



GENERAL COUNSEL DIGEST

BUSINESS - INTELLECTUAL PROPERTY - EMPLOYMENT - REAL ESTATE - ENVIRONMENTAL - INTERNATIONAL

LETTER FROM THE EDITOR

This is the first issue of what we plan to be a regular publication, aimed at you, the businessperson. Our goal is to deliver information you can use, in plain English, and in an easy-to-read format. This isn't legal advice, but hopefully you'll find this publication to be useful. We welcome your input, particularly as to what topics you would like us to address in future issues.

This newsletter is available in both printed and electronic format, and is archived on our website. If you would prefer one method to another, or would like to stop receiving this newsletter altogether, please contact Jacqueline Cesaroni, via email: jcesaroni@klinedinstlaw.com, phone: (800) 543-5365; fax: (619) 238-8707; or mail: 501 W. Broadway, Suite 600; San Diego, CA 92101.

Thanks,

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The Attorney-Client Privilege: How Does It Work For A Corporation?

Many organizations – corporations, partnerships, LLCs, or LLPs – hire attorneys to represent their interests, whether to handle litigation, assist with a specific transaction, or provide general legal advice. Because an entity cannot "talk," the attorney must have a contact person within the organization who provides the attorney with information and gives instructions.

It is important for both the organization and the contact person to understand what the lawyer is obliged to keep confidential, and how the attorney-client privilege works.

The attorney-client privilege is actually a rule of evidence, which protects disclosure of the contents of any communication between lawyer and client, so long as the communication was made in confidence, and for the purpose of seeking or rendering legal advice. The privilege belongs to the client, not the lawyer, and the lawyer must

assert the privilege in appropriate circumstances unless the client directs otherwise.

In addition, California lawyers are also bound "to maintain inviolate the confidence, and at every peril to himself or herself to preserve the secrets, of his or her clients." This duty of confidentiality is separate and distinct from the attorney-client privilege.

There are a few exceptions to the attorney-client privilege. For example, there is no privilege if the lawyer's services are used to aid in the commission or planning of a crime or fraud. Likewise, there is no privilege if the lawyer reasonably believes that disclosure of confidential communication is necessary to prevent the client from committing a criminal act that is likely to result in death (See PRIVILEGE, 2)

Trademark Infringement: How to Spot It & How to Stop It

Once you've taken the time to develop, promote, and possibly register the symbols, designs, words, and phrases that tell the public whose product (or services) they're buying, it is important to be able to spot when others are infringing on those trademarks. Although trademark litigation can be costly and time consuming, the consequences of allowing infringement may prove far more devastating than litigation. The shrewd businessperson knows what constitutes trademark infringement, knows how to spot it and knows how to stop it.

What Constitutes Trademark Infringement?

Trademark law serves two purposes: Ensuring that consumers can distinguish among competing producers of goods; and making sure that trademark owners can benefit from the goodwill associated with

their marks. The federal trademark law (the Lanham Act) promotes these two goals by prohibiting the use of marks that are "confusingly similar" to the trademark of another. Although it is not necessary that the infringer use your specific phrase, symbol, or design to constitute infringement, it is necessary that the mark being used by the infringer be sufficiently similar to your mark that the consumer is likely to inaccurately assume that the infringer's product is associated with your company.

Why Watch For Infringement?

Considering the investment most companies make in developing, promoting, and protecting their marks, failure to closely watch for infringing uses is simply wasteful. In addition to this common sense rationale, there is a legal reason to keep an eye out for infringement – failure to do so could be used

against your company if you ever do decide to file an infringement suit. The law imposes a duty to take positive steps to police the relevant market for infringers. Failure to do so can result in a finding that the trademark's strength as a distinguishing symbol of origin has been diminished by the presence of similar marks. In short, trademark owners have a legal duty to protect and preserve their trademarks by vigilant policing and enforcement. When the trademark owner is a corporation, the duty is more pronounced.

How To Spot Infringement

Are consumers contacting your company to complain about a product sold by a competitor? Have customers tried to return a competitor's product to you? Do (See TRADEMARK, 2)

(PRIVILEGE, continued from page 1)

death or substantial bodily harm.

How does this all work if the client is an organization, such as a corporation? To begin, the ethical rules governing California lawyers make it clear that the organization itself is the client, as opposed to any individuals within the organization. However, confidential communications between the lawyer and the organization's employees are privileged.

The attorney must communicate with the organization through the "highest officer, employee, body, or constituent overseeing the particular engagement." If the lawyer's appointed contact person is not following the lawyer's advice, or is somehow harming the organization, the lawyer is authorized to go "up the ladder" within the organization to try to fix and/or report the problem.

One common misconception is that the lawyer not only represents the organization, but also the individual officers and directors of that particular organization. While it is possible for the lawyer to accept such dual representation, the ethical rules require the lawyer to

obtain the organization's consent first. In order for the same lawyer (or law firm) to represent both a organization and one (or more) of its officers or directors, individually, both the organization and the officer/director must sign a conflict waiver that recognizes that their interests may not be totally aligned.

Importantly, when an attorney is representing an organization, the attorney cannot keep "secrets" from that organization. In other words, anything an individual officer or director tells the attorney is not confidential, and that officer/director should expect that the attorney can, and will relay that information to others within the organization. If the individual officer or director has concerns about his or her own liability, or needs to tell something to an attorney in confidence, the individual officer or director should hire his or her own lawyer, with whom communications will be confidential, and not be shared within the organization.

The situation has become even more complicated with the recent passage of the Sarbanes-Oxley Act ("SOX"), which pertains to publicly traded companies. Section 307 of SOX requires an attorney to report evidence of material violation of

securities law, or a breach of fiduciary duty by the company or any of its agent. This report must be made to the company's chief legal counsel or CEO. If that person does not appropriately respond, the attorney is authorized to present the evidence to the audit committee, the board of directors, or other committees of the board. The SEC is currently considering a rule that would basically require the company to notify the SEC if the company ultimately chooses not to accept the attorney's advice regarding a securities law violation.

The bottom line: If an organization has an attorney, it is important that the individuals working for that organization know that the attorney is only representing the organization, unless specific arrangements have been made in writing for dual representation. Individual officers and directors must know that if they speak to the organization's attorney, their conversations can be shared with the organization itself. If the officer or director has individual issues that they need to address, they should hire their counsel. ■

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(TRADEMARK, continued from page 1)

consumers assume that someone's else's product is yours, or that another company is somehow affiliated with you? If so, be sure to take note of the supplier of the product because they may be infringing on your trademark(s). Customer feedback is often the best source for spotting trademark infringement. Customers who contact you to order, provide maintenance on, or repair a product that is not yours may be spotting trademark infringement for you.

Because the test for infringement is whether or not the consuming public is "likely to be confused" by the infringer's use of the mark, evidence of actual confused customers is often the best ammunition at trial. Thus, it is wise to implement a program to fully document instances of confusion.

Other effective methods of spotting infringement include conducting internet

searches for similar products, keeping abreast of industry publications, and conducting trademark registration searches to determine if anyone has tried to register a mark similar to yours. A regular, systemic trademark monitoring program, either conducted or set up by your attorney, is a good idea.

How to Stop Infringement

Obviously, one method of stopping infringement is to sue the infringer for trademark infringement. Sometimes a lawsuit is the only method of stopping infringement and becomes a necessary cost of doing business. However, a lawsuit may be avoided by having your attorney write a "cease and desist" letter to the infringer. This letter tells the infringer that you believe it is infringing on your mark and that you intend to take action, unless it immediately stops using your mark. If a competing business has harmed your business's reputation or cut into your profits by using a mark confusingly similar to yours, it may be

appropriate for your attorney to also request that the infringer compensate you for this harm.

If the "cease and desist" letter is successful, you have accomplished the goals of a lawsuit, without the cost and time expenditure. If the letter is unsuccessful, it becomes necessary to determine whether a lawsuit is appropriate, given your company's goals and needs. Knowingly allowing an infringer to continue could affect your ability to sue them (or even another infringer) in the future. What seems like a small infraction by one company could weaken your defenses against a devastating blow by a larger competitor in the future. A working knowledge of trademark infringement issues and careful analysis by your attorney can go a long way in protecting your intellectual property and ensuring your success. ■

By Virginia L. Price
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Cal. Supreme Court Limits Insurance Coverage for "Advertising Injuries"

Many Commercial General Liability (CGL) insurance policies include coverage for "advertising injury." If not included in the standard policy, this coverage can be purchased as an endorsement or a separate policy.

"Advertising injury" coverage is very important to some types of businesses – it typically covers claims arising out of statements made in the course of advertising, and covers claims like libel, slander, defamation, violation of a right of privacy, piracy or misappropriation of ideas, or infringement of copyright, trademark, title or slogan.

However, the scope of coverage for advertising injury clauses was recently narrowed, in an important decision by the California Supreme Court. Specifically, the court answered the question, "What is 'advertising'?"

The case, called *Hameid v. National Fire Insurance of Hartford*, involved a suit by Mohammed Hameid, owner of an Orange County beauty parlor, against National Fire Insurance of Hartford, his insurer. In

1998, Hameid opened a beauty salon, hiring two hairdressers away from a nearby competitor. The competitor sued Hameid and the hairdressers, claiming that the hairdressers took the competitor's customer list with them and with Hameid, solicited customers from that list.

Hameid held a CGL insurance policy from National, but the insurance company refused to defend him under the policy's "advertising injury" coverage provision. After winning the suit against his competitor, Hameid sued National for bad faith refusal to defend.

The California Supreme Court found that National had acted properly, because the competitor's suit against Hameid did not arise from "advertising," as the term is used in CGL policies. The court held that what Hameid did – making telephone calls and sending mailers to names on the competitor's customer list – was "solicitation," but not advertising.

The court ruled that "advertising," as used in CGL policies, means "widespread promotional activities directed to the public at large." After this decision, one-on-one

contacts simply do not qualify, even if that is the company's principal means of marketing.

This decision has important practical repercussions to businesses. The California Supreme Court set forth fairly clear guidelines. To qualify for coverage under an advertising injury policy, a claim must arise from the contents of things like radio or television spots, billboards, bus benches, or ads in newspapers directed to the public at large.

If a company doesn't "advertise" in this sense, but instead relies on one-on-one solicitations, it may be wasting its money on an "advertising injury" policy endorsement. As the court noted, small businesses are not limited to "advertising injury" insurance coverage – they may be better served by purchasing a combination of other types of coverage, such as errors and omissions liability, directors and officers liability, and completed operations and products liability. ■

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Negligent Recommendation vs. Defamation: A Path Between a Rock and a Hard Place

Pop quiz: You just received an inquiry from Susan, the HR Director of the Acme company, looking for a reference for Bob, a former employee of yours who you just fired for gross incompetence. What do you do?

Negligent recommendation is a new tort that exposes businesses to liability in exactly this situation. As the former employer, you now have three options.

First, you could tell Susan the truth, that you just fired Bob for gross incompetence, and that you have a low opinion of Bob (or else you would not have fired him). Unfortunately, if you do this, you leave yourself opened to being sued by Bob for defamation and tortious interference, alleging that you maliciously blew his chance to start over with Acme. California juries have recently awarded former employee plaintiffs as much as several

million dollars in damages against former employer defendants for just such claims.

On the other hand, you could give Bob a glowing review, tell Susan that Bob was the greatest thing since sliced bread, and say that you wished Bob was still with your business. But if, based on the strength of your recommendation, Susan hires Bob, who then performs just as poorly for the Acme company as he did for you, you may have opened yourself up to a claim from Acme of "sabotaging" their business by "causing" them to hire an employee they would not have otherwise hired "but for" your recommendation, which you "knew or should have known" was false. Again, damages for these kinds of cases can be extremely high.

Making it even more difficult, recommending employees you know to be good while staying quiet about the bad ones

is not a viable alternative either, because of the possibility of discrimination claims. There have been cases in California where a former employee interviewed for a new job with a new employer, who asked the former employer for a reference. Rather than lie about the employee or say anything bad about him, the former employer instead said nothing. The former employee did not get the job with the new employer, and found out that the former employer had said nothing. The former employee sued the former employer for discrimination and won. What was the case-winning piece of evidence for the former employee? He was a member of a protected minority, while other former employees, who were not, got good recommendations. The fact that those other former employees were also good workers who left amicably whereas the minority employee was not a
(See DEFAMATION, 4)

(DEFAMATION, continued from page 3)

good worker and was fired was completely ignored by the jury. The former employee simply argued that the former employer had a practice of giving good recommendation to some, while withholding such recommendations from minorities.

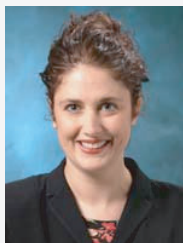
Overlaying all of this is the cost of litigation and the high stakes, bet-the-company type of claims that can be made. The typical employment litigation can cost \$150,000.00 in attorneys' fees just to get through trial. This is money that the former employer is guaranteed to spend, regardless of the ultimate outcome of the case. Beyond this is the potential for a jury verdict of several million dollars, should the former employee prevail. Faced with this type of calculus, many employers are forced to accept legalized blackmail and enter into a settlement worth tens of thousands of dollars, just to avoid spending many times that to get to the uncertainty of a jury.

Between this kind of rock and hard place, businesses may be well-advised to dodge the bullet completely and pick the third option: institute a policy of confirming dates of employment, job duties, and, with written authorization from the former employee, salary (or salary range). This policy must be adopted universally, across the board, without exception, in order to be effective. While this prevents businesses from recommending those who may deserve it, the protections afforded by it are worthwhile. Certainly, other businesses can understand that the adoption of such a policy bears no reflection on former employees, as many other businesses are have an identical policy themselves.

In this litigious society in which we live, an ounce of prevention can be, and frequently is, worth a pound of cure. ■

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