Avoiding Pitfalls in the Employee Solicitation Arena

Fierce competition among high tech companies and the desire for the best qualified personnel begets aggressive hiring practices, including “Employee Referral Programs.” An “Employee Referral Program” provides generous incentives to employees who refer applicants for openings at the company. The first place where employees of the company are naturally inclined to solicit such referrals is their previous employer, giving rise to heated disputes between the former employer (“OldCo”) and its former employees, as well as between OldCo and the new employer (“NewCo”). These disputes typically focus on the ubiquitous “non-solicitation” provision that appears in virtually every employment contract in the high tech arena.

This article discusses the scant authority interpreting non-solicitation provisions, what departing employees and their new employers should beware of in the solicitation arena, and what departing employees and their new employers should do to avoid the pitfalls of illegal solicitation in the recruiting process.

Continued on Page 2

The Initial Case Management Conference in Patent Cases

Patent Local Rule 2-1 provides that, in addition to the items covered by Fed. R. Civ. P. 26, the parties must be prepared to address certain other matters at the initial case management conference in patent cases. The purpose of this article is to provide a checklist of critical issues, including some that are not specifically identified in the rules, that should be considered at the initial conference to ensure a well-managed proceeding.

Appropriateness of the Deadlines and Obligations Presumptively Called for in the Patent Local Rules

The Patent Local Rules provide a presumptive time table for the disclosure of infringement contentions, invalidity contentions, proposed constructions of disputed claim language, and the opinions of counsel to be used in the defense of willful infringement allegations. The rules also provide a suggested time for a claim construction hearing. A chart setting forth the disclosure and other obligations called for by the rules and a suggested timetable for meeting those obligations is included as an Appendix to this issue. The presumptive obligations and deadlines are not intended to fit all cases but rather to provide a sequence of disclosures that will assist in an orderly litigation process. They may be adapted for the circumstances of a particular case. Patent Local Rule 1-3 specifically contemplates that “[t]he court may accelerate, extend, eliminate, or modify the obligations or deadlines set forth in these Patent Local Rules based on the circumstances of any particular case, including, without limitation, the complexity of the case or the number of patents, claims, products, or parties

Continued on Page 6
Avoiding Pitfalls

The Covenant Not to Solicit

A typical non-solicitation provision reads something like this: “I agree that for a period of X months [typically twelve to eighteen] immediately following the termination of my employment with the Company for any reason, I shall not either directly or indirectly solicit, induce, recruit or encourage any of the Company’s employees to leave their employment, either for myself or for any other person or entity.” Frequently, non-solicitation provisions also include language prohibiting the departing employee from hiring OldCo’s employees for a certain period (typically twelve to eighteen months). These provisions appear as a matter of course in employment agreements, and are typically re-confirmed upon the employee’s departure in termination certificates or separation agreements. At one end of the spectrum, it is clear that provisions prohibiting direct solicitation of OldCo’s employees by a departing employee are enforceable under California law. Loral Corporation v. Moyes, 174 Cal. App. 3d 268 (1985). At the other end of the spectrum, it is equally clear that provisions prohibiting the “hiring” of OldCo’s employees by a departing employee, or the departing employee’s new employer, are enforceable under California law. Id. No published California decision, however, has considered either the meaning or enforceability of the language “indirectly solicit, induce, or encourage any of the Company’s employees to leave their employment,” which falls in the gray area between the prohibition against raiding (enforceable) and the prohibition against hiring (unenforceable).

Loral and the Prohibition Against Direct Solicitation

Loral Corporation v. Moyes is the seminal California decision addressing the enforceability of non-solicitation provisions. Indeed, seventeen years after publication, Loral remains the only published California decision addressing the enforceability of non-solicitation provisions. Loral considered whether a provision in a termination agreement between an employee and his former employer restraining the employee from, inter alia, “disrupting, damaging, impairing or interfering with his former employer’s business by ‘raiding’ its employees” was void under California Business and Professions Code section 16600 (which invalidates provisions in employment contracts prohibiting an employee from “engaging in a lawful profession, trade or business”). Loral, 174 Cal.App. 3d at 271. Characterizing the language at issue as a “no-interference” clause, the court upheld its validity on two main grounds: (1) It did not restrain the departing employee from engaging in his profession, trade or business; and (2) it only “slightly” affected the remaining employees of OldCo in that they were not restrained from seeking employment with NewCo or contacting the departing employee — all they lost was “the option of being contacted by [the departing employee] first.” Id. at 275-79.

Loral and The Prohibition Against Hiring

No published California decision directly addresses the enforceability of a “no-hire” provision. In dicta, Loral suggests such a provision would restrict an employee’s ability to obtain employment of his choice in violation of California Business and Professions Code section 16600. See id. at 279 (the non-solicitation provision “only slightly affects [OldCo’s] employees. They are not hampered from seeking employment with NewCo…It does not restrain them from being employed by [NewCo]…”).

Metro Traffic Control, Inc. v. Shadow Traffic Network, 22 Cal.App. 4th 853 (1994), obliquely addresses the issue. The court decided that clauses in employment agreements prohibiting former employees from providing services for a competitor for a period of one year after the termination of their employment violated California Business and Professions Code section 16600 because they “severely restrict [OldCo’s] employees mobility and betterment.” Id. at 860. One unpublished Ninth Circuit decision applying California law, In re Ingle Co., Inc. v. Videotours, Inc., 116 F. 3d 1485 (9th Cir. 1997), more directly states that an agreement by which a company agrees not to hire its competitor’s employees is void because it violates California Business and Professions Code section 16600.

Though none of these authorities directly holds that “no-hire” provisions in employment or termination agreements are unenforceable under California Business and Professions Code section 16600, the prevalent view among practitioners is that, if tested, such provisions would be invalidated by California courts. Consequently, OldCos rarely, if ever, attempt to enforce the “no-hire” provisions in their employment or termination agreements against departing employees.

Non-California Cases Dealing With “Indirect” Solicitation

Two non-California cases have applied Loral to employees engaging in “indirect” solicitation and may offer some guidance to the practitioner navigating the murky waters of the solicitation arena. In Cap Gemini America, Inc. v. Judd, 597 N.E.2d 1272 (1992), an Indiana court of appeal considered a non-solicitation provision stating: “Employee agrees that he will not…aid or endeavor to solicit or induce then remaining employees of [OldCo]…to leave their employment with another person, firm or corporation….” The court held that this provision did not prevent the employee, who had placed anonymous advertisements in a newspaper seeking to hire computer programmers for NewCo, “from accepting their applications and hiring them where he had not directly solicited applications from [OldCo’s] employees.” Id. at 1287.

In a more recent case, Atmel Corp. v. Vitesse Semiconductor Corp., 30 P.3d 789 (2001), a Colorado court of appeal dealt with a non-solicitation clause that provided: “I agree that I shall not for a period of one year following the termination of my relationship with the Company…either directly or indirectly…solicit, recruit or attempt to persuade any person to terminate such person’s employment with the Company….” The trial court enforced this
provision not only to grant OldCo's request that its departing employees be restrained from soliciting its remaining employees for employment at NewCo, but also to grant OldCo's request that its departing employees be restrained from screening resumes, conducting interviews, participating in hiring decisions, or making employment offers on behalf of NewCo. The court of appeal reversed, holding that the non-solicitation clause was void and unenforceable to the extent it could be interpreted to prohibit the departing employees from "doing anything other than initiating contacts with [OldCo's] employees." Id. at 789. It did so based on the following considerations:

• two expert witnesses testified that such clauses in the high tech industry are consistently interpreted to preclude only direct solicitation;
• the provision should be narrowly construed against the drafter, OldCo, and "[t]o that extent, the preclusion of any and all participation in the hiring process is too expansive a remedy;"
• prohibiting any indirect participation in the hiring process of NewCo would preclude the departing employees from making any favorable comment about their employment at NewCo to anyone who might convey that remark to an employee of OldCo, thus yielding an "absurd result;"
• the Loral court held that the non-solicitation proviso in that case was enforceable only "so long as the provision was interpreted only to prohibit the [departing employee] from initiating contact with his former co-employees;" and
• interpretation of the non-solicitation provision to preclude any and all participation in the new employer's hiring process would render it void under California Business and Professions Code section 16600 and its Colorado analog. Id. at 793-94.

"Indirect Solicitation" or "Encouraging" Former Colleagues To Leave Their Employment?

Given the absence of guidance provided by published (and even unpublished) California decisions, what should departing employees and hiring employers beware of in the solicitation arena? Initiating contact with former colleagues for the purpose of informing them of employment opportunities at NewCo clearly constitutes direct solicitation, and should be avoided. Beyond this, it is not always clear what types of activities would be considered "indirect solicitation," or "encouraging" former colleagues to leave OldCo. Consider the following scenarios:

Scenario 1: Employee X, knowing he cannot directly solicit former colleagues, gives the names and phone numbers of his former colleagues to NewCo's recruiting personnel, or an outside headhunter. Indirect solicitation? Yes.

Scenario 2: Employee X loves working at NewCo. When a former colleague calls him to say hello, employee X raves about the employment opportunities and benefits at NewCo, and tells his former colleague to check out NewCo's website for job openings. Indirect solicitation? Yes.

Continued on Page 6

Future Lost Profit Damages in Business Litigation

"Show Me The Money"
Client to sports agent, Jerry Maguire.
Jerry Maguire (TriStar Pictures 1996)

Money isn't everything — not even in commercial litigation. Other forms of judicial relief — for example, injunctive relief in a trade secret case, declaratory relief in a contract dispute, or specific performance in a battle over real estate — may be equally or more important to the parties.

But the quest for a substantial monetary award is what drives most commercial cases. Many would never be brought, or as vigorously defended, were it not for the prospect of recovering lost profit damages, including lost future profits. Indeed, in many commercial disputes, a plaintiff's claim for lost profit damages will dwarf all other damage components taken together. And if recoverable on a claim that sounds in tort, the measure of lost profits can impact the magnitude of a defendant's punitive damage exposure.

As business litigators, we may be called upon to defend a lost profit damages claim in one case, and pursue recovery of lost profits in the next. An understanding of the controlling standards for, and limitations on, recovery of lost profits will improve one's ability to value such claims and litigate them effectively.

Predicates to Recovery of Future Lost Profit Damages

In California as elsewhere, recovery for future loss of profits is permitted on both tort and contract theories. The predicates to recovery include, of course, those applicable whenever monetary damages are sought. For example, recovery for lost profits is subject to the general requirement that damages must have been legally caused by the defendant's wrongful conduct. And where recovery is pursued on a contract theory, the plaintiff must also show that the loss of profits was foreseeable.

The controlling principles of law relating to causation and foreseeability are relatively straightforward; and their application in lost profit damage cases is often without substantial controversy. The principal battleground over future lost profits is frequently on the issue of certainty.

How Certain Is Certain?

In 1872 the California Legislature enacted California Civil Code section 3283 which provides that "[d]amages

Continued on Page 4
**Future Lost Profit Damages**

may be awarded in a judicial proceeding for detriment ... certain to result in the future.” Benjamin Franklin observed nearly a century earlier that “in this world nothing can be said to be certain, except death and taxes.” (Letter of November 13, 1789 from Benjamin Franklin to Jean Baptiste Le Roy, in 10 The Writings of Benjamin Franklin 69 (A. Smyth ed. 1907)). If only future damages that are certain are recoverable, and if nothing is certain, where does that leave us?

Section 3283 is no more an accurate statement of California law than Franklin’s aphorism is an accurate observation on the facts of life. Surely we can be certain of a good deal more than just death and taxes — for example, the setting of the sun in the west, and the appearance of rain clouds as soon as the car is washed. And many a dollar has changed hands in apparent defiance of the stricture of section 3283 — a statute that remains precisely as it was drawn in the Nineteenth Century.

Every commercial enterprise — or at least every commercial enterprise in the real world — is necessarily subject to some uncertainty. For most, the uncertainties are considerable. That, of course, is why no responsible executive (and no irresponsible executive advised by competent counsel or mindful of securities law) would lay claim to “certainty” when predicting profits. Yet substantial awards for future lost profit damages are not at all uncommon.

If the standard expressed in Section 3283 — a requirement of “certainty” without apparent qualification — does not accurately reflect the law, what then are the controlling standards? How much certainty is required to sustain a claim for future lost profit damages?

The easy — and partly accurate — answer is “reasonable certainty.” It is perhaps worth noting that the word “reasonable” is nowhere to be found in any of the key statutory provisions delineating the scope of recoverable damage, not even in Civil Code section 3301 which speaks directly to the issue of certainty in the proof of damage. (“No damages can be recovered for a breach of contract which are not clearly ascertainable in both their nature and origin.”) See also Civil Code sections 3283, 3300, 3333. Still, here as elsewhere, the law looks to the word “reasonable” to do much of the heavy lifting.

But what is it that must be reasonably certain before lost profit damages may be recovered? And what constitutes reasonable certainty for purposes of proving lost profits?

**Ambiguity in the Case Law**

The language and holdings of California cases are not entirely consistent. This is in part because each case necessarily turns so heavily on the particular facts and evidence before the court; but it is also because divergent formulations of the rule have been adopted in different cases.

When discussing the certainty of future damage, it is important to distinguish the fact of damage from the amount of damage. In the context of a claim for loss of profits, the fact of damage is addressed by showing that plaintiff was deprived of some profit as a result of the defendant’s conduct. Even if the fact of damage can be shown with great certainty, it will generally be impossible to state with anywhere near the same degree of confidence what the precise amount of the future damage will be. How do the courts address and accommodate this fact of commercial life?

There is language in some cases that, if read in isolation, can be argued to require that a claimant demonstrate the fact of damage with the same degree of certainty as the amount of damage. Specifically, in some lost profit damage cases, it is stated that both the “occurrence” and the “extent” of the injury must be shown with “reasonable certainty.” See, e.g., Shade Foods, Inc. v. Innovative Products Sales & Mktg., Inc., 78 Cal.App.4th 847, 849 (2000) (“Lost profits…may be recovered if their extent and occurrence can be ascertained with reasonable certainty.”)

Notwithstanding these statements in the caselaw suggesting a common legal standard for assessing proof of the fact and the amount of damage, California courts have long applied different standards of proof to these inquiries. While uniformly insisting that the fact of some lost profit be shown to a reasonable certainty, the courts have articulated, and applied, a substantially less demanding standard of proof for assessing a claimant’s evidence regarding the extent or amount of lost profit damage. This more relaxed standard has been expressed in a variety of ways. A common formulation is that set forth in GHK Associates v. Mayer Group, Inc., 224 Cal.App.3d 856, 8734 (1990). In GHK Associates the Court of Appeal stated that “the law requires only that some reasonable basis of computation of damages be used... even if the result is an approximation;” A similar standard was adopted in Noble v. Tweedy, 90 Cal.App.2d 738, 746 (1949), the Court of Appeal concluding that “[a]s long as there is available a satisfactory method for obtaining a reasonable proximate estimation of the damages, the defendant whose wrongful act gave rise to the injury will not be heard to complain that the amount thereof cannot be determined with mathematical precision.” In Scott v. Johnston, 36 Cal.2d 864, 876 (1951), a case involving a claim for loss of good will, the California Supreme Court stated that “the law only requires that the best evidence be adduced of which the nature of the case is capable.”

Different formulations of the relaxed standard for proving the amount of lost profits frame the ultimate issue somewhat differently: for example, whether there is “some reasonable basis” for determining damage; or, whether the amount of damage has been shown with as much certainty as the circumstances of the case permit. Counsel should be mindful of, and prepared to address, the various formulations. But whatever might be said about these differences in formulation, there can be no doubt that proof of the amount of lost profits is subject to a distinctly different, and lesser, requirement of certainty than is the fact of damage. This uniform approach to lost profit damage claims would appear to be at odds with the statement appearing in some opinions (like Shade Foods, etc.)
Erosion of the New Business Rule

A claim for lost profits is often supported by evidence of the plaintiff’s past performance and profitability. A comparison of profits before and after the event or conduct giving rise to a claim can often be used to assess the impact of the defendant's challenged conduct. In the past, courts in California routinely held that a new business could not recover lost profits because, in the absence of an operating history, any such damages were necessarily too speculative. See e.g., Patton v. Royal Industries, Inc., 263 Cal.App.2d 760, 768 (1968) (plaintiffs libeled by defendant denied recovery because "there was no way in which the plaintiffs could prove the business they launched for themselves would have been a success if the defendants had not interfered with it").

In California Press Mfg Co. v. Stafford Packing Co., 192 Cal. 479, 485 (1923), the California Supreme Court stated the so-called "new business rule" in absolute terms, and described its underlying rationale as follows:

"Where...damages by way of profits are sought for...interruption or prevention [of a new business or enterprise], the rule is that they will be denied, for the reason that such business is an adventure as distinguished from an established business, and its profits are speculative and remote, existing only in anticipation. The rule is one of necessity. Damages must be certain of ascertainment. If one engages in a new industry, there are no provable data of past business from which the fact can be legally deduced that anticipated profits would have been realized." [Citations omitted]

In the past, the new business rule was often invoked to preclude recovery of lost profits even by an established entity if the profits were to have been earned in the context of a new venture or line of business. See e.g., Handley v. Guasco, 165 Cal.App.2d 703 (1958) (recovery of lost profits anticipated in connection with new location foreclosed by "new business rule").

California courts no longer slavishly adhere to the new business rule. If a claimant can demonstrate the requisite certainty, both as to the fact and amount of lost profit damage, recovery will be allowed notwithstanding that the business or venture was new. For example, in Aronowitz v. Nalley's, Inc., 30 Cal.App.3d 27 (1972), the Court of Appeal affirmed a substantial award of lost profits in favor of the plaintiff, a new entity set up to package meat products, against the defendant distributor that prematurely terminated a distribution agreement. Without a distribution network, the plaintiff's business failed within a matter of months. Relying in part upon budgets prepared by the plaintiff, and profit projections generated by the defendant, the court found there to be sufficient evidence to sustain the award of lost profits to the new enterprise. See also Shade Foods, 78 Cal.App.4th at 889-90 (affirming substantial award of lost profits to an enterprise that was forced out of business after a very brief operating period as a result of the defendant insurer's improper denial of coverage).

Conclusion

How a jury will evaluate the testimony of dueling experts, or choose between competing explanations for the suffering fortunes of a plaintiff's business, can rarely be predicted with certainty — either reasonable or otherwise. But the odds of success here, as in virtually everything we do as lawyers, improve greatly with careful and creative lawyering. A mastery of the facts, a good understanding of the impacted business as well as of the industry in which it operates, and effective experts, can all make a critical difference.

Sage: My son, a man who is absolutely certain of anything is a fool!
Son: Are you sure?
Sage: Positive!
Avoiding Pitfalls

Continued from Page 3


Scenario 3: Former colleague calls Employee X to ask how he likes working at NewCo, and how NewCo compares with OldCo. Employee X raves about the employment opportunities and benefits at NewCo and tells former colleague he would be much happier working at NewCo than at OldCo. Indirect solicitation? Questionable. “Encouraging” a former colleague to leave OldCo for NewCo? Probably yes.

Scenario 4: Former colleague of Employee X sends his resume in response to an ad put out by NewCo and is invited to NewCo for an interview. Subsequent to the interview, former colleague is on the fence about leaving OldCo for NewCo. Employee X, having found out about the interview, calls former colleague and attempts to persuade him that the opportunities at NewCo are far superior to those at OldCo and that former colleague should leave OldCo and come work at NewCo. Indirect solicitation? Questionable. “Encouraging” a former colleague to leave OldCo for NewCo? Probably yes.

Is Employee X in each of the above scenarios in breach of his employment agreement containing the typical non-solicitation provision? The answer is probably yes. Would a court issue an injunction at the request of OldCo to prevent further breaches by Employee X in each of the above scenarios? Lorral provides no definitive answer. On the one hand, the Lorral court found that the non-solicitation provision at issue was enforceable because it did not deprive employees of OldCo from contacting the departing employee: “[a]ll they lose is the option of being contacted by him first.” Id. at 268. The Lorral court further stated that the departing employee could not be enjoined “from receiving and considering applications from employees of his former employer, even though the circumstances be such that he should be enjoined from soliciting their applications.” Id. A superficial reading of this language suggests that as long as Employee X was contacted by the former colleague first, he did not violate his non-solicitation provision no matter what he did after that initial contact. Clearly, under Lorral, receiving an application for employment from a former colleague does not violate a non-solicitation provision. The Lorral court also would not enjoin a former employee from “considering” applications from former colleagues. The courts in Cap Gemini and Atmel focused on the language in Lorral stating that the non-solicitation provision in that case only prevented the remaining employees of OldCo from being contacted by the departing employee first. While this analysis has persuasive value, Cap Gemini and Atmel are not binding on California courts, and cannot guarantee how a California court would rule.

Whether Lorral sanctions the types of actions in Scenarios 2 through 4 above is far from certain. The Lorral court did not consider the language prevalent in more modern non-solicitation provisions that prohibit “indirect

Continued on Page 10
Proposition 65's difficult compliance questions require plaintiffs become more creative and aggressive. And requirements to stem the tide of litigation, particularly as should still focus on Proposition 65. Few expect the new further research by the plaintiffs. Just as certainly, some meritless. Many have already been withdrawn pending of business correspondence; to others, they were more like ransom notes.

The demand letters were sent by a handful of private attorneys seeking to enforce Proposition 65, the (so far) unique California law requiring every business with at least ten employees to give a “clear and reasonable” warning to anyone it exposes to any of about 700 listed chemicals. Cal. Health & Safety Code section 25249.5 et seq.

In a usual year, industry receives about 2,000 such notices. Ironically, the large number sent in the last few days of 2001 was prompted by changes intended to reduce such filings. These amendments, which became effective on January 1, 2002, were sponsored by Attorney General Bill Lockyer and supported, cautiously, by industry groups. They require private enforcers to consult with relevant experts and certify the merit of their allegations. With the amendments, the Attorney General has promised to actively police Proposition 65 notices as well as the settlements they almost always produce. His office now has its hands full.

So do many businesses and their environmental lawyers. Lawyers with Proposition 65 expertise are busy giving crash courses to clients and industry groups. Environmental managers are busy reviewing their compliance situations. Businesses are bracing for litigation.

Some of these notices — perhaps most — will prove meritless. Many have already been withdrawn pending further research by the plaintiffs. Just as certainly, some will raise serious issues for litigation.

Businesses lucky enough to evade this mass mailing should still focus on Proposition 65. Few expect the new requirements to stem the tide of litigation, particularly as plaintiffs become more creative and aggressive. And Proposition 65’s difficult compliance questions require regular review.

Proposition 65 issues are everywhere. Pending cases involve lead solder on light bulbs, heavy metals in herbs, coal tar in dandruff shampoo, and lead in the plastic that coats phone cords. Even products that do not contain listed chemicals can raise issues: power tools are covered only because they create listed chemicals from materials they cut. Furthermore, virtually any chemical in the air should prompt a Proposition 65 review.

The law covers levels of chemicals that are infinitesimal, difficult to detect, and unlikely to harm anyone. This is particularly true for reproductive toxicants, where the level requiring a warning is often one one-thousandth (0.001) of other regulatory levels.

It also covers all exposures. Rather than setting a mass of chemical that can be released or a concentration allowed in an area or product, Proposition 65 speaks in terms of the mass of a chemical to which someone would be exposed in a day. As a result, assumptions have to be made on such issues as how (and how often) people shampoo, change a lightbulb, or talk on the phone.

Notably, Proposition 65 does not require companies to reformulate products or cease emissions. It merely requires a warning to everyone exposed. For manufacturers of some products, this is a minor issue. For others, it requires major changes. Another warning on spray paint may not matter, but a warning on antacids or bottled water would decimate sales.

Proposition 65 is a unique law. Trial lawyers will be surprised by its burden of proof provisions, which require the accused business — once the chemical has been detected in its product or neighboring air — to prove that the amount present is below the level that requires a warning.

Importantly, businesses outside of California are not immune. On the contrary, if they sell products that might find their way to California consumers, they need to comply with Proposition 65.

Companies ignore Proposition 65 at their peril. Available remedies include injunctive relief, civil penalties of up to almost a million dollars per violation per year, restitution, and attorneys’ fees.

In the 15 years since Proposition 65’s passage, neither the courts nor the legislature has provided much relief for businesses. Attempts at federal preemption have met opposition from environmentalists, who fear the precedent for other state requirements that are stricter than federal law.

Efforts at modest reforms continue, however. A dialogue is underway concerning legislative changes that would allow those doing business in California to more peacefully coexist with the law’s mandate. In addition, a variety of clarifying amendments to the regulations have been proposed.

That said, environmental defense attorneys are not holding their breath. Instead, they are working with their targeted clients to determine appropriate responses to the plaintiffs’ allegations. And they are working with those who have not received notices to improve their compliance posture for what may be inevitable: receipt of their very own personalized piece of Proposition 65 “junk mail.”

Mr. Norris is a partner with McCutchen Doyle Brown & Enerson, LLP. tnorris@mdbe.com.
Case Management Conference

patent cases have generally concluded that at least some discovery on infringement and invalidity issues should be allowed before claim construction. Understanding the infringement and prior art contentions places in context the particular language in dispute. Also, since the Federal Circuit does not take interlocutory appeals on claim construction, its review of claim construction is based on a record that includes fully developed infringement and invalidity contentions. This suggests that the Federal Circuit acknowledges that some understanding of the infringement and prior art contentions helps put in context the construction issues.

The question of how any unenforceability issues will be tried should also be discussed by counsel. Unenforceability is a question for the court. *Gardno Mfg*, Inc. v. *Herst Lighting Co*, 820 F.2d 1209, 1212 (Fed. Cir. 1987). If a jury has been demanded for the other issues in the case, the question of when unenforceability will be tried must be decided. In most cases, the practical approach is to try the enforceability issues at the same time as the jury issues with the court taking any evidence solely related to unenforceability outside the presence of the jury after the jury has been excused for the day.

Bifurcation and stay issues should either be resolved at the initial case management conference or at least scheduled for resolution by motion.

Procedure at Claim Construction Hearing

Patent Local Rules 2-1(a)(2) and (4) require that the parties discuss and address at the initial case management conference whether live testimony will be allowed at the claim construction hearing and what the order of presentation will be at such a hearing. Judges vary on their approaches to claim construction. Some do claim construction based upon the papers submitted while others prefer to hear live testimony including experts. The law permits the court to consider extrinsic evidence including experts. See *Pitney Bowes v. Hewlett-Packard*, 182 F.3d 1298, 1309 (Fed. Cir. 1999). “[It] is entirely appropriate, perhaps even preferable, for a court to consult trustworthy extrinsic evidence to ensure that the claim construction it is tending to from the patent file is not inconsistent with clearly expressed, plainly apposite, and widely held understandings in the pertinent technical field.” *Id.* However, the court cannot use expert testimony or other extrinsic evidence to vary claim terms from how they are defined, even implicitly, in the specification or file history. *Vitronics v. Conception*, 90 F.3d 1576, 1584-85 (Fed. Cir. 1996). The parties should discuss with the court how it wants to handle claim construction including whether expert testimony will be allowed and, if so, the extent to which it will be permitted. The rules permit a Claim Construction Prehearing Conference, if the parties and court want to resolve some questions concerning the conduct of the claim construction hearing closer to the date of the hearing. Patent Local Rule 2-1(a)(5). The scheduling of such a conference should be done at the initial case management conference.

Discovery Limitations

The Federal Rules of Civil Procedure now provide for presumptive limits of ten depositions per side (Fed. R. Civ. P 30(a)(2)(A)), a time limitation of seven hours per deposition (Fed. R. Civ. P 30(d)(2)), and a limit of twenty-five interrogatories (Fed. R. Civ. P 33(a)). These limits are probably unrealistic for most complex patent cases. The factors that go into determining the limits for a discovery plan are case specific but revising the presumptive limits should be addressed by counsel. However, courts are concerned about the extensive discovery involved in patent cases and limits are now often placed on the total deposition time per side.

Education of Judge on Technical Issues

It is a rare patent case where the judge is not going to require education on technical issues. How to provide that education and when to provide it should be discussed at the initial conference. In most cases, the parties are willing to work out an agreed-upon procedure at an initial conference. Many approaches to the task of educating the judge have been taken. The court can appoint a special master pursuant to Fed. R. Civ. P 53 or appoint an expert pursuant to Evidence Code section 706. A court can also appoint a technical advisor to speak with the judge on an ex parte basis. See *Association of Mexican-American Educators v. State of California*, 231 F.3d 572, 590-91 (9th Cir. 2000). However, each of these approaches has inherent problems.

Under Rule 53 the special master’s findings are admissible as evidence and may be read to the jury. Under Evidence Code section 706 the expert may be deposed and called as a witness. A technical advisor may talk candidly with judge outside the presence of the parties, which makes some counsel nervous. These problems make each approach unacceptable to many parties.

However, two approaches which parties have generally found acceptable are: (1) educational tutorials put on by the parties through their attorneys, experts or an independent agreed-upon expert; and (2) providing the court with an agreed-upon technical expert with the understanding that the parties can ask the expert under oath on periodic occasions what the judge has asked and what response was given. If a tutorial is put on, many judges like to have them videotaped for later reference.

Although a discussion of the advantages and disadvantages of various alternative dispute mechanisms is beyond the scope of this article, the parties are expected to fully explore such options with each other before the initial case management conference and with the court at the conference.

This checklist is not exhaustive but merely highlights areas of concern that are particularly important in patent cases. Any other issue that may affect a fair and expeditious litigation process should also be raised and discussed.

The Honorable Ronald M. Whyte is a United States District Judge for the Northern District of California, sitting in San Jose.
On TRADEMARK & COPYRIGHT

The courts offered some lessons on copyright in 2001. The lesson to publishers: don’t put your print publications online without ensuring that individual contributors have given you the rights. Freelancers learned that they have more rights than they thought. And the estate of Margaret Mitchell, author of *Gone With The Wind*, found that infringement claims couldn’t stop publication of a novel that sullied Scarlett’s reputation.

The *Tasini Decision*

In *New York Times Co., Inc. v. Tasini*, 533 U.S. 483, 121 S.Ct. 2381 (2001), the U.S. Supreme Court found that publishers violated freelance authors’ copyrights by converting their articles to online databases like Nexis. The decision analyzed the Copyright Act’s revision privilege, which allows a publisher to revise a collective work.

A collective work like a newspaper is the product of several persons’ creative efforts and embodies at least two copyrights:

• the copyright in each separate contribution (i.e., each freelance author’s article); and
• the copyright in the collective work as a whole (i.e., each issue of *The New York Times* including the selection, arrangement of the articles, ads and photos).

Jonathan Tasini and other freelancers owned the copyright in each article they wrote for *The New York Times*. The Times and the other defendants owned the collective work copyrights. The author contracts did not address online publication. The publishers argued that converting the articles for online publication was a permissible "revision" of their collective works.

Section 201(c) of the 1976 Copyright Act grants the owner of the collective work the right to reproduce an author’s contribution as part of that particular collective work, a revision to the work, or a contribution to a later collective work in the same series. In other words, the collective work author can revise the work, as long as its essence remains, e.g., an entire newspaper in Braille, a foreign language, or on microfilm.

The Court ruled that online republication of select articles overstepped the revision privilege because it changed the context of the initial publication. The databases displayed the articles with their original publication information, but in isolation, without the graphics, formatting or juxtaposition of other articles. The Court found that this created a new work rather than a revision to the original work. Thus the freelancers should control publication of their articles online.

This decision affects anyone publishing online. Publishers and freelancers alike must understand fully their contracts and the extent of their rights online.

The *Gone With the Wind Case*

In *SunTrust Bank v. Houghton Mifflin Co.*, 268 F.3d 1257 (11th Cir. 2001), the Eleventh Circuit held that publication of *The Wind Done Gone*, a novel based on *Gone With The Wind*, was not subject to a preliminary injunction for copyright infringement.

SunTrust is the trustee of the Mitchell Trust, copyright owner of *Gone With The Wind* (*GWTW*). Houghton Mifflin published *The Wind Done Gone* by Alice Randall, which appropriated plot, characters and scenes from *GWTW* to create a story in which the slaves manipulated the runnings of the plantation. SunTrust sued for copyright infringement. Houghton Mifflin claimed that *The Wind Done Gone* was a parody protected by the fair use doctrine. The lower court issued a preliminary injunction. The appeals court vacated the injunction as an unconstitutional prior restraint, then issued an opinion. As is common in copyright cases, the appeals court viewed the matter in a different light than the lower court, seeing in Randall’s book a critical parody of GWTW where the lower court saw at best an unauthorized sequel.

First factor: “purpose and character” of the defendant’s work. Although Randall’s work was commercial, weighing against fair use, it was highly transformative, offering a new perspective on GWTW. A transformative use makes the other factors less important.

Second factor: whether the plaintiff’s work is creative or factual, with creative works getting more protection. While GWTW is a creative work, this factor is not material in parody cases because parodies usually copy expressive works.

Third factor: the amount of the borrowing, both in quantity and nature. The court noted that parodies must take as much of the original work as necessary to conjure it up, and more than the minimum must serve the objectives of the parody — to poke fun at the original. The court did not decide whether Randall took more than a reasonable amount, but stated that “extraneous” material weighed against a defendant only if it diminished the market value of the original work.

Fourth factor: whether the defendant’s work will impair the market for the copyrighted work, including the market for derivative works like sequels. Plaintiff furnished little evidence of potential harm, while defendant’s evidence indicated that Randall’s book would not displace sales of the original or authorized sequels.

The court found the defendant was entitled to a fair use defense. This case shows the subjectivity with which courts view copyright cases and how a seemingly solid infringement claim can be gone with the wind.

Ms. Wheble is a partner in the San Francisco office of Cooley Godward LLP, specializing in trademark and copyright law. kwheble@cooley.com
Avoiding Pitfalls

solicitation" or "encouraging" former colleagues to leave OldCo for NewCo. Under Loral, a court could classify these provisions as "non-interference" clauses that do not impair the departing employee's mobility and, therefore, are enforceable. In sum, there is sufficient language in Loral to permit a court to issue an injunction against the employee or NewCo to prevent the conduct discussed in Scenarios 2 through 4. As a practical matter, once such an injunction was issued, departing employees and their new employers simply might not be able to test the validity of such a decision on appeal because of time and/or cost constraints.

To avoid an entangled and expensive legal battle with OldCo, an employee who has signed an employment or termination agreement containing a non-solicitation provision must engage in a delicate balancing act upon leaving OldCo. On the one hand, the employee cannot be expected to refrain from interacting with former colleagues who, in many instances, constitute a significant portion of his social circle. Nor can the employee be expected to completely refrain from commenting about his new employment in his continuing interactions with his former colleagues. After all, such comments are part of every day conversation.

The employee is best advised to use discretion and common sense. When engaging in social interactions with former colleagues, he should speak about NewCo in an objective manner, and should avoid unfavorable comparisons with OldCo as much as practicable. He should not volunteer information about openings at NewCo. If the employee receives an inquiry about openings at NewCo from a former colleague, the employee should refer the former colleague to NewCo's web site and/or Human Resources or recruiting personnel. The departing employee should then refrain as much as practicable from having any involvement in the recruiting and ensuing hiring process, including having further conversations with his former colleague regarding NewCo that could later be construed as "encouragement" to leave OldCo. He should also avoid giving confidential personnel information about the former colleague, such as concerning job performance or salary, to NewCo.

What Can NewCo Do To Avoid Liability To OldCo?

To avoid legal battle with OldCo, NewCo should also put in place safeguards in the recruiting process.

- NewCo should alert its employees that, when they receive unsolicited communications from former colleagues inquiring about employment opportunities at NewCo, they should forward the communications to NewCo's Human Resources department or other appropriate personnel in charge of recruiting and hiring, and keep out of the hiring process as much as practicable. This would include abstaining from offering information to NewCo that the former colleague was extremely skilled in the ABC area of OldCo, and therefore would be a "great fit" in the XYZ area of NewCo, or from discussing confidential salary or benefits information. By doing so, employees of NewCo will avoid another pitfall: inadvertently breaching their obligations under their confidentiality agreements with OldCo, which prevent them from disclosing to NewCo confidential information belonging to OldCo. See Bancroft-Whitney Co. v. Glen, 64 Cal.2d 327 (1966). Most confidentiality agreements in the high tech arena define "confidential information" to include employees' skills and abilities (though in Atmel the Colorado court of appeal noted that "an employee's skills, aptitude, and experiences belong to the employee and not to the employer").

- NewCo should instruct its Human Resources and recruiting personnel that when they receive a referral from Employee X, they should question Employee X whether the referral is a former colleague and, if so, have Employee X take a look at his employment/termination agreement with OldCo to determine if he falls within the ambit of a non-solicitation provision. If the answer is "yes," NewCo should refrain from following up on the referral.

- NewCo should instruct its employees to continue to be cautious about soliciting former colleagues even after expiration of their non-solicitation provisions. NewCo should remind its employees that divulging information relating to their former colleagues' skills and abilities may violate their confidentiality agreements with OldCo; such confidentiality provisions have no expiration date.

Conclusion

Clients frequently balk at the constraints placed on them by non-solicitation provisions, questioning their enforceability and their effect on the clients' perceived "fundamental" rights to "free speech," "freedom of association," and "free competition." However, besides offering clear indications that they would not enforce outright "no-hire" provisions, California courts have upheld the enforceability of other, so-called "non-interference" provisions such as non-solicitation provisions — which protect the stability of OldCo's workforce without affecting the departing employees' mobility. Unless they are willing to test the legal system and create new law, departing employees and new employers alike should proceed cautiously in the solicitation and recruiting processes, and keep the above guidelines in mind.

Ina Stangenes is a partner with Bergeson Eliopoulos LLP, specializing in intellectual property, employment, and commercial litigation. istangenes@belaw.com
Decide What You Want

Start preparing for a deposition by making a wish list of the factual data points that you want to get from the deponent. That requires thinking through what you need to prove and disprove at trial and how you or the other side will ultimately use this witness. Then, prepare an outline of every relevant question that you can think of.

Ask Lots of Questions

It is almost always the question that you didn’t ask — not the one that you did — that comes back to haunt you. If the witness will be at the trial, it is better to get a “bad” answer than none at all. Nothing is more frustrating when preparing a cross-examination than to realize that you don’t know how the witness will respond to a key question.

Ask the important questions several times in different — and increasingly succinct — ways, so you will have a choice of answers to use as evidence or for cross-examination. You are shooting the rough cut, not the final cut, of a movie. Take lots of footage so you will have plenty of options when you splice it together for trial (or use it for a motion or settlement conference).

Don’t “Save” Questions

Fight the instinct to try to surprise your adversary at trial. There may never be a trial, and you will have lost evidence that could be used in motion practice or settlement. And you will be the one surprised if the witness has a good answer. It’s better to take your best shots in the deposition. Just make sure to ask enough follow-up questions to make it very difficult for the witness to change answers later.

Be Spontaneous

Try to use all of this preparation to make you more, not less, spontaneous, confident and direct when the deposition starts. Engaging with the witness is crucial to a good deposition. Your outline should be nothing more than a checklist to make sure you cover everything.

Look the witness in the eye and ask him or her what happened. Listen to the answer and try to connect with the witness. Ask follow-up questions like “why?” and “how?” Most witnesses believe that, if only someone would listen to them, everyone would see that they are right. You will be pleasantly surprised by what you learn if the witness knows that you are listening. Many witnesses will start ignoring and even resenting their own counsel’s objections for interrupting their story.

At some point, you need to go back to your outline to make sure that you get your wish list of key points. But leave those questions, which are necessarily more pointed, to the end of your examination on a particular subject area, so you don’t start by putting the witness on the defensive.

Be Nice

You want the witness to feel as comfortable as possible so the answers will be more candid and expansive. Be gracious from the moment that the witness enters the room. Let them know that they can ask for a break whenever they want. Ask them if there’s anything that you can do to make them more comfortable. Juries notice how trial lawyers treat witnesses and other non-lawyers. So get in the habit of being on your best behavior.

Don’t Let Opposing Counsel Distract You

Defending lawyers will often try to bully you or get you into arguments. Such tactics usually diminish if they don’t work. Listen to genuine objections and correct your question if appropriate, but don’t be distracted. Keep eye contact with the witness and stay focused on the questions and answers. Remember that such tactics usually mean that you have hit a sensitive area, so just bear down.

Feel the Power

Socrates taught our law professors the pleasures of being the one that gets to ask the questions. Take full advantage of that power. If the witness is evasive, keep asking your question — or have the court reporter read it back — until you get a straight answer. Use any opening that the witness gives you. Long answers should be broken down and examined. Any sign of emotion or anxiety should be probed.

In particular, ask follow-up questions whenever the witness acknowledges doing or knowing of something bad. For example, don’t stop when you get the witness to admit that a prior statement was false. Ask them why they didn’t tell the truth. Ask them if they cared whether they told the truth. This is your chance to try out the tough, argumentative questions that you might want to ask in front of the jury. You may get an objection, but not an instruction not to answer.

Depositions are a unique opportunity to get to the point: to focus on how you can win or lose your case and to make the deponent and defending counsel understand — and feel on a gut level — the weaknesses of their case. I hope these tips will help you do that.

Mr. Rice is a partner with Shartsis, Friese & Ginsberg. cr@sfglaw.com.
The red-eye landed smoothly at JFK a little after 6:00 a.m., bringing me in from San Francisco. The sun was just peering over the Manhattan skyline. It was the morning of September 11.

The trip began as a personal emergency. The night before I had received a call from a neurosurgeon informing me that my mother had suffered a ruptured aneurysm and would have to undergo brain surgery immediately. I went to the airport that same evening, wrapped up in my private concerns.

I first learned of what was to come from a nurse in my mother’s Intensive Care Unit the next morning. She said that the staff were going to have to “triage the floor.” A plane had just hit a building, she said, and they were bracing for “the worst.” In the end, of course, there was no flood of injured to the hospitals. The ICU remained eerily as it was. Except now the nurses were weeping.

For the next two weeks I walked the streets of New York, from my mother’s apartment to the hospital, amid the sirens, the candle light vigils, and the posters of the “missing.” The hospital was one of the centers for identification of the victims. Relatives stood in long lines, carrying photos and DNA samples. The pillar of smoke, dust and fire kept rising to the south.

Normal life had been blown apart. The useful illusions of daily life — that we will live safely, if not forever, for a long, long time; that things can be taken for granted; that our work is important; that our financial aspirations and anxieties really do deserve our attention — all were shredded.

At least they were for a time. Soon things did start “getting back to normal.” At least for those of us lucky enough to have been spared the loss of a loved one. We came back, although perhaps each in a different way and at a different time. Walking to the gym one morning in late October I thought, “I remember this routine.” From there it was a short set of steps back to deep engagement with the life of my firm and my cases.

My mother recovered. After nearly three months in various hospitals and rehabilitation centers, she came home. Since her brain surgery had taken place just after midnight on September 11, she of course had no awareness of the catastrophe. Nor did she participate in its unfolding over the next several weeks in our collective consciousness, the weeks when she had almost no consciousness. In December, she started looking at newspapers again. She still asks what all of the news of the World Trade Center is about. I do not think she believes what we tell her. Not really. She lives in a pre-September 11 world.

Routine, “normal” life, useful illusions. I’ve learned to cherish them all. Having a drink with friends at the ABTL February meeting was a solid step back in that direction. Seeing colleagues, adversaries and acquaintances — another reaffirmation of everyday things. I’m looking forward to the April program, and those that follow. Hope to see you there.

Mr. Fram is a partner with Heller, Ehrman, White & McAuliffe. rfram@hewm.com

Mr. Fram is a partner with Heller, Ehrman, White & McAuliffe. rfram@hewm.com
## PATENT LOCAL RULESTIMELINE

<table>
<thead>
<tr>
<th>Date</th>
<th>Action Required</th>
<th>Rule</th>
</tr>
</thead>
<tbody>
<tr>
<td>At least 21 Days before Initial Case Management Conference At Initial Meet and Confer</td>
<td>Both parties — Meet and confer for determining whether modifications to obligations or schedule set forth in Local Patent Rules are warranted</td>
<td>Civ. L.R. 16-Patent L.R. 2-1 F.R. Civ.P. 26(f)</td>
</tr>
<tr>
<td>Day 120</td>
<td>Joint Case Management Conference</td>
<td>Civ. L.R. 16-2</td>
</tr>
<tr>
<td>Day 130 10 days after CMC¹</td>
<td>Patent holder — Initial Disclosure of Asserted Claims and Preliminary Infringement Contentions and document production</td>
<td>Patent L.R. 3-1</td>
</tr>
<tr>
<td>Day 175 45 days after Initial Disclosure</td>
<td>Accused infringer — Preliminary Invalidity Contentions of Asserted Claims and document production</td>
<td>Patent L.R. 3-2</td>
</tr>
<tr>
<td>Day 185 10 days after Preliminary Invalidity Contentions</td>
<td>Both parties — Exchange of Proposed Terms and Claim Elements for Construction</td>
<td>Patent L.R. 4-1</td>
</tr>
<tr>
<td>Day 205 20 days after Exchange of Proposed Terms</td>
<td>Both parties — Exchange of Preliminary Claim Constructions and Extrinsic Evidence</td>
<td>Patent L.R. 4-2</td>
</tr>
<tr>
<td>Day 235 60 days after Preliminary Invalidity Contentions</td>
<td>Both parties — Joint Claim Construction Statement</td>
<td>Patent L.R. 4-3</td>
</tr>
<tr>
<td>Day 265 30 days after Joint Claim Construction Statement</td>
<td>Claim construction discovery cutoff</td>
<td>Patent L.R. 4-4</td>
</tr>
<tr>
<td>Day 294 14 days after Opening Brief</td>
<td>Accused infringer — Response brief</td>
<td>Patent L.R. 4-5</td>
</tr>
<tr>
<td>Day 301 7 days after Response Brief</td>
<td>Patent holder — Reply brief</td>
<td>Patent L.R. 4-5</td>
</tr>
<tr>
<td>Approx. Day 315 14 days after Reply Brief</td>
<td>Both parties — Claim Construction Hearing</td>
<td>Patent L.R. 4-6</td>
</tr>
<tr>
<td>30 days after Claim Construction Ruling</td>
<td>Patent holder — Final Infringement Contentions (if required)</td>
<td>Patent L.R. 3-4(a)</td>
</tr>
<tr>
<td>50 days after Claim Construction Ruling</td>
<td>Accused infringer — Final Invalidity Contentions (if required); Willfulness document production and privilege log</td>
<td>Patent L.R. 3-4(b); 3-6</td>
</tr>
</tbody>
</table>

¹For a declaratory judgment action in which the patent holder does not file a counterclaim for patent infringement, the Preliminary Invalidity Contentions are due on this date. Patent L.R. 3-3.