

Patent REPORT

NORTHERN CALIFORNIA

Volume 6 No. 3

JULY '97

An Expert Witness' Views on Intellectual Property Damages

As a financial expert with training in finance and business strategy as well as consulting and industry experience, I address intellectual property damage issues by looking at the economic reality of each situation. I look at the overall financial and operating positions of the parties and their markets, the types of business decisions that they have made and would have made "but for" the tort alleged, and then evaluate the financial impact of the tort. I rely on the attorneys to make sure that this economic reality is in sync with the law, which sometimes creates a tension between us. At times my views on damages have been considered to be too far-reaching despite the fact that I consider myself to be relatively conservative – and never speculative – in my approach. On the other hand, I have sometimes clung tenaciously to my view of economic reality even when alternate views might generate higher damage claims (although, I believe, not higher actual awards).



Sydney M. Firestone

Happily for both me and my attorney clients, the business acumen of the judiciary has improved. The evolution of intellectual property damages and, in particular,

Continued on Page 2

Also in this Issue

Art Raedeke	In the Eye of the Beholder: How Jurors Perceive Evidencep. 3
Rachel Krevans	On PATENTSp. 7
Zela G. Claiborne	On MEDIATIONp. 9
Steven Oroza	On CREDITORS' RIGHTSp. 11
Harold J. McElhinny	Letter from the Presidentp. 12

Cirrus Logic Revisits Liability for Analyst Reports

SECURITIES analysts who follow public companies issue reports about past and present operations that also contain predictions about the company's future, such as forecasted earnings per share. When the company's stock price falls precipitously, plaintiffs frequently claim that the company is liable for alleged misstatements (including "false" forecasts) in these reports.

The "Entanglement" Test

In *Elkind v. Liggett & Myers, Inc.*, 635 F.2d 156, 163 (2d Cir. 1980), the Second Circuit affirmed a judgment that an issuer was not liable for analysts' projections because the company "did not place its imprimatur, expressly or impliedly, on the analysts' projections." *Elkind* acknowledged, however, that "a company may so involve itself in the preparation of reports and projections by outsiders as to assume a duty to correct material errors in those projections. This may occur when officials of the company have, by their activity, made an implied representation that the information they have received is true or at least in accordance with the company's views." *Id.* Under this "entanglement" theory, if a company sufficiently entangles itself with an analyst's report, the company can be liable for misstatements and omissions in that report.

Issuers have fared well under this test. The Ninth Circuit has noted "sound reasons to construe the entanglement requirement strictly." *In re Syntex Corp. Securities Litig.*, 95 F.3d 922, 934 (9th Cir. 1996).

Other Theories

Judge Orrick recently granted summary judgment that an issuer was not liable for statements made by analysts.

Continued on Page 8



William O. Fisher

Intellectual Property Damages

significant recent case developments convince me that, even though business issues are becoming more complex, the judiciary's understanding of these issues has become more sophisticated. This has translated into a willingness to deviate from or expand on established precedents so that the resulting awards more closely reflect economic reality.

The following overview of the evolution of damages for patent infringement and other intellectual property cases is not, of course, offered in lieu of specific legal research and advice based on the particular circumstances. However, I'll try to share some insight into how a damage expert might interpret various damages issues.

Patented Product Damages

The scope of patent infringement damages is defined generally by Title 35 § 284 of the U.S. Code as being an amount "adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court". For guidance in interpreting the Code, counsel often advise me to look to two major cases: *Panduit Corp. v. Stahl Bros. Fibre Works, Inc.*, 575 F.2d 1152 (6th Cir. 1978), for lost profits, and *Georgia-Pacific Corp. v. U.S. Plywood Corp.*, 318 F. Supp. 1116 (S.D.N.Y. 1970), for reasonable royalties. *Panduit*, decided at a time of simpler products and markets, took a black or white view — to claim lost profits, the patent owner had to demonstrate that he manufactured and sold the product in sufficient quantities to satisfy the demand for the infringer's product, and that his was the only available non-infringing alternative to the consumer. If he could not demonstrate this, he could only claim royalties on the sales made by the infringer, at a rate that would have been negotiated at the beginning of the infringement between a "willing licensor and willing licensee." The assessment of this royalty rate was to be guided by the *Georgia-Pacific* factors.

In general, attorneys took an "either/or" approach and sought either lost profits, if appropriate, or reasonable royalties — but not a combination. This may not be economically realistic, as demonstrated by the following hypothetical. A small potato processor has developed a patented process for reconstituting dried potato sticks into french fries that are indistinguishable from the fresh product. He has sold this product regionally to both independent and franchise restaurants for 5 years, with steady growth in sales but no plans for plant expansion or sales outside his region. A large fast food restaurant supplier, with national manufacturing and distribution, has infringed on his process and is selling to major restaurant chains across the country. Because of his emphasis on service and quick delivery, the patent owner has been able to charge a higher price than the large supplier, and achieve superior profit margins. Therefore a lost profits calculation, applied to all the infringer's sales, would likely result in a higher potential award than reasonable royalties, which, according to *Panduit*, should take into consideration the infringer's profit after accounting for the royalty.

However, without supporting evidence, it may be difficult for an expert to claim that the patent owner would have been able to capitalize on this product demand, since he has never tried to expand geographically and may be unable to do so. In this case, a hybrid approach would better reflect actual results "but for" the infringement. This approach was accepted in *State Industries, Inc. v. Mor-Flo Industries, Inc.*, 883 F.2d 1973 (Fed. Cir. 1989), which stated that "the award may be split between lost profits as actual damages to the extent that they are proven and a reasonable royalty for the remainder." This would reflect "economic reality" because the patent owner, who could not exploit the patent fully on his own, would probably be glad to have the large distributor do so as long as he received equitable royalties and his own market was not compromised.

State Industries also recognized that non-infringing substitutes can be significant. It updated *Panduit* for multi-competitor, multi-product markets and allowed for the distribution of the infringer's sales according to relative market share. In our example, frozen french fries may be a non-infringing substitute for the patented product. It is plausible that some of the infringer's sales could have been diverted from suppliers of the fresh product. Thus, an allocation based on market share excluding the infringer (in this case, within the patent holder's region) serves as a solid starting point to determine the patent owner's lost sales.

3M v. Johnson & Johnson Orthopedics, 976 F.2d 1559 (Fed. Cir. 1992), took a further step by recognizing that additional competitors entering a market can affect all participants' prices. If new entrants can charge prices lower than existing competitors, then all suppliers may have to lower their prices to maintain market share. Alternatively (as in *3M*), existing players may forego planned price increases in order to compete. Therefore, the patent holder may be entitled to damages not only for lost sales, but also for the price erosion on sales that he was able to make. This argument is particularly effective in a market where there is low price elasticity of demand. That is, consumers are unlikely to buy a product less frequently if it costs more. In this case, an infringer who causes price erosion is not impacting the volume of product sold — only his share of the volume. Where price affects a consumer's decision to buy (as is typically the case), price erosion is more complicated to analyze since it affects not only the price, but the volume of sales. However, price erosion remains an economic reality and should be considered carefully by an expert witness.

Non-Patented Sales as a Component of Damages

A whole new category of damages was established when courts allowed damages for sales beyond those of the patented product itself. To understand the evolution allowing damages for lost profits for non-patented complementary items *even when the patent owner did not sell the patented product*, it is helpful to understand the economic concepts behind complementary goods.

Complementary goods are those which are consumed "jointly" (though not necessarily simultaneously) with a patented product. For example, in order to use a custom camera case, it is necessary to own the camera for which

Continued from Page 2

it was designed. Often, determining whether goods are complementary is an empirical question. One may have to observe or statistically correlate the buying habits of the consumer. For example, in many cases an increase in the price of one product will cause the demand for the complementary product to fall.

An early step that courts took in recognizing complementary sales in lost profits calculations was to allow recovery of the entire market value of an apparatus based on infringement of a key part of the apparatus. For example, a hypothetical manufacturer of motorcycles, Acme, has a patented feature on the drive train — The Acme Ultimate Drive — that has been shown to be a primary reason that consumers buy Acme products. In the strictest sense, the balance of the components in the Acme motorcycle are complementary goods — they are physically integrated and will always be sold together with the drive train. Megacycles has infringed Acme's drive train patent. Acme is entitled to the total profit lost or "entire market value" of the motorcycle for each drive train sale that it lost due to Megacycle's infringement. *Leesona Corp. v. United States*, 599 F.2d 958 (Ct. 1981), and *Paper Converting Machine Co. v. Magna-Graphics Corp.*, 745 F.2d (Fed. Cir. 1984), confirmed that there are limitations to the "entire market value rule." For example, assume that the shutter mechanism is the only patented feature on an expensive camera. If the mechanism is not a major factor in the consumer's buying decision, then it may be inappropriate to use the entire market value rule. In this case, an apportionment of profits on lost sales might be considered.

Extending the concept of complementary sales, suppose that Acme offered a specialized handlebar as an option to its basic product. This is a functionally related collateral sale which Acme would not be able to make if a customer chose the Megacycle product, so an expert should claim these lost sales as an element of damages if they can be quantified with reasonable certainty.

In 1995 the courts took the next logical economic step — extending lost profits to non-patented, but competing products — and expanded the scope of damages beyond collateral products. Let us assume that Acme produced a lower priced motorcycle — the Acme Lite — that did not use the patented drive train, and that Megacycle's product was styled and priced to compete with both the Acme Lite and The Ultimate Drive. If Acme can demonstrate that a sharp decline was experienced for both products after Megacycle introduced its infringing product, *Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538 (Fed. Cir. 1995), would allow Acme to claim lost profits for both models — not just the patented model. *King Instruments Corp. v. Luciano Perego and Tapematic SrL*, 65 F.3d 941 (Fed. Cir. 1995), extended this notion further. Under *King*, it was not even necessary that Acme sell the Ultimate Drive product — that is, exploit its patent in a strict commercial sense as required by *Panduit* — in order to claim damages on the Acme Lite as long as it could demonstrate that sales of the infringing Megacycle caused sales of the Acme Lite to decline. Both these decisions make economic sense to financial experts.

Continued on Page 6

In the Eye of the Beholder: How Jurors Perceive Evidence

JURORS' perception of evidence at trial often differs markedly and unexpectedly from the way trial attorneys view the same evidence. This result derives from the fact that the trial experience, in general, is vastly different for a juror than it is for a legal professional. A number of factors significantly influence how jurors respond to evidence at trial, causing them to draw conclusions and inferences that may be at odds with the desired outcome. Among these factors are:

- Personal traits that jurors bring with them to trial
- Anxiety because of the environment
- Technical and legal complexity
- Lack of context
- Trial procedures

Factors Affecting Juror Perception

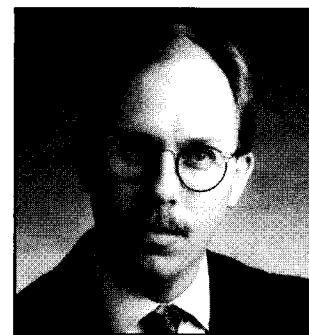
Cognitive filter: Jurors view evidence through a "cognitive filter," i.e., the accumulated knowledge, attitudes, beliefs, experiences and other personal characteristics that jurors bring with them to the trial. These unique traits have a profound impact in defining how jurors react to information encountered in all aspects of their lives, including evidence presented at trial.

Because jurors filter trial evidence through this constellation of pre-existing influences, the "spin" they put on evidence is frequently idiosyncratic. For example, a plaintiff juror in a recent securities fraud mock trial assigned an unusually high duty to the defendant because of an experience he had in which his brokerage firm refunded money he and other investors lost in a company that went under. In his view, securities firms have almost a routine obligation to do the same when investments go bad.

Anxiety: Jurors' perception of evidence is affected by their discomfort with the environment in which they find themselves. For most jurors, the trial experience is novel and intimidating. In post-trial interviews, jurors have referred to the experience as both "frightening" and "mysterious." Furthermore, jurors' expectations of the trial process — which often derive from the O.J. trial or tightly-scripted episodes of television programs like *LA Law* — are often at odds with reality. The deliberate, sometimes plodding pace of a real trial often tries jurors' patience and attentiveness.

Complexity: Jurors are often confronted with highly complex legal and technical issues. They are expected to evaluate arcane information they are receiving for the first time that is in direct conflict with other information being presented. By contrast, the trial attorneys and expert witnesses have dealt for years with the information at issue. They understand it well and feel comfortable with its application. Jurors have no such familiarity or sense of comfort.

Continued on Page 4



Art Raedeke

In the Eye of the Beholder

Context: Court room presentations often fail to provide jurors with a sufficient framework within which to evaluate evidence presented. In post-trial interviews, jurors frequently express confusion over why a witness was on the stand or why certain evidence was introduced. This is especially true with deposition testimony that is read into the record, sometimes as "filler" because of the unavailability of a witness. If jurors are not sure how the information fits into the overall case, they can become irritated that their time is being wasted.

Procedures: Trial procedures can impede rather than enhance jurors' ability to assimilate evidence. Prohibitions of taking notes and asking questions of witnesses severely restrict jurors' retention of information and their ability to clarify areas of confusion. Providing jurors with their instructions and verdict form *after* presentation of the evidence is also a problem. As a result, when evidence and testimony is introduced, jurors may not even know how it relates to the decision they must reach. Informing jurors of the questions they must answer only after they have formed their general opinions about the case increases the likelihood that they will interpret instructions and verdict questions in ways that allow them to reach their desired outcome. In a race discrimination case, for example, jurors were questioned after trial about a glaring inconsistency in their responses to verdict questions. The explanation given by several jurors was essentially that they felt the plaintiff had been treated unfairly (not discriminated against) and answered questions in a way that allowed the jury to give him some compensation. It may be that, if jurors had been focused on their ultimate decisions earlier in the process, they would have evaluated evidence during trial more in line with the legal issues of the case.

Juror Response

These factors make the jurors' task very difficult to perform. They are placed in an unfamiliar and highly constrained environment and asked to make weighty decisions based on limited and often confounding information. Yet, jurors typically rise to the occasion. Although there certainly are renegade jurors who seize the opportunity to punish a philosophical adversary, most jurors want to do their job fairly and come to the right decision. Faced with a difficult task, jurors tend to process information presented at trial and resolve the issues at hand in a way that makes sense to them. In so doing, they sometimes impose a structure on the case that varies from that desired by the advocate.

One way in which many jurors process case information is to distill the dispute into simple, allegorical terms. They draw on their own values and experiences to develop a "story" of the case that allows them to understand the case on their own terms. For example, in a product liability suit, jurors may view the case as an example of a manufacturer putting profits over the safety of consumers, while in a contract case jurors may think "a deal is a deal" and disregard other aspects of the case.

Once jurors have arrived at their "story" of the case, they tend to process information selectively in a way that

fits their global perception of the case. They accept, reject or distort information depending on how well that information fits into their case view. This process is not necessarily intentional; jurors may simply be more attentive to information that comports with their point of view. Whatever the reason, when disputed or ambiguous information is presented, jurors will impose the interpretation with which they are most comfortable, even if that interpretation requires a stretch of the imagination. In a premises liability case, for example, a custodial worker claimed to have suffered a needle-stick injury at about 8:00 p.m. In support of her claim, she presented testimony of a co-worker to whom she had allegedly reported the incident immediately after it happened. It turned out, however, that this co-worker had not punched his time card until 10:00 p.m. that evening. When this inconsistency was presented to jurors in a mock trial, those who wanted to side with the plaintiff had little difficulty in explaining away this discrepancy. Some speculated, for instance, that the coworker had a girlfriend at work and that he came to work two hours early to see her but did not punch in until his shift began at 10:00. These jurors wanted to believe the plaintiff's story and came up with a way to do so.

Strategies to Control Perceptions

Given the obstacles jurors must overcome in order to do their job well, trial attorneys must take steps to enable jurors to reach the desired conclusions regarding the evidence presented.

First, litigators must provide jurors with a thematic case framework around which the entire trial presentation is built. This framework should consist of a story of the case that includes several succinct case themes that provide jurors with a reason for agreeing with your position. In cases where themes have been well-established, jurors in post-trial interviews have used the same themes to justify their verdict. In an insurance coverage matter, for example, the theme "times have changed" was used to convey to jurors the idea that waste disposal practices were very different during the time at issue in the case. When interviewed after the trial, several jurors used those very words to explain why they decided the case as they did.

After constructing the case framework and themes during opening statements, every subsequent element of case presentation should fit this framework. Jurors must understand how each piece of testimony or evidence fits into the overall picture and what conclusions they are to draw.

Witnesses, too, must know how their testimony fits into the case framework and what message they are there to communicate. Each witness should tell a full story that uses and reinforces case themes and clearly points out the conclusions to be drawn. Especially with expert witnesses, jurors must not be forced to draw inferences or synthesize the testimony for themselves.

Another effective method to increase jurors' understanding is to present evidence visually. It is widely recognized that retention of information is greatly facilitated through visual communication. Because jurors are increasingly accustomed to getting information in visual form, failure to incorporate effective graphics into trial presentations is a serious mistake.

Continued on Page 5

Continued from Page 4

Perhaps most importantly, the trial attorney needs to understand how jurors will perceive evidence presented at trial. Pre-trial empirical research makes it possible to assess how jurors view case issues before the case goes to trial. Social science research methods such as focus groups, juror attitude surveys, and mock trials provide a view of the case through jurors' eyes. These methods tell the trial attorney how jurors feel about the parties to the litigation, what facts, themes and arguments are most important to jurors' decisions and what case information jurors do and do not comprehend. Knowing what evidence jurors think is most important, and then presenting that evidence in a way that is accessible to jurors greatly increases the chances that jurors will view the case in the desired way.

The court should also be encouraged to adopt procedures that will assist jurors in doing their jobs. While some of these methods are becoming more commonplace, others are not and deserve greater attention.

Note-Taking: Most judges now let jurors take notes during trial, and for good reason. Taking notes can greatly increase comprehension and recall in long and or complex cases and poses little threat to the integrity of the process. Concerns have been expressed that deliberations will be unduly influenced by jurors most adept at note-taking. This seems to be no more of a danger, however, than having jurors with the best memories dominate the discussion. There has also been concern that taking notes is distracting and detracts from jurors' ability to evaluate witness demeanor. Experience has shown this not to be true. Jurors who take notes are generally more engaged in the process, have a better grasp of the evidence and still express firm opinions about witness performance.

Pre-Instructions: Jurors who were instructed and received verdict questions just before deliberations have sometimes made comments to the effect of "If I had known what we were going to have to answer, I would have paid more attention to that information during trial." Pre-trial jury research and interviews with trial jurors have shown that providing jurors with instructions and verdict questions in advance of the evidence offers significant advantages. First, it allows jurors to evaluate the information they receive during trial on the basis of the specific decisions they will be asked to make and increases their understanding of why certain evidence and testimony is being presented. Second, agreeing on instructions and verdict questions at the outset of trial permits trial counsel to focus presentations more directly on issues they know jurors will be deciding. While there are obstacles to pre-instructing jurors, the benefits of doing so merit the effort required to overcome these obstacles.

Interim Summation: A rarely-used but intriguing procedure is to permit attorneys to make periodic summations of the evidence during the trial. In some instances, judges have given attorneys a block of time to use for opening statement or interim summation, as they see fit. Periodically summarizing trial presentations, for instance right after a key expert witness, allows trial counsel to draw inferences and conclusions from testimony for jurors and serves to remind jurors of key case themes.

Asking Questions: Allowing jurors to ask questions of

witnesses is more problematic. Jurors who are not aware of foundational requirements tend to ask questions that are not permissible under the rules of evidence. In mock trial research jurors are usually admonished not to ask questions of those making the case presentations. Nevertheless, jurors sometimes do make queries and the information they seek is very often the type a judge would be unlikely to allow into evidence. While some courts have experimented with having judges screen jurors' questions to determine appropriateness, there is a danger that jurors will draw the wrong inferences if their questions are not asked. On balance, allowing jurors to ask questions appears to present more problems than benefits. The procedure may be more useful to attorneys, who get a glimpse of what is on jurors' minds, than helpful to jurors' comprehension of testimony.

In summary, jurors' perception of and reaction to evidence presented at trial is often different than expected or desired by the trial attorney. This result can be counteracted by understanding the case from the jurors' point of view, presenting the evidence that is most important to jurors, building the evidence into a thematic structure of the case, and presenting the evidence in a form that will capture jurors's attention and help them to draw the desired conclusions.

Art Raedeke is Director of Versus Litigation Consulting in San Francisco.



ASSOCIATION OF BUSINESS TRIAL LAWYERS

abtl

NORTHERN CALIFORNIA

425 Market Street
San Francisco, California 94105-2482
(415) 268-7000

OFFICERS

Harold J. McElhinny, *President*
Barbara A. Caulfield, *Vice President*
Steven A. Brick, *Secretary*
Douglas R. Young, *Treasurer*

BOARD OF GOVERNORS

John J. Bartko • Robert L. Bordon
Alexander L. Brainerd • Charles H. Brock
Joseph M. Burton • Hon. William J. Cahill
Susan A. Creighton • Sarah G. Flanagan
Robert D. Fram • Robert C. Friesse
Hon. Linda Marino Gemello • John E. Grasberger
Hon. Edward A. Infante • Howard A. Janssen
Hon. Martin J. Jenkins • Hon. Laurence D. Kay
Roderick A. McLeod • Hon. Marilyn Hall Patel
Alfred C. Pfeiffer, Jr. • Frank M. Pitre
Paul A. Renne • Hon. Conrad L. Rushing
Dirk M. Schenckan • Claude M. Stern
Robert A. Van Nest • Hon. Vaughn R. Walker

EDITORIAL BOARD — ABTL REPORT

Charles R. Rice, Editor
(415) 421-6500

Zela G. Claiborne • Barry P. Goode • Rachel Krevans
Mary E. McCutcheon • Stephen Oroza

Intellectual Property Damages

Reasonable Royalty Advancements

The evolution of case law on reasonable royalties has been nowhere as dramatic as that on lost profits. One reason may be that, with the *Georgia-Pacific* factors as a foundation, the trier of fact has had very few restrictions on how to determine what is reasonable from an economic perspective. The most broadly based of these factors states that, absent an established royalty rate for the product, a reasonable royalty is "the amount that a licensor (such as the patentee) and a licensee (such as the infringer) would have agreed upon (at the time the infringement began) if both had been reasonably and voluntarily trying to reach an agreement; that is, the amount which a prudent licensee — who desired, as a business proposition, to obtain a license to manufacture and sell a particular article embodying the patented invention — would have been willing to pay as a royalty and yet be able to make a reasonable profit and which amount would have been acceptable by a prudent patentee who was willing to grant a license." The balance of the factors establish criteria for royalty rates in the absence of such a negotiation, including comparable rates and product profitability, modified as appropriate to reflect the specific product and competitive environment.

One major modification came as a result of *Panduit* and *Fromson v. Western Litho Plate and Supply Co.*, 853 F.2d 1568 (Fed Cir. 1988). Both introduced the idea that events after the date of the infringement might be relevant. *Panduit* recognized how difficult it would be for the parties to treat this situation as a hypothetical, amicable, arms-length negotiation. For the patent owner, such a negotiation would seem to coerce licensing a property that he had not decided to license. The infringer would have difficulty treating this as a normal "negotiation" since he might be enjoined from further use of the property. *Panduit* suggested that the infringer's actual profits also be considered since these might present a relatively unbiased basis for *a priori* royalty estimates.

Fromson took this a step further, stating that "experience should be available to correct uncertain prophecy... (To do so) is not to charge the offender with elements of value non-existent at the time of his offense. It is to bring out and expose to the light the elements of value that were there from the beginning."

Both cases add reality to the analysis. Rather than rigidly limiting the inquiry to information available at the time of the hypothetical negotiation, these cases allow the expert to segregate factors that are specific to the companies (for which each party should have reasonably reliable information) from expectations for the industry as a whole and the economy at large. It introduces an element of hindsight for industry and economic changes that might have impacted the value of the property at issue, beyond factors under the control of the infringer such as his own marketing and manufacturing capabilities or strategies. Absent infringement such changes might have, for example, caused willing parties to renegotiate after initial royalties had been established.

Trademarks, Trade Dress and Copyrights

In cases of trademark or trade dress infringement, particularly where such infringement is not willful, plaintiffs are generally content with an injunction that prevents further use of the property and may not seek monetary damages. Therefore, there has not been the same level of major case activity as for patent damages and lost profits. Also, because the financial remedies are intended not only to compensate the property owner but also to act as a deterrent by requiring the infringer to disgorge unjust profits, economic reality may not always be the driving factor in how the courts establish damages. However, two economically based concepts appear to be accepted by the courts. The first relates to the deduction of "allowable" expenses from sales to determine the infringer's unjust enrichment. The second relates to the possibility of an allocation of profits (rather than an award of all profits of the infringer) where the underlying economics support it. (Comparable issues exist for copyright damages; therefore, I will not address them separately.)

Under the Lanham Act, where the infringer is required to disgorge profits, the burden of proof as to sales lies with the property owner but the burden of proving deductible expenses falls to the infringer. Two approaches have been considered — the differential or marginal cost approach and the full absorption approach.

The marginal cost approach allows deduction of only those costs that directly contributed to production of the infringing product. In a strict accounting sense, this excludes indirect costs that would also vary with production, but (mainly because of accounting practices) have not been directly accounted for. These might include general manufacturing supplies or the costs of maintaining equipment shared between products. The marginal cost approach also generally excludes additional sales and administrative expense, or what accountants commonly refer to as operating expenses or "below the line costs." On the other hand, the full absorption cost method allows for the inclusion of a share (usually via allocation) of all manufacturing, sales and administrative costs, which is consistent with the accounting desire to recognize that, without manufacture and sale or distribution of any product, there would be no operating expenses at all. Clearly, economic reality is somewhere between the two extremes. In many cases, including those in Northern California, the court has chosen to let logic prevail. See e.g., *Winterland Concessions Co. v. Fenton*, 835 F. Supp. (N.D. Cal. 1993). The court is willing to examine costs on an item by item basis and, where they lead to the production, sale or distribution of the infringing product, include them regardless of whether they have been directly accounted for in the infringer's financials, or need to be allocated to reasonably reflect actual expenditures.

The second concept that has been considered is allocation of profits. At least two economic arguments support such an allocation. The first is based on an underlying liability concept of trademark cases — that there is the likelihood of confusion between the trademarks. Consider, for example, our hypothetical case involving the regional manufacturer and distributor of reconsti-

Continued on Page 8

RACHEL KREVANS

On PATENTS

ON March 3, 1997, the Supreme Court issued its decision in *Warner-Jenkinson Co. v. Hilton Davis Chemical Co.*, 117 S. Ct. 1040 (1997). Half (at least) of the intellectual property bar breathed a huge sigh of relief, and the other half gnashed their teeth, as the Court unequivocally upheld the validity of the doctrine of equivalents, and then roundly rejected attempts by the petitioner as well as numerous *amici* to place new limitations on the application of the doctrine. There are interesting questions left unanswered by the opinion, however, as well as important implications for prosecution and enforcement of claims likely to be infringed by equivalent devices.

First, the Court squarely affirmed the doctrine, rejecting the argument that it had no basis in the Patent Act. The Court indicated concern, however, with the trend toward measuring equivalents by reference to a claim as a whole. This has led, in the Court's view, to blurring and broadening of the scope of patent claims, which conflicts with the "definitional and public notice functions of the statutory claiming requirement." The Court's solution to this problem: apply the doctrine to "individual elements of the claim, not to the invention as a whole."

Second, the Court reaffirmed the application of the doctrine of prosecution history estoppel as a limitation on the scope of equivalents. Although the Court rejected numerous attempts by the petitioner and *amici* to broaden the scope of the estoppel rules, it did set out a new test for courts to apply in determining whether an estoppel exists: the patentholder has the burden to establish that a claim amendment was made for reasons other than avoiding a patentability problem. In the absence of an established "nonpatentability" reason, the court must presume that the amendment related to patentability and creates an estoppel.

Under this analysis, if patentee A and patentee B have identical issued claims, but A's claims resulted from an application with broader claims which were narrowed during prosecution, B has broader patent protection. This illogical result calls into question the common prosecution practice of starting with the broadest possible claims and narrowing as necessary to get them allowed.

Third, the Court refused to limit the doctrine to instances where the defendant was found to have "unclean hands" (through proof of piracy or deliberate copying): "If the essential predicate of the doctrine of equivalents is the notion of identity between a patented invention and its equivalent, there is no basis for treating an infringing equivalent any differently than a device that infringes the express terms of the patent."

Fourth, the Court rejected the argument that the doctrine should be limited to equivalents disclosed in the patent or known at the time the patent was issued. The

proper time to examine equivalents is the time of infringement rather than the time of issue, because that is the time when a person skilled in the art would have known that the equivalent was interchangeable with the device described in the claim and therefore was on notice of infringement. The Court explained that evidence of independent experimentation may still come in, not on the issue of intent but as proof of the knowledge (or lack thereof) of interchangeability.

Finally, the Court refused to consider whether application of the doctrine of equivalent was a question for the judge or the jury, holding that resolution of that question was not necessary to resolution of the case. This reluctance appears strange, for two reasons. First, the Court had no trouble last year ruling quite quickly and concisely that claim interpretation was a question for the judge rather than the jury in *Markman v. Westview Instruments*, 116 S. Ct. 1384 (1996). Second, having declined to rule, the Court proceeded to extensive dicta commenting favorably on the Federal Circuit's holding that the jury should decide infringement by equivalents, then cast doubt on that dicta by noting that the issue is still open.

What are the practical implications of *Warner-Jenkinson* for litigation? They may at first appear slight, but think about the holdings in conjunction with the new Northern District rules for patent cases and the *Markman* decision and you may come to a different conclusion. The new rules require you to prepare much of your case before you file or risk serious problems down the line. Forty-five days after filing, you must identify the infringed claims, the infringing products, the conception and reduction to practice dates of your invention, and all documents relating to research, development and potential "on-sale bar" issues. Less than six months into the action, plaintiffs must provide claim charts and claim construction statements for all claims alleged to be infringed, with references to the art and to extrinsic evidence, including experts. To do this on an element by element basis, making sure that none of your claim construction theories run into a prosecution history estoppel and that all are supported by your experts, will be a significant and expensive task.

The new rules force parties, particularly plaintiffs, to prepare and commit to large aspects of their cases much earlier than past practice. Not so long ago, you did discovery before you had to commit to claim construction or prosecution history positions. Unless there was a preliminary injunction battle, experts generally did not have to form or disclose their opinions until relatively close to trial. The net effect of all of these changes: plaintiffs must be far more prepared before they file an action than in the past, and the expense of litigation will be frontloaded for both plaintiff and defendant. No doubt the Court hopes this will encourage earlier settlement; a year or two from now, we'll see if it works.

Ms. Krevans is a partner in the firm of Morrison & Foerster.



Rachel Krevans



Continued from Page 6

Intellectual Property Damages

tuted french fries. Suppose that, rather than infringing the small manufacturer's patent, the national distributor had used a similar brand name. It would be difficult for the regional manufacturer to contend that customers outside his region were likely to experience confusion between his product and that of the national distributor. An economic analysis might require the national distributor to disgorge only the percentage of his profits that reflects his sales within the region. Alternatively, the national distributor might show that some or all of his customers purchased the product for reasons other than confusion with the regional supplier — perhaps their practice of purchasing all food supplies from a single distributor. The courts have shown a willingness to consider such arguments where they make sense.

Conclusion

The willingness of the courts to accept alternative, rational approaches to damages has made my job as a financial expert easier and more interesting. I can think about damages as a businessperson would and apply logic and economic concepts to arrive at a reasonable damages figure. This also makes your job as counsel easier. You may rely on established case precedents to support your client's position on damages where appropriate, but operate relatively free of constraints when they don't match the particular economic circumstances at hand. And, you may have the pleasure of working on the next precedent-setting intellectual property matter.

Sydney M. Firestone is Director of Deloitte & Touche LLP Litigation Services.



Annual Seminar at Palm Springs

Today's trial attorneys must select and communicate effectively with jurors from diverse backgrounds. The 1997 ABTL Annual Seminar will demonstrate techniques for selecting and persuading such jurors.

Join us at the Westin Mission Hills Resort in Rancho Mirage, California, from October 24-26, 1997. In addition to meeting many state and federal judges and receiving 8.5 hours of MCLE credit, you and your family can enjoy swimming, golf, tennis, biking and other activities at one of California's finest resorts.

The program will feature an in-depth demonstration of voir dire and jury selection using a mock jury selected and pre-screened by our jury consultants. Teams of prominent plaintiff and defense attorneys will present techniques for questioning and challenging jurors from diverse backgrounds. Methods for communicating evidence to these jurors will also be demonstrated. In addition, highlights of video-taped interviews with jurors from notable business cases will be shown.

No business trial lawyer can afford to miss this program. Make your reservations early by calling Mosaic Event Management at (415) 908-2659.

Continued from Page 1

Cirrus Logic Revisits Analyst Liability

But he refused to dismiss claims that the issuer was liable for misstatements made to analysts. *In re Cirrus Logic Sec. Litig.*, 946 F. Supp. 1446, 1465-67 (N.D. Cal. 1996).

Cirrus Logic shows that plaintiffs may assert multiple theories. Four are:

1. The "entanglement" theory described above;
2. The "conduit" theory: The issuer feeds the analyst false information, which the analyst then repeats, becoming a "conduit" for the issuer's fraud;
3. The "analyst reliance" theory: The issuer makes false statements to an analyst, on which the analyst "relies" in preparing a report; and
4. The "ratification" theory: After the analyst publishes a report, the issuer "ratifies" the report.

While the pleading and proof for each of these theories overlap significantly, there are some important differences.

Entanglement

Relying on FRCP 9(b), which requires that plaintiffs be specific when they plead fraud, a number of decisions require plaintiffs to "(1) identify specific forecasts and name the insider who adopted them; (2) point to specific interactions between the insider and the analyst which gave rise to the entanglement; and (3) state the dates on which the acts which allegedly gave rise to the entanglement occurred." *In re Caere Corporate Sec. Litig.*, 837 F. Supp. 1054, 1059 (N.D. Cal. 1993), cited with approval in *In re Syntex Corp. Securities Litig.*, 95 F.3d 922, 934 (9th Cir. 1996).

A one-way flow of information—with the issuer making statements to analysts who then issue reports—is insufficient to establish company liability on the "entanglement" theory. *Syntex*, 95 F.3d at 934. Instead, the analyst must provide the substance of the report to the company, which must then tell the analyst, in a sufficiently "entangling" way, that it agrees with the report.

Many entanglement cases center on allegations that the company reviewed and commented on draft reports. Some cases make distinctions based on whether the company commented on or made corrections in the particular part of the report that is allegedly misleading, whether the company had a policy of not commenting on particular subjects in draft reports (such as earnings estimates) and even on whether the company reviewed early drafts or "final" drafts. *Elkind*, 635 F.2d at 163 (company's "policy was to refrain from comment on earnings forecasts"); *ICN/Viratek Securities Litigation*, [1996-97 Transfer Binder] Fed. Sec. L. Rep. (CCH) ¶ 99,213 at 95,086 (S.D.N.Y. 1996) (denying summary judgment to defendants because of their "review and amendment of the final draft...just before its issuance").

Conduit

In *Cirrus*, Judge Orrick specifically held that the "entanglement" theory did not apply where a company is allegedly "speak[ing] to the market on a subject,

Continued on Page 10

ZELA G. CLAIBORNE

On MEDIATION

THE construction industry has taken the lead nationally in the use of alternative dispute resolution (ADR), including mediation, arbitration, dispute resolution boards, special masters, and partnering techniques. Complex construction cases often are resolved through mediation. In fact, the revised American Institute of Architects' (AIA) standard contracts to be issued later this year call for mediation pursuant to the American Arbitration Association rules. The question often arises: what are the qualities of a mediator most likely to succeed in assisting with the resolution of such a dispute?

Say the case to be mediated is a multi-party cost overrun and delay claim. It is brought by the owner against the architect and the structural engineer of a project which includes the gateway to a theme park and related retail and office space. The damage claim is in the millions and many of the issues are highly technical, including the completeness and coordination of the architect's construction documents and the adequacy of the structural engineer's design. Discovery has been lengthy and costly, and the case now is approximately six months from trial.

Although the parties have very different opinions concerning liability and damages, all acknowledge that a negotiated resolution would be preferable to a lengthy trial. Not only do they want to avoid the high cost of trial, but they also want to preserve their business relationships so that, perhaps, they could work together on a future project.

In selecting an appropriate mediator, counsel may want to consider the following:

Approach — Consider how you want the mediator to approach the issues and the parties. A mediator's approach may be characterized generally as "facilitative" or "evaluative." In a facilitative mediation, the mediator assists the parties with their communications so that they can discuss the issues clearly (often through the mediator) and work toward an acceptable resolution. A purely facilitative mediator does not attempt to provide an opinion on the merits of the case. By contrast, an evaluative mediator works with the parties to exchange information, clarify legal and factual issues, and assist them in predicting the likely outcome at arbitration or trial. This process helps the parties determine whether they want to settle and at what price.

In this case, an effective mediator probably will use a combination of both techniques. The mediator may begin by facilitating the parties' communication and, as the facts and legal issues are discussed, work toward an evaluation. The evaluation may take the form of the mediator's asking pointed questions about the sticky issues in the case or he or she may be more directive and advocate a point of view. Eventually, the mediator may even go farther and attempt to predict the outcome of the case in an effort to move the parties toward settlement.

Reputation — Investigate the potential mediator's reputation for fairness and impartiality. If the mediator is a

lawyer, be sure a conflicts check is performed to determine whether the mediator or anyone in his or her firm has ever represented one of the parties. The mediator should also disclose past experience with any of the lawyers involved in the case. Even when there is a real or potential conflict, the parties and their counsel often are willing to waive it if they have faith in the mediator's impartiality.

Personal Qualities — Select a mediator for his or her personal qualities, demeanor, and "people skills." Look for someone who is a good listener and can relate to your client and, hopefully, to the other parties as well. As more women and minorities move into executive positions, mediators who can deal with diverse participants will be sought after.

To be effective in resolving a complex dispute, the mediator also must be energetic, persistent, intuitive, and creative in searching for solutions. He or she should be willing and able to invest the time needed to review briefs and project documentation in an effort to understand the facts and legal issues thoroughly. Only then will the mediator be in a position to provide an honest evaluation of the strengths and weaknesses of each side of the case. An effective mediator will be able to ask the tough questions and provide strong leadership as the parties work toward settlement.

Beware of the mediator who keeps a scorecard and boasts about a success rate of 102%. That mediator may be more interested in "success" than in a fair settlement which will be truly acceptable to the parties.

Experience — Choose a mediator with extensive experience with large construction projects. He or she should understand the roles and relationships of the parties, the ways in which complex projects are managed, relevant technical terms (*i.e.*, must know a GMP from an RFI), insurance and indemnity issues, and how to evaluate the expert work related to issues such as scheduling, damage calculations, and standard of care for the construction documents. If experts are present, the mediator should be able to question them knowledgeably. Only with this background can a mediator truly see the strengths and weaknesses of the case and provide credible comments which may assist the parties in reaching resolution.

Before choosing a mediator, do some investigation. Review the mediator's resume and read some of the articles listed. Call counsel who have worked with the mediator in the past. When a case involves large amounts of money, it may even be worthwhile to arrange to interview the mediator. Of course, the interview would not be case specific but would permit questions about the mediator's experience and allow evaluation of the mediator's personal qualities and approach to the process.

Often, the choice of a skilled mediator determines whether a complex case will settle before trial. Be sure to give the selection process the attention it deserves.



Zela G. Claiborne

Ms. Claiborne is a partner in the firm of Bronson, Bronson & McKinnon LLP and a mediator with the American Arbitration Association.



Continued from Page 8

Cirrus Logic Revisits Analyst Liability

through an analyst...." 946 F. Supp. at 1467. Moreover, when the issuer used analysts as unwitting dupes to pass on falsehoods, a "one-way" flow of information from the company to the analysts may suffice. *Id.*

Judge Orrick drew a distinction between private conversations with analysts and quarterly conference calls or press conferences. 946 F. Supp. at 1468. He held that issuer statements in the latter category are "public" and can be the basis of liability without proof that the analysts passed those statements on to others. However, for private conversations, plaintiffs must supply "proof that the analyst relayed the information to the market in an analyst report or by other means." *Id.*

Whether the Ninth Circuit will agree with *Cirrus* is yet to be seen. Defendants can argue that, even when employing a "conduit" theory, plaintiffs must prove "entanglement." Indeed, the Ninth Circuit used the entanglement theory to affirm a dismissal in *Syntex*, despite plaintiffs' claim that "Defendants 'lied' to securities analysts who, in turn, misled the public by repeating Defendants' representations." 95 F.3d at 934.

The *Cirrus* analysis seems flawed in presuming that misstatements made to analysts in quarterly conference calls can be considered so "public" that no proof need be offered to show that the analysts repeated those statements to others. Since analysts do not typically buy and sell large blocks of stock, the better view would require plaintiffs to plead and prove that actual buyers and sellers learned of the statements made to groups of analysts.

Even if *Cirrus*' reasoning is accepted, however, basic Rule 9 principles should require plaintiffs to plead that (1) identified company representatives (2) made particular false statements (3) to named analysts on (4) specified dates. Specificity is important, among other reasons, because the issuer's statements might have been "taken out of context, incorrectly quoted, or stripped of important qualifiers." *Raab v. General Physics Corp.*, 4 F.3d 286, 288 (4th Cir. 1993).

Analyst Reliance

To succeed under this theory, plaintiffs must plead and prove (1) who made the statements, (2) to which analysts, and (3) when. Plaintiffs should also plead and prove (4) what passages in which reports relied upon which issuer statements.

Often, an "analyst reliance" theory will simply be a weak version of a "conduit" theory. Plaintiffs may contend that the analyst report repeats the substance of misleading management remarks, but without direct quotation or attribution. If so, plaintiffs should identify which management representative spoke with the analyst, even if the analyst's report fails to supply this attribution. Blind references to "management" or "the company" cannot impose liability on the issuer. *In re Time Warner Inc. Securities Litigation*, 9 F.3d 259, 264-66 (2d Cir. 1993), *cert. denied*, 511 U.S. 1017 (1994).

Plaintiffs may try to employ a "reliance" theory by simply pleading that the issuer made misrepresentations to analysts, who "relied" on those misrepresentations to create reports, and the stock price increased after those

reports were published. This version of the "reliance" theory, however, is problematic unless courts require plaintiffs to plead and prove that particular passages in analyst reports relied on specific management misstatements. Many decisions reject this version of "analyst reliance" as an impermissibly weak form of "entanglement." See, e.g., *Padnes v. Scios Nova Inc.*, 1996 WL 539711 at *10 (N.D. Cal. 1996) ("plaintiffs have pled only that the analysts' reports were based on information provided by the defendants. This, without more, i[s] insufficient under the great weight of authority in this district").

With the "analyst reliance" theory, the considerations raised in *Raab* are particularly important. The further the report strays from the actual words employed by management, the more likely such words were taken out of context, incorrectly repeated, deprived of important qualifiers, used in an unintended way or paraphrased with a "spin" that is the analyst's own. Accordingly, if plaintiffs proceed on such a theory, they should plead and prove facts showing that the issuer could control the contents of the report. *Raab*, 4 F.3d at 288.

Ratification

While the "entanglement" theory depends upon issuer conduct prior to the publication of analyst reports, the "ratification" theory depends on issuer action after publication. Some decisions hold that an issuer may be liable for a report if the issuer distributes that report itself. *In re RasterOps Corp. Securities Litigation*, [1994-95 Transfer Binder] Fed. Sec. L. Rep. (CCH) ¶ 98,467 at 91,195 (N.D. Cal. 1994) ("By passing out the favorable analyst reports, RasterOps was clearly implying that the company agreed with the forecasts contained in the reports.").

If plaintiffs proceed on this theory, they must identify (1) which report the issuer distributed and (2) when and how it was distributed. *Strassman v. Fresh Choice, Inc.*, 1995 WL 743728 at *12 (N.D. Cal. 1995) (granting motion to dismiss because plaintiffs failed to allege *which* reports were circulated, *which* defendant circulated the reports and to *whom* the reports were circulated). If the company sent one or two reports to a few potential investors, the company "ratification" cannot have committed a fraud on the market as a whole. *In re Cypress Semiconductor Securities Litigation*, 891 F. Supp. 1369, 1378 (N.D. Cal. 1995) ("By sending the reports, Cypress may have impliedly endorsed the projections contained in them. The insurmountable problem for the plaintiffs, however, is the absence of evidence that news of Cypress' endorsement was made public.").

What It All Means

Plaintiffs should decide on which basis they will assert company liability for analysts' reports. They must then plead and prove the particular facts needed to impose liability on that theory. Defendants should press plaintiffs, through motions to dismiss, to identify the theory on which plaintiffs assert such liability and to meet all of the requirements of whichever theory they employ.

William O. Fisher is a partner at Pillsbury Madison & Sutro LLP in San Francisco.



STEPHEN OROZA

On CREDITORS' RIGHTS

DISCLAIMER

THE following column is not about creditors' rights and contains no insights, suggestions, comments or observations of a professional nature. The Editorial Board of this publication accepts no responsibility for the disappointment of any reader whose decision to read this column was premised, or conditioned in any manner, upon the expectation, reasonable or unreasonable, that the following column would be of any professional assistance whatever.

Well, there you have it.

The reason that this column is not about creditors' rights is that its author has, God willing, spent his last day as a full-time combatant in the war against his delinquent-debt-owing brethren. After a well-earned two month vacation, I am now engaged in seeking gainful employment in the computer industry. If necessary, I will enter this field as a lawyer. If necessary, I will even work as a contract lawyer to keep the bills paid. I will not, however, resume the career I have left behind.

This column reflects on the reasons for that decision and how it feels to have made it. It is likely to be of interest only to those who sometimes wonder why they keep practicing law. If you are not one of those people, I can only envy you. You have found a profession which offers substantial rewards for relatively modest risk and which suits your temperament. There are worse fates the world has to offer. For the rest of you:

The Physics of Career Change

It is possible to list certain unpleasant realities of the legal profession which would be familiar to all those who practice law. That list does not begin to explain, however, why some lawyers stay in the profession and some leave. The answer, fair reader, lies in physics.

Ultimately, what keeps most lawyers in the saddle is the combined effect of two natural laws: the laws of abundant deferred gratification and inertia. The law of abundant deferred gratification holds that the acceptance of current pain will be amply rewarded by the enjoyment of future benefits. The law of inertia holds that a person on a career path will keep on that path until acted upon by a sufficiently influential outside force, most often the gravitational pull of alternative gratification (*i.e.*, non-legal fun).

At the outset of a legal career, the law of abundant deferred gratification propels the career forward. When the deferred rewards have begun to be realized, and the doubts about a career in law remain unstilled, inertia takes over. Having proceeded in one direction for a number of years, the lawyer finds that (what with mortgages,

children, and other commitments) turning has become more difficult. Add to these realities the increasing importance of the profession to the lawyer's self-esteem, and inertia becomes a formidable deterrent to career change.

The effect of inertia is strengthened by the decreased gravitational pull of potential alternative gratification (*i.e.*, non-legal fun). The passage of time while the lawyer is under the influence of the law of abundant deferred gratification assures that the lawyer's memory of his or her pre-legal self will fade. Since the gravitational pull of potential alternative gratification decreases as the square of the temporal distance from the pre-legal self, the growing influence of inertia is accompanied by an exponential decrease in the ability to imagine what alternatives feel like.

In my own case, however, inertia was no match for memory. Familiarity with the rewards of practice — a good income and honorable colleagues — began to lessen their apparent significance. As a result, these rewards came to lack the pull necessary to enable me to quiet my doubts about the expense, efficacy and fairness of the legal system, the increasing "marketing" emphasis of the profession and the inordinate demands made by the practice of law on a supply of time and energy whose limits I had begun to experience rather more poignantly than I did twenty (or even five) years ago.

Meanwhile, for reasons I did not fully appreciate at the time, throughout my career I kept in touch with the things that mattered to me before I became a lawyer. I believe that I sensed (before I understood) the need to affirm their significance even if, at the same time, I could not pay them the attention that their significance seemed to require. Since these things include an interest in computing and formal languages, the growing importance of computers in the world at large provided a career alternative consistent with my interests, a fact which I took as a sign from the cosmos. Thus, good-byes are now in order.

How It Feels

Uncertain, exciting, vivid, frightening and, most importantly, vital. If you are analyzing the impact of leaving law, however, be aware of one additional physical law: gravity. If you have never before seen a bank account in free fall, let me assure you that the experience is not a little unpleasant.

Finally

My place on the pages of this newsletter will be taken by Peter Benvenuti, a capable and principled lawyer against whom I had the privilege to practice. I hope he enjoys the job as much as I did.

Until recently, Mr. Oroza was a partner in the firm of Lillick & Charles.



Stephen Oroza



Letter from the President

AS people who try complex civil cases, our profession depends upon our ability to assure sophisticated clients that our courts will efficiently resolve disputes. We depend on courts that are available and effective; courts that are staffed by intelligent, sincere, hard-working judges. Two current political phenomena, however, severely threaten the quality of California courts: the growing popularity of attacks on "judicial activism," and the inability of the Clinton Administration to fill vacancies in our federal courts.

Judicial Activism

Every disappointed litigant has an overwhelming compulsion to criticize the judge. Judicial intelligence, work-ethic, and even honesty automatically come into question in the face of a need to explain how some judge could possibly have ruled against a position that was, to its holder, so clearly correct. Unfortunately, clients' negative feelings are often encouraged by their attorneys who are inclined to concede that, given the skill with which the case was presented, the negative result

can only be explained by poor judging.

While these initial reactions are understandable, they usually yield to a more rational reaction — recognition that the vast majority of judges are honest, hard-working, committed civil servants who have devoted their lives to resolving disputes — knowing full well that every case leaves one side happy and the other side disappointed, and that many settlements disappoint everyone.

Attorneys must be committed to defending the integrity of the judicial system. Only the most cynical can have chosen to become officers of courts without some core respect for the judicial system. No attorney can appear regularly in the courts of California without developing a deep respect for the caliber of our judges. Even the cynical few are compelled by self-interest to defend the system, if only to convince clients that the prospective counsel's individual skills can make a difference.

Thus, attorneys who practice in this state, and who are candid, must concede that the quality of our judges is high, and that these judges do their best under difficult circumstances to decide the complex issues presented. Political attacks on these judges for "judicial activism" are, in almost every instance, completely unjustified.

What is true, however, as a necessary aspect of our political system, is that the judiciary is designed to be out of step with whatever political fever is sweeping the country. Judges do not resign en masse whenever a new political party takes office. Every "new broom," fresh from elections and anxious to effect its mandate, will be frustrated by the entrenched judiciary appointed by the

political leaders now out of favor. Thomas Jefferson, Franklin Roosevelt, Lyndon Johnson and now Newt Gingrich and Pete Wilson have all chafed under these constraints. The point, of course, is that this structural inefficiency was designed into our constitutional system by political theorists who believed that repeated, extreme and volatile change must be tempered in order to protect our democratic institutions. Thus, personal attacks on judges in times of political transition are more than factually wrong; they are, in essence, undemocratic.

But, beyond all this, personal attacks on judges over the substance of their rulings are cowardly, because judges are prohibited by the Canons of Judicial Conduct from replying to the attacks. Thus, rather than a free public debate with each side able to respond to and correct misstatements, the debate is a sorry, one-sided affair with senators, congressmen and governors pummeling judges, often by name, who cannot respond.

As trial lawyers, we know that there is nothing more fulfilling than working to persuade a careful, intelligent and articulate judge. We have an enormous interest in a qualified judiciary. We form committees to review judicial candidates. We participate in background investigations. We encourage and support the people we know who would do well on the bench. In order to preserve the integrity and quality of our judiciary, we cannot let our support stop at the swearing-in ceremony. We must continue to speak out to protect those who have given up the right to defend themselves.

Judicial Appointments

Obviously, cowardly attacks on the judiciary will be less of a problem when there are no longer any judges. There are now one hundred vacancies in the federal bench nationwide out of a total of eight hundred judgeships. As Judge Stephen Trott recently pointed out, the problem is particularly acute in the Ninth Circuit, where nine out of twenty-eight positions are vacant.

Unfortunately, our system of justice is paying a substantial price for President Clinton's indifference to judicial appointments. Given the number of people affected by the judicial system, it is hard to imagine any task that should have a priority higher than filling judicial vacancies.

The problem is compounded by the unprecedented strategy of the majority members of the Senate Judiciary Committee to delay and discourage those appointees the President has managed to send to the Hill for confirmation. Although we have grown accustomed to a politicized confirmation process for Supreme Court nominees, the Senate has historically recognized the need to fill trial and appellate positions in order to get the country's judicial business done.

Our clients pay an enormous toll when the judiciary becomes a pawn in the political process. America would be better served by a full complement of dedicated judges. As ABTL members, our particular interest lies in the civil litigation that is far from the center of the current political struggle. Republicans, Democrats and Independents alike, we have to encourage our representatives to appoint committed judges, and then leave them free to do their jobs, relying on our proven constitutional system to provide constitutional results.

Mr. McElhinny is a partner in the firm of Morrison & Foerster.



Harold J. McElhinny