

# THE BKCG BULLETIN

SPRING 2015 EDITION



## Interest and the Law

**“Time equals money”**-- at least it used to before our current low interest rate environment. Today, your money invested in a certificate of deposit earns less than 1%. Qualified borrowers can borrow money from banks at prime rates of interest around 3%. So, the truth of our opening maxim seems extremely marginalized.

Yet, in commercial litigation statutory interest rates often bear no correlation to market interest. In some cases, rates as high as 10% apply. In other cases, the rate could be 7%. But, in other courts the rate could be as low as 0.25% (one quarter of one percent). Given these sizable differences, it pays to think about where you file and how you frame your claim.

### Different Courts, Different Interest Rates

Interest rates will vary depending on the type of court you are in. As a general rule, federal courts award post-judgment interest in an amount equal to the “weekly average 1-year constant maturity (nominal) Treasury yield, as published by the Federal Reserve System.” Currently, that rate is a whopping 0.25%. State courts apply different interest rates, which will vary from state to state. This article will focus on California interest rates, which at 7% and 10%, are some of the highest in the country.

### How Can I Get 10% Interest?

In California state court, interest accrues on all civil judgments at the rate of 10% simple interest per year. This is referred to as post-judgment interest and it comes into play only after the parties have fought in the trial court long enough to win or lose. So, irrespective of the type of claim you brought or when you brought it (or even when you suffered injury), you will be entitled to 10% on your judgment amount. But, it may have taken you two or more years to obtain your judgment, what about interest for all that time you spent in litigation?

Well, depending on the type of claim you have, you might be able to receive “pre-judgment interest” of 10%. The types of claims that qualify for this special treatment are often referred



to as “liquidated”, meaning that they are “certain, or capable of being made certain by calculation ....” They most often arise out of unpaid loans, or very clear contracts. And, with respect to these types of claims, interest at 10% starts to accrue from the date the payment obligation was due. This could be years before the lawsuit was brought.

### If I Can't Get 10%, Can I Get 7% Pre-Judgment Interest?

Some claims that do not qualify for 10% pre-judgment interest nevertheless “may” earn 7%. I say “may” because it is entirely in the court’s discretion. Further, in these types of cases, the court cannot impose pre-judgment interest further back than the date the lawsuit was filed. So, waiting to file this type of claim will likely result in a forfeiture of interest earned on the damages that might have accrued prior to the filing date. These 7% cases generally fall into two general categories.

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## Background Checks

Recent studies indicated that as many as half of all resumes and job applications contain false or inaccurate information. Employers understandably want to verify that what prospective employees are telling them is accurate, as underperforming or unqualified employees can not only cost money and resources in having to hire and train a new employee, but they can also pose a significant legal liability to employers.

To prevent these potential losses, more California employers are now conducting thorough background checks into job applicants to verify an applicant’s employment and education, to run a criminal background check, and even to run credit checks on applicants. There are, however, strict guidelines that employers must follow when performing background checks. If requesting a background check, employers must provide job applicants with copies of the “Summary of Your Rights Under the FCRA,” and the “Notice Regarding Background Investigation Pursuant to California Law.” In California, background checks are subject to the following restrictions, and more:

**Criminal Background:** Employers must obtain written consent from an applicant before conducting a criminal background check. When conducting a criminal background check, employers should only request and review the last seven years of the applicant’s criminal information. Employers cannot ask an applicant about a marijuana conviction that is more than two years old. Employers also cannot ask about or seek records for any arrest that did not lead to a criminal conviction, or about convictions that did not result in a sentencing. Employers can ask about recent arrests that have not yet been disposed of (i.e., potential criminal charges have been or may be filed).

**Medical Background:** Employers cannot use medical information in a workers’ compensation claim, even though it may be a public record, as part of a hiring decision, except to determine whether the injury or medical condition could interfere with an applicant’s ability to perform a required job duty. And even then, the employer must consider whether a reasonable accommodation exists that would allow the applicant to perform the essential job functions for the position. Thus, seeking and using medical information about a job applicant obtained from a workers’ compensation claim file is fraught with potential traps and must be navigated by the employer carefully.

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# 5 Important Things You Should Know Before Using Independent Contractors in Your Business in California

Despite much publicity, an immense amount of ignorance still persists among California businesses regarding the legally-permissible use of independent contractors<sup>1</sup>. Some businesses use independent contractors only occasionally for special projects, others use independent contractors on a regular, ongoing basis, instead of hiring permanent employees. Further complicating matters is the army of individuals enthusiastically offering their services to companies as freelance “consultants”, “outsourced IT departments” and the like. Rising employee costs and cheap “work from anywhere” technology have persuaded many companies to outsource to independent contractors functions that they previously entrusted to employees.

An in-depth analysis of what differentiates an employee from an independent contractor is beyond the scope of this article and, as the California Department of Industrial Relations states on its website, there’s no set definition of the term “independent contractor”, making this a legally grey area. The principal test in California is whether the principal has the right to direct and control the manner and means by which the worker carries out the job, whether or not that right is exercised. However, the goal of this article is to make you aware of some of the key things you need to know if you plan to use independent contractors in California.



**1. Having a written agreement with someone who agrees to be an independent contractor and issuing them an IRS Form 1099 is not enough by itself.** Under California law, there is a “rebuttable presumption” that when an individual performs services for a business, that individual is an employee. What does this mean in practice? It means that if an independent contractor ever claims he or she was your employee, whether in a lawsuit, unemployment insurance claim, Division of Labor Standards Enforcement (Labor Commissioner) or other governmental agency proceeding, **your business will be legally presumed to be that person’s employer unless you can prove it is not.** The fact that you had the alleged “independent contractor” sign a written agreement and issued him or her a 1099 will, as a practical matter, count for very little with the court or administrative agency reviewing the claim of employment, who will investigate the specifics of the underlying business relationship, such as how the work is performed and how much discretion and autonomy the independent contractor had in performing his or her services. In addition, the finder of fact will expect the hiring business to provide reasonable evidence that the alleged independent contractor has the accoutrements of a typical business, such as business licenses and permits, business cards, advertising materials, business insurance, an online presence, multiple clients and the ability to control the manner and means of accomplishing the task for which it was hired. If the business cannot provide these items it will likely lose the case.

**2. There is no legal exception that applies specifically to hiring an independent contractor on a short-term or part-time basis.** California law makes no distinction between the status of an individual working on a short-term or part-time basis on the one hand, versus a long-term or full-time basis on the other hand. While it is true that the length of time for which an independent contractor is hired is a factor considered in evaluating the individual’s status, a person hired to perform services for even a few hours (such as a day laborer hired from a supermarket parking lot), or for a few hours a week, can certainly be found to be an employee. Businesses often make the costly mistake of hiring former employees back on a part-time basis as independent contractors because they fail to recognize that it is the nature of the work performed, the level of skill involved and, first and foremost, the control exerted over the worker, and not the length of the engagement or the individual’s working day, that are the most important legal factors. For example, rehiring a former employee receptionist or clerical assistant in her prior position, on a part-time basis, as an independent contractor is virtually guaranteed to fail to pass legal muster. Generally speaking, unless the independent contractor is providing a skilled or professional service which is different than the principal business of the business that hires her, it can be very difficult to prove that a legally sufficient independent contractor relationship exists.

**3. Only hiring people you know and trust as independent contractors is no guarantee of legal safety.** Unfortunately, your independent contractors aren’t the only people you have to worry about! Unbeknownst to many businesses, there are numerous third parties who may have a significant financial or legal incentive to challenge the classification of your independent contractors, in addition to obvious ones like the IRS and the California Franchise Tax Board. For example, if your independent contractor is injured while performing services for you and receives medical treatment, her health insurance company may then attempt to recoup the treatment costs from the business, asserting that the claim should have been paid by the business’ workers’ compensation policy, because the injury was employment-related. Your independent contractor friend has no say in the matter at all. In addition, workers’ compensation carriers regularly audit their insureds’ use of independent contractors and issue supplemental bills if they conclude the insured’s independent contractors were really employees. As another example, if your independent contractor is at fault and seriously injures someone in a vehicle accident while performing services for you and has inadequate auto liability insurance to cover the claim, it is highly likely that the injured party’s personal injury lawyer will make a claim against you. If an employment relationship is found, you will be responsible for any liability resulting from the driver’s negligence. Depending on your business’ commercial auto liability insurance policy, or lack thereof, you could be faced with defending a multi-million dollar lawsuit with inadequate (or even no) insurance in effect.

**4. The fact that everyone in your industry uses independent contractors in the same way you do is no cause for complacency.** So-called independent contractor misclassification lawsuits are on the rise in California and are often filed as class actions. We have also seen a significant increase in the number of wage and hour cases filed by independent contractors with the Labor Commissioner’s office claiming that they were deprived of overtime pay, meal and rest breaks, etc., which they would have received had they been properly treated as employees. [\(continued on page 3\)](#)

<sup>1</sup>In this article, the term “independent contractors” is used to mean individual service providers, not established *bona fide* businesses, which have physical offices or storefront locations.



# Protecting the Attorney-Client Privilege

The attorney-client privilege “has been a part of California statutory law in one form or another since 1851.” *Southern Cal. Gas Co. v. Public Utilities Com.* (1990) 50 Cal.3d 31, 37; *Sullivan v. Sup. Ct.* (1972) 29 Cal.App.3d 64, 71. The privilege authorizes a client to refuse to disclose and to prevent others from disclosing confidential communications between an attorney and his client. See *California Evidence Code*, §954. “[T]he privilege seeks to insure ‘the right of every person to freely and fully confer and confide in one having knowledge of the law, and skilled in its practice, in order that the former may have adequate advice and a proper defense.’” *Southern Cal. Gas Co., supra*, 50 Cal.3d at 37, citing *Mitchell v. Superior Court* (1984) 37 Cal.3d 591, 599.

Evidence Code section 912 specifically provides that waiver of the attorney-client privilege occurs when the client “has disclosed a significant part of the communication or has consented to such disclosure”. *California Evidence Code*, §912. To avoid waiver, clients should speak with their lawyer early on in the relationship regarding proper channels of communication.

A case to be aware of is *Holmes v. Petrovich Development Co.*, (2011) 191 Cal. App. 4th 1047. In *Holmes*, the California Court of Appeals held that an employee waived the attorney-client privilege when she used a computer belonging to her employer to communicate with her lawyer. *Id.* The e-mail contained damaging information including taking legal action against her employer. *Id.*



The court reasoned that the employee was given proper notice of the employer’s policy that computers were to be used for company business only. The court explained that employees “have no right of privacy” in e-mail messages sent from or received on company computers because the company regularly monitored its computers. The employee’s conduct was akin to consulting with her attorney in the employer’s “conference rooms, in a loud voice, with the door open.” *Id.*

*Holmes* teaches us that traditional forms of communication can go a long way in protecting the attorney-client privilege. Take a few extra minutes to speak with your lawyer by telephone or even schedule a face to face meeting. Although these methods may seem time consuming, not communicating in this manner can jeopardize your right to freely and fully confer and confide with your lawyer.



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Contingency employment lawyers have been emboldened to file these cases by several recent court decisions too. For example, a Federal appellate court recently concluded that Federal Express’ independent contractor business-to-business delivery drivers in California, driving their own trucks, were in fact employees; and the California Supreme Court recently concluded that the State of California could pursue a trucking company for independent contractor misclassification claims under California’s unfair competition law. This author is also personally aware of numerous class action lawsuits and hundreds of wage claims filed with the Labor Commissioner’s office against trucking companies in Southern California within the past year or two. Moreover, in our firm’s recent experience, the Labor Commissioner’s office is very heavily biased towards finding employment status, regardless of the alleged employer’s attempts to use independent contractors in a legal manner. Accordingly, it is very unwise for a business to assume that just because others in the same industry use independent contractors with impunity, it can too.

**5. The costs of employee misclassification can put you out of business and also affect your personal assets.** Employee misclassification lawsuits can cost hundreds of thousands of dollars just to defend and your business’ commercial insurance policies are highly unlikely to provide you with coverage. Even worse, the California Labor Code provides for a prevailing employee to recover her attorneys’ fees in an employment lawsuit, which can also total hundreds of thousands of dollars if a case is litigated to trial. Furthermore, if the IRS or EDD concludes that a business (even if conducted through a corporation or limited liability company) misclassified employees as independent contractors, it has the legal ability to pursue the owners of the business personally for the resulting unpaid payroll taxes, penalties and interest if the business is unable to pay.



In conclusion, many California businesses are either very naïve or very cavalier in their use of independent contractors to reduce their costs and give themselves more flexibility. Few realize just how easy it is for an independent contractor, or any number of third parties, to win a claim that your independent contractor was actually your employee. One successful claim alone could be enough to put even a financially healthy company out of business.

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# Young v. United Parcel Service: What Employers Should Know About the Supreme Court's Recent Decision Involving Pregnancy Discrimination Claims

On March 25, 2015, the Supreme Court issued a 6 – 3 decision in *Young v. United Parcel Service*, a case involving a claim against an employer for discrimination based on pregnancy. What is significant about the *Young* opinion is that the Supreme Court clarified the legal standard for claims against employers for pregnancy discrimination under Title VII, which serves as a reminder that employers need to be careful in handling their employees' requests for accommodations.

## Background of the Pregnancy Discrimination Act

The Court's decision in *Young* revolves around its interpretation of the Pregnancy Discrimination Act, which was added to Title VII decades ago to prohibit employers from discriminating against female workers simply because they become pregnant. This law has two parts, as set forth in 42 U.S.C. Section 2000e(k):

1) The first part of the law applies Title VII's prohibition of discrimination based on "sex" to include discrimination "because of or on the basis of pregnancy, childbirth, or related medical conditions; and women affected by pregnancy."



2) The second part of the law requires employers to treat "women affected by pregnancy . . . the same for all employment-related purposes . . . as other persons so affected but similar in their ability or inability to work." Put differently, female workers who become pregnant must be treated the same as other workers who are able to perform the same kind of job.

The Supreme Court's decision in *Young* analyzed the second part of this law in the context of a failure to accommodate claim.

## Young's Background

*Young* involved a lawsuit brought by a United Parcel Service (UPS) driver, Peggy Young, against UPS. Young became pregnant while employed by UPS, and was advised by her physician that she could not lift more than 20 pounds. UPS required drivers in Young's position to be able to lift up to 70 pounds, and told her that she could not work while she remained under her 20 pound lifting restriction. As a result, Young filed a lawsuit against UPS for failure to provide a reasonable accommodation.

As to be expected, Young argued for a more expansive definition of the second part of Section 2000e(k), while UPS argued for a narrower definition. The Court ultimately rejected both arguments, and instead

created its own rule on how Title VII pregnancy discrimination claims fit within the *McDonnell Douglas* framework (which is the framework for Title VII discrimination cases that the Supreme Court set forth in the 1973 case *McDonnell Douglas v. Green*).

## The Young Test for Title VII Pregnancy Discrimination

The *Young* Court held that to prove Title VII pregnancy discrimination under the *McDonnell Douglas* framework, an employee must prove that 1) she belongs to the protected class (i.e., those who can become pregnant); 2) she asked to be accommodated in the workplace when she could not fulfill her normal job duties; 3) the employer refused to provide her with a reasonable accommodation; and 4) the employer accommodated others "similar in their ability or inability to work."

If the employee proves all of these points (which is called a *prima facie* case in legalese), the employer then has the opportunity to prove that there were "legitimate, nondiscriminatory" reasons for the refusal to accommodate. These reasons cannot merely be a claim that it is more expensive and/or less convenient to add pregnant women to the category of employees whom the employer accommodates.

If the employer makes this showing, then the burden shifts back to the employee plaintiff to prove that the employer's "nondiscriminatory reasons" are a pretext for discrimination.

Notably, the *Young* Court held that an employee plaintiff can create a "genuine issue of fact" as to this "pretext" issue sufficient to send a case to a jury by providing evidence of the following:

- 1) That the employer's policies impose a significant burden on pregnant workers; and
- 2) That the employer's "legitimate, nondiscriminatory" reasons are not sufficiently strong to justify the burden, but rather—when considered along with the burden imposed, give rise to an inference of intentional discrimination.

As a practical matter, this means that even if an employer does not intend to discriminate against women based on pregnancy in its accommodation policies, a plaintiff can still create an inference of discrimination by showing that the reasons for these policies are not sufficiently strong to justify any burden they impose on pregnant women.

The Court noted that *Young* might prove this inference of discrimination by showing that UPS accommodates most non-pregnant employees who have lifting limitations while failing to accommodate pregnant employees with lifting limitations.

How this ultimately will be applied to Peggy Young's lawsuit remains to be seen, since the Court remanded the case (i.e., sent it back to the lower court) to apply this Title VII pregnancy discrimination test.

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# New Law Requires Paid Sick Leave For Employees

A new law goes into effect in a few months that impacts almost every single business in California. Starting July 1, 2015, the Healthy Workplace, Healthy Family Act of 2014 requires employers provide at least 3 days (24 hours) of paid sick leave to each employee. While some employment laws apply only to larger sized California businesses, this law applies almost universally to every business with employees as there are only a few narrow exceptions.

There are three options for how a business can satisfy the new sick leave requirement. Under the first option, the employer can elect to monitor the hours each employee works and ensure that the employee is provided with 1 hour of sick leave for every 30 hours worked (up to the 24 hours required amount). This is called the “accrual method”. The obvious downside of the accrual method is that an employer will need to keep meticulous records and diligently track the number of hours each employee works. The accrual method also requires the employer to carry over unused paid sick leave to the following year.

The second option, the “front-loaded” method, provides an employer far greater freedom. With the front-loaded method, the employer simply provides the employee with at least 24 hours (3 days) of paid sick leave at the beginning of each calendar year. There is no requirement that the employer track the hours of the employee and there is no requirement that unused sick leave carry over to the next year.

The final option requires the employer provide the 3 days of paid sick leave but allows the employer to determine when the year-long period begins to run. For example, the employer can elect to make the 3 days available from the beginning to the end of the 12-month calendar year, the 12-month employment year or over any other 12-month period. This option also permits the employer to determine how the 3 days of sick leave will accrue during that 12-month period.



While some employers may already satisfy the sick leave requirement with Paid Time Off or a similar benefit, other employers will need to begin immediately planning how to implement the sick leave requirement by the July deadline. Also, business owners should revise employee handbooks and other written copies of policies and procedures so that employees are properly advised of their rights under this new law. Additionally, there are a number of unique rules and restrictions that accompany this sick leave requirement. For example, an employer cannot require the employee find a replacement prior to the employee using one of these three sick days. As a result, all employers should ensure their Human Resources personnel are fully knowledgeable about the new law and its myriad nuances. Finally, consulting an attorney familiar with employment law provides employers an additional layer of protection.



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## Young v. United Parcel Service: What Employers Should Know About the Supreme Court’s Recent Decision Involving Pregnancy Discrimination Claims

### Young Leaves the Door Open for Discrimination Claims Under the ADA

The *Young* decision, which focused solely on the Pregnancy Discrimination Act, does not span the entire universe of pregnancy discrimination claims either. To this point, the *Young* Court noted that Congress expanded the Americans With Disabilities Act (“ADA”) in 2008 to include certain protections for employees with temporary disabilities.

Significantly, the *Young* Court noted that these protections for temporarily disabled employees might require accommodations for many pregnant employees, even though pregnancy is not itself considered a “disability” under the ADA.

While the Court did not rule one way or another on this ADA issue, this dicta (which is legalese for non-binding portions of legal opinions that do not provide the basis for the court’s underlying ruling) veritably endorses an alternative avenue of pursuing pregnancy discrimination claims under the ADA, which many plaintiff employment lawyers have already latched onto.

### What Can Employers Learn from *Young*?

While Peggy Young’s pregnancy discrimination claim still remains undecided, employers can still learn from the Supreme Court’s decision in *Young*. Employers should take particular care to be uniform in the establishment and implementation of policies regarding accommodating employees who cannot perform a job function, regardless of the particular cause of the inability to perform that job function.

Practically speaking, many nondiscriminatory policies will be a burden on pregnant women in some jobs due to the very nature of the physical tasks required of the job, so any significant deviation in the way you treat other non-pregnant employees who cannot perform the same job function and ask for an accommodation may increase your potential risk of liability.

In short, an employer is far better off in defending a lawsuit if it can show that it did provide a reasonable accommodation for a pregnant employee and/or that it did not disparately treat others “similar in their ability or inability to work.” This is because, in light of the *Young* opinion, an employee suing for pregnancy discrimination under Title VII is at a natural advantage by having the ability to create an inference of discrimination simply by showing that the employer’s nondiscriminatory reasons for refusing to accommodate are not strong enough to justify the burden imposed on pregnant workers.



This also underscores the importance of keeping employee requests for accommodation and your engagement in the accommodation interactive process well documented, since it appears that a pregnancy discrimination lawsuit may involve claims under Title VII and the ADA.

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# Interest and the Law

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The first is a claim for breach of contract where the damages are “unliquidated”. The type of contract that might result in this lower interest rate would be one where damages cannot be determined prior to some other event, like a trial on disputed facts. The other type of 7% interest case is one not based on contract (such as a tort or a statutory claim) where there exists “oppression, fraud, or malice....” In order to obtain interest in this type of case, you must be awarded it by a jury. These terms have special meaning, and are defined by statute. “Malice”



means conduct which is intended by the defendant to cause injury to the plaintiff or despicable conduct which is carried on by the defendant with a willful and conscious disregard of the rights or safety of others. “Oppression” means despicable conduct that subjects a person to cruel and unjust hardship in conscious disregard of that person’s rights. “Fraud” means an intentional misrepresentation, deceit, or concealment of a material fact known to the defendant with the intention on the part of the defendant of thereby depriving a person of property or legal rights or otherwise causing injury. When a jury makes these findings by the higher evidentiary standard of “clear and convincing”, you may also be entitled to punitive damages, which is beyond the scope of this article.



## Other Cases-No Pre-Judgment Interest

In most other cases, the court cannot award you any interest on your damages prior to entry of a judgment in your favor.

As you can see, where you file your lawsuit and the type of claim you bring can determine whether you get pre-judgment interest and, if so, at what amount.

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# Background Checks

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**Credit History:** Employers in California generally cannot run credit reports on job applicants, except in certain high-level or sensitive job positions, such as managerial positions, law enforcement positions, positions that involve access to certain personal or confidential information, positions in which the employee will be a named signatory on the employer’s bank account or credit card and positions where the employee will have regular access to more than \$10,000 in cash. If the position falls into one of these permissible categories, employers must first inform the applicant that it will request a credit check, and provide an explanation of why the job functions of the open position allow for a credit check to be conducted under the law. The information gleaned from a credit check can only be used for limited purposes. Employers cannot discriminate against an applicant because the employer learns from a credit check that the applicant previously filed for bankruptcy.

**Using a Third Party Screener:** If the employer outsources the background check to a third party agency, the applicant must authorize it in writing, in a document that is separate from the rest of the application. The separate document must notify the applicant that the report may include information on the applicant’s “character, general reputation, personal characteristics, and mode of living.” The employer must also state the nature and scope of the report it will be requesting and provide the applicant with the reporting agency’s website address or telephone number.

**Providing Copies to the Applicant:** In California, the employer must, on the consent form, give the applicant the option of getting a copy of the credit report and provide notice of the applicant’s right to view any files the reporting or screening agency maintains on the applicant. If an applicant requests a copy of the report, either the employer or the credit reporting agency should send it to the applicant no later than three days after the employer received the report.

Finally, before an employer takes an adverse action on a job application, such as not extending an offer of employment, based on information garnered from a background check, the employer must give the applicant a “pre-adverse action notice” and a copy of the background check report relied upon in taking the adverse action.

The foregoing is a broad overview of the many rules that apply to an employer’s use of background information about a job applicant. How these rules may impact your business depends on variables like the type of employer and purposes for which the information is collected. Employers must be aware that there are substantial penalties for obtaining information in violation of the law or for using lawfully obtained information for an improper purpose.

If you would like to discuss the use of background checks in connection with your upcoming hiring decisions or have questions about any other aspect of this article, please contact Michael Oberbeck at (949) 975-7500 or [moberbeck@bkcglaw.com](mailto:moberbeck@bkcglaw.com).



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