under the 1909 Act were entitled to an ini-

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sional 28-year term of protection followed, if timely renewed, by a second 28-year “renewal term,” the rights to which vested automatically in either the author or, if deceased, the author’s “statutory successors.” The 1909 Act’s renewal term was intended to protect authors and their successors against unremunerative transfers early in the careers of the authors.

Throughout the first part of the twentieth century, rights to the renewal term in 1909 Act works were considered to be unassignable by the author during the initial 28-year term. In a landmark 1943 decision, however, the U.S. Supreme Court held otherwise, Justice Felix Frankfurter reasoning that “[i]f an author cannot make an effective assignment of his renewal, it may be worthless to him when he is most in need.” Following this decision, publishers began requiring authors to sign away both the initial and renewal term rights in one transfer, undermining the statutory purpose of the renewal provision.

When enacting the 1976 Copyright Act—which became effective January 1, 1978—Congress responded to this erosion of authors’ rights in several ways. First, it increased the length of the renewal term of 1909 Act works from 28 years to 47 years, for a total copyright term of 75 years (which was later increased by an additional 20 years in 1998). Second, for works originally created on and after January 1, 1978, it abandoned the dual-term concept and provided for a unitary term of U.S. copyright protection equal to the life of the author plus 70 years. Third, it created a new termination right that, unlike the 1909 Act renewal right, was inalienable by the author. Although the termination provisions are located entirely within the 1976 Copyright Act, they apply to both 1976 Act works and already existing 1909 Act works.

To counterbalance this extraordinary right, however, Congress did not allow terminations to operate automatically after a specified number of years. Instead, Congress placed the burden on authors and their statutory successors to comply with highly technical provisions in order to effect termination. Those provisions have been described by one authority as “even more complicated than those for filing a renewal application”—the renewal provisions themselves having been “rightly described by the Copyright Office as ‘the source of more confusion and litigation than any other in the copyright law.'” Failure to comply with the numerous technicalities of the termination provisions and regulations results in forfeiture of the author’s right to terminate an otherwise eligible grant.

Determining Whether a Grant Is Terminable

Under the termination provisions, an “exclusive or non-exclusive grant of a transfer or license of a copyright or of any right under a copyright” is subject to termination “notwithstanding any agreement to the contrary.” To be terminable, an original grant must be made by an “author” or an author’s statutory successors, collectively sometimes referred to as the “termination class.” For copyright purposes, “authors” include, without limitation, songwriters, composers, recording artists, novelists, poets, screenwriters, painters, photographers, software writers, glassblowers, cake decorators, and Internet bloggers—in short, creators of any original work whose subject matter is protectible under U.S. copyright law and fixed in a tangible medium of expression.

Under the 1976 Copyright Act, a deceased author’s termination interest—just like his or her renewal rights—passes by operation of law to a series of statutorily defined successors. Copyright grants executed by these statutory successors are also terminable, provided the grants were executed prior to January 1, 1978. The statutory successors and their respective shares of a deceased author’s termination interest are as follows:

- The widow or widower owns the author’s entire termination interest unless there are any surviving children or grandchildren of the author, in which case the widow or widower owns half of the author’s interest.
- The author’s surviving children, and the surviving children of any dead child of the author, own the author’s entire termination interest unless there is a widow or widower, in which case the ownership of half of the author’s interest is divided among them.
- The rights of the author’s children and grandchildren are in all cases divided among them and exercised on a per stirpes basis according to the number of the author’s children; the share of the children of a dead child in a termination interest can be exercised only by the action of a majority of them.
- In the event that the author’s widow or widower, children, and grandchildren are not living, the author’s executor, administrator, personal representative, or trustee will own the author’s entire termination interest.

It should be noted, however, that a deceased author’s statutory successors can terminate an author’s prior grant only if they are collectively entitled to exercise more than half of the author’s termination interest. This may sometimes prove impossible. Indeed, the 1938 John Steinbeck grant resisted termination for years due to animosity between his widow, who was his third wife, and his children, who were the offspring of his second wife. Each camp controlled 50 percent of Steinbeck’s interest and could not terminate without the other. Only when Steinbeck’s widow died did his son and granddaughter finally control the majority of his termination interest necessary to terminate. Thus, some grants legally eligible for termination may be nonterminable, temporarily or permanently, solely as a practical matter.

Significantly, several categories of copyright grants are immune from termination altogether. A copyright grant made in a will is not terminable. Grants of copyrights in works made for hire are not terminable. Grants to use a copyrighted work in a derivative work are not terminable. Copyright grants made by persons other than the author on or after January 1, 1978, are not terminable. Moreover, only grants of U.S. copyright interests are terminable, leaving non-U.S. rights unaffected. While these exceptions represent substantial categorical carve-outs, the impact of terminations remains considerable.

The Effective Date of Termination

The Copyright Act has two parallel provisions governing terminations of copyright transfers: Section 203 and Sections 304(c)-(d), depending on whether the grants were executed before or after the 1976 Copyright Act came into effect. Grants executed prior to January 1, 1978, are governed by Sections 304(c)-(d). Grants executed on or after January 1, 1978, are governed by Section 203. While there are various and sometimes important distinctions between the two termination provisions, they generally mirror one another.

Termination of pre-1978 grants “may be effected at any time during a period of five years beginning at the end of fifty-six years from the date copyright was originally secured.” If that opportunity is missed, a second opportunity arises 19 years later that “may be effected at any time during a period of 5 years beginning at the end of 75 years from the date copyright was originally secured.”

The timing for terminating grants executed on or after January 1, 1978, under Section 203 is calculated very differently. A grant executed by an author on or after January 1, 1978, is terminable at any time during a period of 5 years beginning at the end of 35 years from the date of execution of the grant; or if the grant covers the right of publication of the work, the period begins at the end of 35 years from the date of publication of the work under the grant or at the end of 40 years from the date of execution of the grant, whichever term ends earlier.

According to Congress, “This alternative method of computation is intended to cover cases where years elapse between the signing of a publication contract and the eventual publication of the work.”
The differing treatment of grants executed before and after the 1976 Copyright Act came into effect was necessary to preserve settled expectations in light of the complicated structure of 1909 Act copyrights. Prior to enactment of the 1976 Copyright Act, U.S. copyrights existed for a maximum of 56 years. The 1909 Act provided for an initial 28-year term of copyright protection plus an additional 28-year renewal term of protection, provided the copyright was timely and properly renewed during the 28th year of protection.

When Congress increased the renewal term of 1909 Act works from 28 years to 47 years in the 1976 Copyright Act, it did so intending that authors and their heirs receive the windfall of the extended renewal term. At the same time, it wanted original grantees to receive the benefits of their earlier bargains. Thus, for prior grants made for the “life of the copyright,” Congress allowed terminations to occur only following expiration of the original 56-year term of copyright protection. Still, Congress recognized that many authors were likely to fail to properly effect their termination rights after 56 years. So in 1998, when Congress added 20 years to the extended renewal term, it gave authors and other members of the termination class a second bite of the apple after 75 years (that is, upon expiration of the earlier 19-year extension), provided the work was still in its renewal term on October 27, 1998, the date the Sonny Bono Term Extension Act was enacted.

Thus, for a termination of a grant of rights in a 1909 Act work, only the rights in the extended renewal term—the final 39 years of copyright protection—are ever subject to recapture by the termination class when the grant covered was executed prior to 1978. For grants executed on or after January 1, 1978—and even for 1909 Act works covered in those grants—Congress adopted a straightforward termination period of 35 years (or 40 years for a grant covering publication rights). It did so reasoning that termination was within the contemplation of the contracting parties, who were on constructive notice of the termination provisions contained in the 1976 Act.

Regardless of whether a grant is subject to Section 203 or Sections 304(c)-(d), the termination of a copyright grant is subject to a five-year termination window. Termination must be effected within the termination window or the right to terminate the relevant grant is lost.

To effectively terminate a grant, the author (or the appropriate members of the termination class in the case of a deceased author or a grant executed by persons other than the author) must serve a notice of termination on the grantee or the grantee’s successor in title no more than 10 and no less than 2 years prior to the effective date stated in the notice. The notice of termination must state the effective date of termination. Perfection of termination requires that a copy of the notice be filed with the U.S. Copyright Office prior to the effective date of termination.

“...future rights that will revert upon termination of the grant become vested” upon service of the notice on the grantee. While there may occasionally be reasons for delaying service—such as when parties are arguing for a reduction in value for estate tax purposes—notice of termination generally should be served as soon as possible. Doing so allows the termination interest to vest in the author’s estate rather than in the author’s statutory successors, thereby avoiding the risk that disputes could arise within the termination class that would prevent the majority consensus required to terminate.

Complicated rules exist concerning precisely which members of the termination class are entitled to serve any particular notice. Equally complex rules also apply to the termination rights of joint authors and their statutory successors, which are treated differently depending on whether termination occurs under Section 203 or Sections 304(c)-(d).

The Post-Termination Moratorium Period

After the U.S. Supreme Court held that an author’s 1909 Act renewal rights were assignable during the initial term of copyright protection, a market developed for speculators purchasing authors’ contingent renewal rights. This development undermined the purpose of the renewal provisions. Seeking to discourage similar speculation in termination rights when enacting the 1976 terminations provisions, Congress provided that “a further grant, or agreement to make a further grant, of any right covered by a terminated grant is valid only if it is made after the effective date of the termination.” As an exception, the statute provides that “an agreement for such a further grant” may be made between the author (or the author’s statutory successors) and the original grantee (or its successor in title) after the notice of termination has been served.

This introduces a confusing element into the terminations landscape. Although sometimes inaccurately referred to as a “first right of refusal,” the provision does not in fact require the terminating party to ever negotiate with the original grantee. But it appears to protect the original grantee from bidding wars, at least prior to the effective date of termination. Moreover, it strongly discourages any grantee or interested third party from advancing funds prior to the effective date of termination under an agreement that a court might later deem to be an unenforceable “agreement to the contrary.”

Attorneys practicing in the terminations area must remain wary of their clients’ entering into an unenforceable or voidable “agreement to the contrary.” Whether executed by the author or another party, these agreements generally may be characterized as violating or compromising the inalienability of an author’s termination interests.

The Ninth Circuit has described the phrase “agreement to the con-
 statutory termination, to revoke a prior grant that parties may contract, as an alternative to according to the court, Congress anticipated at any time to terminate an existing grant to a transfer or license from voluntarily agree-

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Can an original grantee, prior to the author serving a notice of termination, enter into a superseding grant with an author for new consideration, or will a court later find the superseding agreement was an unen-
forceable “agreement to the contrary,” thereby still allowing the author to terminate the original grant? In Milne v. Slesinger, Inc., the sole published Ninth Circuit ter-

minations case to date, the court considered whether a superseding re-grant of rights to Winnie-the-Pooh by the author’s son in 1983 was an unenforceable “agreement to the con-

trary,” thus permitting the author’s grand-

dughter in 2004 to terminate her grandfa-

ther’s underlying 1930 grant of those rights. In Milne, the author’s son had never served a notice of termination but had elected to instead use the threat of termination to lever-

age a more advantageous agreement esti-

mated to be worth hundreds of millions of dollars.

Relying on legislative history, the Milne court held that the 1983 re-grant was not an “agreement to the contrary,” reasoning that when enacting the termination provisions Congress specifically stated that it did not intend for the statute to “prevent the parties to a transfer or license from voluntarily agree-

ing at any time to terminate an existing grant and negotiating a new one.” Therefore, according to the court, Congress anticipated that parties may contract, as an alternative to statutory termination, to revoke a prior grant by replacing it with a new one.

Can a similar effective re-grant be made by an author or an author’s heirs to the original grantee after serving a notice of termination and during the moratorium period? While dicta in Milne suggests that such a grant might not be deemed an “agreement to the con-

trary,” the statute, legislative history, and case law are in fact not entirely clear, and practi-

tioners should tread carefully in this area.

**Grants Exempt from Termination**

Certain categories of grants are not subject to termination. First, a copyright grant in a will is not terminable—provided the tes-
tator/author owns the work being bequeathed when he or she executes the will. The inter-

section of terminations and trusts and estates law can be especially complicated. If an estate contains 1909 Act works and there are termi-

nation issues present, invariably those issues cannot likely be resolved without under-

standing not only terminations but the renewal term area as well. In one of the few reported terminations cases, the author had earlier granted renewal term rights to a third party. The author proper-

ly renewed the copyright and survived into the renewal term, causing his renewal term expectancy to vest in the third-party grantee. Thus the author retained no rights in the renewal term copyrights he later attempted to convey in his will at the time he executed the will.

Second, a grant of a genuine work for hire is not terminable. However, in Community for Creative Non-Violence v. Reid, the U.S. Supreme Court held that whether a work prepared under the 1976 Act by an employee is a work made for hire depends not on the language of the contract but on “the hiring party’s right to control the manner and means by which the product is accomplished.” This area of law appears ripe for litigation by authors wishing to terminate grants when the facts indicate no genuine work for hire relationship existed.

Third, rights to derivative works prepared under authority of a grant prior to its termi-

nation are not terminable. Those works “may continue to be utilized under the terms of the grant after its termination, but this privilege does not extend to the preparation after the termination of other derivative works based upon the copyrighted work covered by the terminated grant.” The legislative his-

tory includes unusually expansive language concerning the derivative works exception as it applies to motion pictures. For purposes of terminations, “a motion picture [is] con-

sidered as a ‘derivative work’ with respect to every ‘preexisting work’ incorporated in it, whether the preexisting work was created independently or was prepared expressly for the motion picture.”

Nevertheless, studios and other producers of content are not entirely free from termi-

nation risks. Even when a work is largely insulated by work for hire agreements, the chain of title for properties based on preex-

isting works may somewhere contain a ter-

minable grant. Following termination, the right to create remakes, sequels, merchandising, and other derivative uses of the under-

lying work will require a new grant from the termination class.

Fourth, termination affects “only the rights covered by the grant that arise under this title, and in no way affects rights arising under any other Federal, State or foreign laws.” Because titles are generally not copy-

rightable, an original grantee may be able to continue to use a work’s title post-termination; and a grantee who has developed trademark or unfair competition rights in a title may be able to assert those rights against a termi-

nating party’s subsequent grantee. By identi-

fying characters with particular actors, an original grantee may be able to assert trade-

mark, unfair competition, or rights of pub-

licity claims against the terminating party or his or her new grantees.

Finally, because copyright law is generally territorial, only U.S. rights are affected by ter-

minations. After termination, the grantee of worldwide rights in a work remains entitled to exploit the work outside the United States.
character).

15 See 17 U.S.C. §§203(a), 304(c), 304(c)(5).
16 17 U.S.C. §§203(a), 304(c).
20 17 U.S.C. §§203(a), 304(c). Thus, while grants to inter vivos trusts are terminable, a grant through a will to a testamentary trust is not subject to termination. See, e.g., Larry Spier, Inc. v. Bourne Co., 750 F. Supp. 648, 650 (S.D. N.Y. 1990); rev’d on other grounds, Larry Spier, Inc. v. Bourne Co., 953 F.2d 774 (2d Cir. 1992).
29 It is critical when dealing with 1909 Act works to confirm whether renewal was properly and timely registered. Throughout much of the twentieth century, failure to timely renew caused the work to enter the public domain in the United States. However, the Copyright Renewal Act of 1992 retroactively made renewal automatic for works that secured copyright protection between January 1, 1964, and December 31, 1977. See 17 U.S.C. §304(a)(3)(B); Pub. L. No. 102-307, 106 Stat. 264, 266 (June 26, 1992). Foreign works once in the public domain in the United States for failure to renew may have had their U.S. copyrights restored under 17 U.S.C. §104A. See B. Gable, Restoration of Copyrights: Dueling Trolls and Other Oddities under Section 104A of the Copyright Act, 29 COLUM. J. L. & ARTS (Winter 2005).
31 Id.
34 Marvel Characters, Inc. v. Simon, 310 F. 3d 280, 292 (2d Cir. 2002).
35 Id.; see also Bourne Co. v. MPL Communications, Inc., 675 F. Supp. 859, 865 (S.D. N.Y. 1987) (suggesting it is permissible to negotiate a grant with someone other than the original grantee—or its successor in title—prior to the effective date of termination, so long as the agreement is not made effective prior to that date).
36 See Bourne, 675 F. Supp. at 866.
37 Salinger v. Slesinger, Inc., 430 F. 3d 1036, 1045 (9th Cir. 2005).
38 The legislative history suggests Congress intended these as merely exemplary. See S. REP. NO. 473, 94th Cong., 1st Sess. (1975).
39 Marvel Characters, Inc. v. Simon, 310 F. 3d 280, 292 (2d Cir. 2002).
41 Milne, 430 F. 3d 1036.
42 Id. at 1041.
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ON THURSDAY, JUNE 5, the Association will present a webinar, or online seminar, led by Alexander H. Lubarsky, on computer forensics. The webinar will address how the new amendments to the Federal Rules of Civil Procedure apply to evidence sourced in digital form. Today’s discovery professionals (attorneys, litigation support staff, IT staff, and paralegals) must be schooled in computer forensics to understand how data is preserved and exchanged. Knowing how to find the other side’s smoking guns and be cognizant of one’s own is critical to success in today’s courtroom. This online seminar will discuss the technologies, rules, and strategies to give litigators the edge in today’s computer-dependent world. Registration for this program closes on June 2, and early registration is required. Registrants must provide an e-mail address, and in order to receive CLE credit, the registrant must log in using the e-mail address provided at the time of registration. If a substitution is made, notice must be given 48 hours in advance. The registration code number is 009755.

$45—CLE+Plus members
$85—LACBA members
$125—all others
1 CLE hour

International Debt Collection

ON TUESDAY, JUNE 3, the International Law and the Remedies Sections will present a program on international coordination of bankruptcy cases and chapter 15 of the Bankruptcy Code. Speakers Judge Samuel Bufford, Daniel P. Harris, and Arnold M. Quittner will also cover private investigations of debtors and their assets and the law on enforcing judgments. The program will take place at the LACBA Conference Center, 281 South Figueroa Street, Downtown. Figueroa Courtyard reduced parking with LACBA validation costs $10. On-site registration and the meal will begin at 11:30 A.M., with the program continuing from noon to 1 P.M. The registration code number is 010014. The prices below include the meal.

$25—CLE+Plus members
$50—International Law and Remedies Sections members
$60—LACBA members
$70—all others
$80—all at-the-door registrants
1 CLE hour

New Outlook Concerning the Billable Hour

ON FRIDAY, JUNE 20, the Association will host a program on the choices lawyers and firms have regarding the billable hour. Work/life satisfaction is at an all-time low in law firms. FACTS is a new methodology developed by Deborah Epstein Henry of Flex-Time Lawyers LLC that enables lawyers to meet firms’ economic demands and the ever-changing demands of the market while also satisfying lawyers’ work/life balance needs. FACTS stands for Fixed, Annualized, Core, Targeted, and Shared Hours. During this program, you will learn how all law firm lawyers can fit into at least one of these categories and how this new infrastructure can enable work/life balance to become a choice for all law firm lawyers, not just working mothers seeking reduced hours. You will also hear about how law firms nationally have begun to rethink the billable hour and how FACTS is instrumental in that movement. The program will take place at the LACBA Conference Center, 281 South Figueroa Street, Downtown. Figueroa Courtyard reduced parking with LACBA validation costs $10. On-site registration and the meal begin at 11:30 A.M., with the program continuing from noon to 2 P.M. The registration code number is 009994. The prices below include the meal.

$15—CLE+Plus members
$160—LACBA members
$225—all others
2 CLE hours
Does the Central District Improperly Award Expert Witness Fees to Prevailing Parties?

**FEDERAL RULE OF CIVIL PROCEDURE** 26(b)(4)(C) requires that the party deposing an expert witness pay the reasonable fees the expert incurs in attending a deposition unless manifest injustice will result. In complex, multiparty litigation involving multiple experts, these fees can run into tens of thousands of dollars—costs that normally must be borne by the party who took the discovery. But Local Rule 54-4.6(c) of the U.S. District Court for the Central District of California, which provides for the recovery of fees paid to a deponent pursuant to Federal Rules of Civil Procedure 26(b)(4)(C), suggests that these fees are recoverable from the losing party at the end of the litigation. If correct, the rule could shift a substantial category of discovery expenses from the party seeking the discovery to the losing party.

In the federal courts, a prevailing party generally is entitled to recover its costs from the losing party. This is often referred to as “taxing” costs. Federal Rule of Civil Procedure 54 governs applications to recover costs and provides that unless a statute, rule, or court order provides otherwise, costs should be allowed to the prevailing party. Unless authorized by contract or some other statute, recoverable costs are limited to those enumerated in 28 U.S.C. §1920 and 1821.1 Among the costs that are recoverable under Section 1920 are “fees and disbursements for…witnesses.”2 These fees are set out in 28 U.S.C. Section 1821, and include daily attendance fee, travel expenses, and, in some cases, a subsistence allowance.3

Above and beyond these statutory witness fees are the hourly rates expert witnesses charge to prepare for and attend a deposition. In Crawford Fitting Co. v. J.T. Gibbons, Inc., the U.S. Supreme Court addressed appeals from two cases raising the question of whether district courts have discretion to award these additional expert fees as costs. The Court held that since expert witness fees are not enumerated in Sections 1920 and 1821, district courts may not award them as costs unless some other explicit statutory authority authorizes them to do so.4

Crawford thus forecloses taxing expert witness fees to the losing party absent some contractual or statutory authority. Local Rule 54-4.6(c) relies on Federal Rule of Civil Procedure 26(b)(4)(C) as a basis for awarding expert witness fees. But does that rule actually provide the district court with such authority?

Under Rule 26(b)(4)(C), a defendant who deposes the plaintiff’s expert witness is required to pay the expert his or her reasonable fees incurred in attending the deposition. Importantly, this is true whether or not the defendant prevails. Rule 26(b)(4)(C) is not a cost-taxing statute in the same vein as Rule 54. Instead, as articulated in the Advisory Committee Notes, its purpose is to require the party seeking discovery to bear the costs associated with the discovery.5 Thus, courts interpreting Rule 26 have held that a party is entitled to recover costs it advances to its expert even if it does not prevail.6

That brings us to Central District Local Rule 54-4.6(c). Local Rule 54-4.6 addresses the costs associated with depositions that are recoverable by a prevailing party. Subsection c provides that such costs include: “Reasonable witness fees paid to a deponent, including any fees actually paid to an expert witness deponent pursuant to F.R.Civ.P. 26(b)(4)(C). However, such fees do not include expert witness fees paid to a trial witness in excess of the statutory witness fee unless otherwise ordered by the Court.”

Local Rule 54-4.6(c) thus appears to authorize a prevailing party to recover expert fees it paid to the losing party’s expert in connection with taking the expert’s deposition. Under this interpretation, a prevailing defendant who paid the losing plaintiff’s expert $5,000 in expert witness fees at the time of the expert’s deposition could recover those costs from the plaintiff at the end of the suit.

If applied in this fashion, the local rule arguably conflicts with Crawford and later Supreme Court cases requiring a clear statutory authority for awarding expert witness fees.7 It is incongruous for Local Rule 54-4.6(c) to rely on a statute designed to allocate expert discovery costs irrespective of who prevails as statutory authorization to shift the costs to the losing party.

So what then can the Local Rule properly be understood to authorize? One answer is that if a party pays its own expert in connection with a deposition taken by another party, it may recover those costs from the party that was seeking the discovery as part of its bill of costs. If this was all that Local Rule 54-4.6(c) was meant to authorize, the Central District should amend it to clarify its true purpose. Doing so would also ensure that it is consistent with the Supreme Court’s directive in Crawford that expert witness fees may only be taxed as costs against a losing party when there is a statute specifically authorizing the court to do so.

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3 See, generally, 10 MOORE’S FEDERAL PRACTICE §54.103[1][c][ii] (3d ed. 2007).
4 Crawford, 482 U.S. at 445.
6 See, e.g., Louisiana Power & Light Co. v. Kellstrom, 50 F. 3d 319, 332-33 (5th Cir. 1995).

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