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8		HE STATE OF CALIFORNIA
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11	JOHN DOE, DAVID GUDEMAN, and PAOLA CORREA on behalf of the State of	Case No. CGC-16-556034
12	California and aggrieved employees,	MEMORANDUM OF POINTS AND
13	Plaintiffs,	AUTHORITIES IN SUPPORT OF JOINT MOTION FOR APPROVAL OF PAGA
14	V.	SETTLEMENT
15	GOOGLE, INC., ALPHABET, INC.,	Date: March 4, 2019 Time: 2:00 p.m.
16	ADECCO USA INC., ADECCO GROUP NORTH AMERICA and ROES 1 through 10,	Judge: Honorable A.C. Massullo Dept.: 304 (Complex)
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18	Defendants.	Complaint Filed: December 20, 2016 Trial Date: Not Set
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I. INTRODUCTION

This long-running PAGA case involves a number of contracts, policies and practices that Plaintiffs John Doe, David Gudeman, and Paola Correa (collectively, "Plaintiffs") contend violate the California Labor Code. Plaintiffs' claims can be roughly segregated into two types: The first involves Defendants Google, Inc.'s ("Google") and Adecco USA, Inc.'s ("Adecco") (collectively, "Defendants") nondisclosure agreements, policies, and practices. The second involves Defendants' alleged requirement that employees release certain claims as a condition of employment.

The present motion for settlement approval involves only one claim (concerning an adult content liability release) against one defendant, Adecco. However, because all other claims have been resolved (either through settlement or motion practice), this is the <u>last</u> remaining cause of action in this case. Accordingly, if the Court approves this motion, final judgment may be entered, leaving unresolved only the issue of attorneys' fees and costs.

As relevant to this motion, Adecco is a staffing firm that provides temporary labor to Google. Plaintiff Paolo Correa ("Plaintiff Correa") is a former Adecco employee who was assigned to work at Google. Plaintiff Correa claims that Adecco unlawfully required its Google-based employees (including herself) to sign an "adult content liability release" ("AC Liability Release") as a condition of employment. According to Plaintiff Correa, this release violates Labor Code § 432.5 and PAGA because it purports to effectuate an illegal waiver of harassment and discrimination claims arising from the presence of so-called "adult content" in the workplace. Defendants deny Plaintiffs' allegations.

On June 27, 2018, this Court (through the Honorable Curtis A. Karnow) approved a PAGA settlement of the adult content claims between Plaintiffs <u>and Google</u> for a little more than one million dollars (i.e. \$1,048,843) ("the Google Settlement"). While the Google Settlement expressly <u>included</u> in its scope Adecco employees, it expressly <u>excluded</u> from its scope claims those same employees may have against Adecco.¹ After relevant deductions, the net amount paid

¹ As indicated throughout this motion, Adecco maintains that the Google Settlement effectively releases Adecco from claims regarding the AC Liability Release and moved for judgment on

to the State (or Labor Workforce and Development Agency ("LWDA")) and aggrieved employees through the Google Settlement was \$673,667.31, or about \$58.00 per employee.

The PAGA settlement presently before the Court resolves the PAGA claim against Adecco left open by the Google Settlement. Pursuant to this settlement, <u>Adecco</u> will pay \$140,000 in exchange for a PAGA release of the adult content claim <u>as to Adecco</u> ("the Adecco Settlement"). Assuming the Court approves the requested deductions, the net amount paid to the State and aggrieved employees through the Adecco Settlement will be \$132,000, which will amount to at least \$58.00 per employee.

In other words, from the State's and aggrieved employees' perspective, the Adecco Settlement is at least functionally the same as the approved Google Settlement. Moreover, through the Adecco Settlement, the State/Adecco aggrieved employees are arguably recovering for the same PAGA violation twice: Once from Google and once from Adecco.

This is an excellent outcome for the State. Accordingly, the parties request that the Adecco Settlement be approved and that final judgment be entered. Plaintiffs' entitlement to attorneys' fees and costs will then be resolved (if necessary) through post-judgment motion practice.

II. FACTS AND PROCEDURAL HISTORY

A. The Adult Content Liability Release

On February 14, 2017, Plaintiffs filed a notice with the Labor Workforce and Development Agency ("LWDA") contending that Google's, and by extension Adecco's, AC Liability Release violated Labor Code sections 232.5 and 432.5. (Baker Decl. ¶ 4; Ex. 1). The AC Liability Release stated in full:

Confidential: For Google Employees and Temporary Workers on Assignment at Google Only

During my employment or assignment at Google, I may be exposed to sensitive "adult content", such as text, descriptions, graphics, pictures, and/or other files commonly referred to as being "adult" content.

the pleadings on that basis. The Court, however, denied Adecco's motion. (See Court's Order dated August 27, 2018.)

I acknowledge that exposure to this material may be a part of my essential job function and hereby release Google Inc. and its subsidiaries and affiliates from any and all liability associated with having this material present in the work environment, including but not limited to claims of harassment, hostile work environment and discrimination. This agreement does not change or impact the at-will status of my employment or my assignment at Google.

(*Id.*) Plaintiff Correa further alleged that Adecco required employees on assignment at Google, including herself, to sign and abide by the AC Liability Release.

Plaintiffs argued that the AC Liability Release violated Labor Code section 432.5 because it required the release of unwaivable statutory claims under the Fair Employment and Housing Act, Title VII, and other laws. Section 432.5 states that no employer "shall require any employee or applicant for employment to agree, in writing, to any term or condition which is known by such employer . . . to be prohibited by law."

Adecco disputed (and continues to dispute) Plaintiffs' claims and maintains that the AC Liability Release appropriately apprised employees assigned to Google that their essential job functions may include exposure to "adult content." (See Lyle v. Warner Brothers Television Prods. (2006) 38 Cal.4th 264; Edwards v. Arthur Anderson LLP (2008) 44 Cal.4th 937.) Adecco also contended, among other things, that (1) the claims were not properly the subject of a representative action; (2) the AC Release was not prohibited by law; (3) Adecco did not require employees to sign the AC Release as a condition of employment; and (4) even if Plaintiffs somehow prevailed, any penalties awarded would be substantially reduced because, among other things, the State and aggrieved employees already recovered almost the full value of the claims through the Google Settlement. Labor Code section 2699(e)(2) states that "a court may award a lesser amount than the maximum civil penalty amount specified by this part if, based on the facts and circumstances of the particular case, to do otherwise would result in an award that is unjust, arbitrary and oppressive, or confiscatory." (See Thurman v. Bayshore Transit Mgmnt. (2012) 203 Cal.App.4th 1112, 1136) ("[T]he trial court reasonably determined that an award of the maximum penalty amount would be unjust under the facts and circumstances of this case.").)

B. Relevant Procedural History

As relevant here, on March 23, 2017, Plaintiff Doe filed a Second Amended Complaint, which added Plaintiff Correa as a plaintiff to this action and Adecco as a defendant to this action. On September 14, 2017, the Court sustained Adecco's demurrer as to certain claims arising from *other* releases (involving GBikes and social events) on statute of limitations grounds. In doing so, the Court found that the "continuous accrual" doctrine did not apply to Labor Code § 432.5 claims because Plaintiff only signed the at-issue releases "once," and that was outside the limitations period. (2017-09-14 Order at 4.) The Court also sustained Adecco's demurrer as to Plaintiffs' other claims on the grounds that the National Labor Relations Act and *Garmon* doctrine preempted the claims. (*Id.* at 2-3.) On November 7, 2017, the Court granted Plaintiffs leave to amend to assert a claim under Labor Code section 432.5 regarding the AC Liability Release based on a recently-produced agreement signed within the limitations period. Plaintiffs filed the now operative Fifth Amended Complaint on November 21, 2017.

Google then moved for judgment on the pleadings of AC Liability Release claim, which the Court denied on December 26, 2017. As noted above, Plaintiffs and Google (but not Adecco) then settled the AC Liability Release claim. On June 27, 2018, the Court issued an order approving the Google Settlement. Adecco then filed its own motion for judgment on the pleadings, arguing (among other things) the Google Settlement was "res judicata" as to Adecco because the Adecco employees only signed the AC Liability Release once, and any recovery against Adecco would represent a "double recovery" on the same underlying violation. On August 27, 2018, the Court denied Adecco's motion because there was no "final judgment" and because the Google Settlement "expressly disclaimed the claims against Adecco." (2018.08.27 Order).

Additional discovery and motion practice as to the adult content claim against Adecco followed, including two motions to compel discovery and a motion (by Plaintiff Correa) for summary judgment. On December 19, 2018, prior to additional briefing or rulings on the second discovery or summary judgment motions, the parties negotiated and agreed to the Adecco Settlement.

III. THE SETTLEMENT AGREEMENT

The material terms of the Adecco Settlement (for purposes of this motion) are as follows.

A. The Settlement Payment

Adecco will pay \$140,000 into a common fund to resolve the AC Liability Release claims identified in the Agreement. (Baker Decl. ¶ 7, Ex. 2 at 3.) This settlement amount covers: (1) all civil penalties (to be shared between the LWDA and aggrieved employees); (2) an incentive payment to Plaintiff Correa of no more than \$1,000; and (3) all settlement administration costs. (*Id.*) The LWDA will receive 75% of the "net" settlement amount (*i.e.*, amount remaining after the incentive payment and settlement administration costs are deducted). (*Id.* at 4.) The aggrieved employees will receive 25% of the net settlement amount on a pro-rated basis. (*Id.*) Each aggrieved employee covered by the release will receive the same amount. (*Id.*) Each aggrieved employee will also receive a notice explaining the payment. (*Id.* at 4-5.)

B. Attorney's Fees and Costs

The Settlement Amount excludes attorney's fees and costs from the common fund. There has been no negotiations to date concerning Plaintiff Correa's counsel's fees and costs, and there is no agreement between the parties concerning those fees and costs. Rather, and as detailed in the Agreement:

Plaintiff [Correa] and her counsel intend to file a motion for fees and costs pursuant to CCP § 1021.5, Labor Code § 2699, and any other applicable law in the event the Court approves the settlement. . . . Plaintiff [Correa]'s counsel has represented, however, that a rough estimate of their lodestar fees for work on the Adult Content Release claim as to Adecco is approximately \$125,000 through November 14, 2018, but that this does not necessarily include "intertwined" time (e.g., work that cannot be reasonably segregated). Plaintiff [Correa] and her counsel agree that if this settlement is approved, Plaintiff [Correa] and her counsel will not seek "catalyst" fees or costs against Adecco in their motion for fees and costs with respect to changes (if any) to Adecco's non-disclosure agreements, policies, or practices made as of the date of the execution of this Agreement.²

. . . .

² While Plaintiffs will not seek such catalyst fees against Adecco, they intend to seek such fees against Google.

Prior to Plaintiff [Correa] and her counsel filing any motion for fees and costs, the parties agree to attempt to negotiate a fee and cost award in good faith. If the parties cannot reach a negotiated agreement on Plaintiff [Correa]'s Counsel's fees and costs, Plaintiff [Correa] and her counsel may then file a motion for fees and costs, and Adecco may oppose the motion for fees and costs.

(Settlement at ¶ III.D.)

C. Incentive Payment

The Agreement permits Plaintiff Correa to seek an incentive payment in an amount not to exceed \$1,000. (*Id.*) She does so through a separate motion.

D. Administration Process and Cost

The Agreement provides for a settlement administrator to distribute the common fund in accordance with a specified schedule. (Id. at 6-7.) In distributing the settlement checks to the aggrieved employees, the settlement administrator will also provide a notice explaining the payment and the case. (Id. at 5-6.) Using the same Settlement Administrator used in the Google Settlement, Plaintiff received a not-to-exceed bid of \$7,000 to cover the administration costs with respect to this Settlement. (Id. \P 5.)

E. The Released Claims

In exchange for the Settlement Amount, the State and the identified aggrieved employees will release specified PAGA claims arising from the AC Liability Release. (*See id.*, Ex. 2 at 7.) The aggrieved employees covered by the release are Adecco workers who started an assignment with a Google/Alphabet entity at any point from February 14, 2016 to the date this Settlement is approved, and who signed the AC Release. (*Id.*, Ex. 2 at 1-2.) Google (and by extension Adecco) discontinued use of the AC Release on March 16, 2017. (*Id.* ¶ 6.) There are no more than approximately 2,256 aggrieved employees covered by the release. (*Id.*, Ex. 2 at 3.)

IV. <u>ARGUMENT</u>

A. Standard of Review

Labor Code section 2699(1)(2) states: "[T]he superior court shall review and approve any settlement of any civil action filed pursuant to this part." Unfortunately, PAGA does not specify a standard of review for PAGA settlements, and there is no published appellate authority on the

1. Analogo

Existing law does, however, provide some guidance as to the appropriate standard of review. Plaintiff Correa contends, and for purposes of this motion Adecco does not contest, that the Court should look to the following in determining whether to approve this settlement: (1) the standard of review used in analogous statutory schemes; (2) federal court decisions approving PAGA settlements; and (3) the purposes and policies of PAGA.

1. <u>Analogous Statutory Schemes</u>

A PAGA case is in the nature of a *qui tam* proceeding. (*Iskanian v. CLS Transpiration Los Angeles LLC* (2014) 59 Ca1.4th 348, 394). California has at least two other statutory schemes whereby an individual may sue on behalf of the State or in the public interest: the California False Claims Act and Proposition 65.6. Under both statutory schemes, a court must approve a settlement or dismissal of the action.

Under the California False Claims Act, a *qui tam* plaintiff may only dismiss the case with a court's (and the government's) consent. (Cal. Gov't Code § 12652(c)(1).) In deciding whether to give consent, a court must take into account "the best interests of the parties involved and the public purposes behind the act." (*Id.*) Moreover, if a *qui tam* plaintiff objects to a settlement between the government and a defendant, the court can only approve the settlement after finding it is "fair, adequate, and reasonable under all the circumstances." (Cal. Gov't Code § 12652(e)(2)(B).)

Similarly, Proposition 65 actions, like PAGA actions, are brought by private plaintiffs to safeguard public rights. (*See Consumer Advocacy Group, Inc. v. Kintetsu Enterprises of America* (2006) 141 Cal.App.4th 46, 63.) In addition to complying with specified statutory criteria, Prop. 65 settlements may only be approved if: (1) they are "just;" and (2) they "serve the public interest." (*Id.* at 61-62.) In making this determination, the *Kintetsu* court described the appropriate inquiry as similar to the "fair, reasonable, and adequate" test used in class actions. (*Id.* at 61.) The *Kintetsu* court also stated that, in determining whether to approve a Prop. 65 settlement, a court should consider the policies underlying the statute. (*Id.* at 63.)

2. Federal Cases

In addition to analogous California law, several federal district court cases have also enunciated a standard for reviewing PAGA actions in the context of larger class action settlements.

In *O'Connor v. Uber Technologies* (N.D. Cal. 2016) 201 F.Supp.3d 1110, the district court denied a class settlement that included PAGA claims because the PAGA portion of the settlement was not "fair and adequate in view of the purposes and policies of the statute." (*Id.* at 1135.) Following *O'Connor*, other federal courts have concluded that a PAGA settlement should only be approved when it is "genuine and meaningful, [and] consistent with the underlying purpose of the statute to benefit the public." (*Viceral v. Minstras Group, Inc.* (N.D. Cal. Oct. 11, 2016) 2016 WL 5907869 *9; *see also Ferreri v. Bask Technology, Inc.* (S.D. Cal. Nov. 21, 2016) 2016 WL 6833927, *5 (evaluating PAGA settlement in light of purposes and policies of PAGA)).

3. The Purposes and Policies of PAGA

PAGA was passed because the Legislature believed it necessary "to achieve maximum compliance with state labor laws" and "to ensure an effective disincentive for employers to engage in unlawful and anticompetitive business practices." (2003 Cal. Legis. Serv. Ch. 906 § 1(a)). The Legislature further found that, while self-policing efforts have had some success, "in other cases the only meaningful deterrent to unlawful conduct is the vigorous assessment and collection of civil penalties as provided in the Labor Code." (*Id.* at § 1(b)). Through PAGA, the Legislature thus: (1) sought to "enlist[] willing citizens in the task of private enforcement," (*Iskanian*, 59 Cal.4th at 390); (2) "deputized" aggrieved employees to sue on behalf of the State to enforce state labor laws; and (3) authorized them to recover civil penalties, attorneys' fees, and costs. (2003 Cal. Legis. Serv. Ch. 906 (Legislative Counsel's Digest)). In bringing a PAGA action, "[t]he employee-plaintiff acts as the proxy or agent of the state labor enforcement agencies, representing the same legal right and interest as those agencies" (*Iskanian*, 59 Cal.4th at 394.)

In light of the above law, as well as the policies and purposes of PAGA, Plaintiff Correa proposes (and for purposes of this motion Adecco does not contest) that the Court consider the

following factors in determining whether to approve the settlement:

- (1) The extent to which the settlement achieves compliance with state labor laws.
- (2) The extent to which the settlement deters violations of the state labor laws.
- (3) Whether the settlement serves to enlist private citizens in public enforcement of PAGA.
 - (4) Whether the settlement is otherwise "just" and "in the public interest."

Because the proposed settlement reasonably and fairly advances each of the above factors, the parties ask that it be approved.

B. The Settlement Should Be Approved

1. Although the Parties Dispute Whether Any Violations Have Occurred, the Settlement Achieves Compliance With, and Deters Violations of, State Labor Laws

Adecco has agreed to pay \$140,000, or approximately \$58 per employee, in settlement of the AC Liability Release claims, even though: (1) Google already paid a settlement to the State for these claims and (2) to bring closure to the issue from Adecco's perspective since the Court previously found (although Adecco still disputes) that the Google settlement did not release claims the alleged aggrieved employees assigned to Google may have against Adecco stemming from the AC release. Accordingly, although Adecco maintains that it did not violate the Labor Code, the proposed settlement reasonably advances PAGA's purpose. It incentivizes not just regular employers, but also staffing firms like Adecco, to closely monitor compliance with the Labor Code, including with respect to requirements put into place by the staffing firms' clients.

2. The Settlement Serves to Enlist Private Citizens in Public Enforcement of PAGA

Plaintiff Correa also believes the proposed settlement acts to encourage private enforcement of PAGA. Through the Settlement, Plaintiff Correa may receive a modest incentive payment, Plaintiff Correa's counsel will receive attorneys' fees and costs (as determined through party negotiations and/or by the Court), and all aggrieved employees will receive a 25% share of the net settlement amount, as well as notice of the claim.

3. The Settlement Is "Just" and "In the Public Interest"

Finally, the proposed settlement is both just and in the public's interest.

First, the settlement reasonably values the AC Liability Release claims as to Adecco. While Plaintiff Correa believes the claims are meritorious and that she would have recovered unreduced penalties, Adecco asserted numerous defenses, including but not limited to its argument that Adecco did not require employees to sign the AC Release as a condition of employment, the AC Liability Release is not prohibited by law, any PAGA penalties would be "unjust, arbitrary and oppressive, or confiscatory" or a "double recovery" (Cal. Lab. Code § 2699(j)), and the Google Settlement also released Plaintiffs' AC Liability Release claims against Adecco.

In addition, PAGA awards penalties of "one hundred dollars (\$100) for each aggrieved employee per pay period for the initial violation and two hundred dollars (\$200) for each aggrieved employee per pay period for each subsequent violation." (Cal. Lab. Code § 2699(f)(2).) At least one California appellate court held, in the context of other Labor Code violations, that the "subsequent" violation penalty rate for a Labor Code violation does not apply until an employer is notified that its conduct violates the law. (*Amaral v. Cintas Corp. No. 2* (2008) 163 Cal.App.4th 1157, 1207-09.) Moreover, this Court has already ruled, as noted above, that the continuous accrual doctrine does not apply to Labor Code § 432.5 claims because employees only sign the agreement "once." In other words (and according to Adecco) there are no "continuing violations" of Labor Code § 432.5 under PAGA.

In light of these court rulings, Adecco has a strong argument that: (1) it would not be subject to the "subsequent" violation penalty rate; and (2) its maximum exposure under PAGA for the illegal release is \$100 per signature. Because no more than 2,256 aggrieved employees signed the release, Adecco thus has a strong argument that its maximum exposure, without offsets or reductions, is \$225,600, plus fees and costs.

Nevertheless, Adecco has agreed to pay a gross amount of \$140,000, plus fees and costs. With reductions, this amounts to a recovery of 58 cents on the most-likely exposure dollar. Given

Adecco's defenses, this is a reasonable settlement amount.³ Indeed, and to the extent the purpose of PAGA is deterrence, Plaintiff Correa contends that the Adecco Settlement could result in a *higher* per-employee-price for the AC Liability Release claims than the Google Settlement. For example, if this Court ultimately awards Plaintiff only \$125,000 in fees and costs,⁴ the total amount Adecco will for the AC Liability Release claims would be \$265,000, or about \$117.00 per violation. Google, by contrast, paid a gross amount of about \$99.00 per violation through the Google Settlement.

Moreover, the proposed settlement, even with deductions, provides a substantial sum to the State: Approximately \$99,000, which is *in addition* to the \$488,793 that the State has already received in connection with Plaintiffs' settlement agreement with Google on the same claim. It also provides employees an aggregate sum (assuming all deductions) of \$33,000. This amount is *in addition* to the amounts the aggrieved employees already received in connection with Plaintiffs' settlement agreement with Google. Moreover, the purpose of PAGA is not to compensate employees, who retain any private right of action they may have under the applicable Labor Code provisions. In that respect, the settlement also requires that each employee receive a notice that describes this litigation and the settlement sum. Plaintiff Correa contends this notice will educate aggrieved employees as to the requirements of the Labor Code, something that is in the public interest and consistent with PAGA's purpose. (*See* Cal. Lab. Code § 2699(j) (stating that civil penalties recovered under PAGA shall be distributed to the LWDA for [among other things] "education of employers and employees about their rights and responsibilities under this code.").)

Finally, public policy strongly favors the settlement of litigation. (Consumer Advocacy

³ Plaintiff Correa disagrees with the Court's finding as to the applicable limitations period under Labor Code section 432.5, as well as whether the same logic applies to employees who signed the Release within the applicable period and remained subject to the release throughout and after their employment. Plaintiff Correa also believes that *Amaral* does not apply to the present case and can otherwise be distinguished. Nevertheless, the above rulings materially impact the litigation value of the AC Liability Release claims. While Plaintiff Correa firmly believes (and Adecco disputes) that the Court's rulings will be reversed, this could easily take years, during which time the State, absent settlement, receives nothing.

⁴ Plaintiff Correa, of course, contends she is entitled to more than \$125,000 in fees, and Adecco contends that she is entitled to less.

Group v. Kintetsu, supra, 141 Cal.App.4th at 63.) Because the proposed settlement is neither unjust nor ignores the public interest, it should be approved. (*Id.*)

C. <u>Attorney's Fees, Costs, and Plaintiff Paola Correa's Incentive</u> Payment Are Not Grounds for Rejecting the Settlement

Plaintiff Correa's attorney's fees and costs are not at issue at this time. As indicated above, should the Court grant approval of the Settlement, the parties have agreed to negotiate Plaintiff Correa's attorney's fees and costs in good faith. If the parties cannot resolve the matter, Plaintiff Correa will file a motion for fees and costs, which Adecco reserves the right to contest.

Plaintiffs have filed a contemporaneous request for an incentive payment in an amount not to exceed \$1,000 for Plaintiff Correa from the common fund. With that said, the proposed settlement is not contingent upon the incentive payment, and the incentive payment should not serve as a basis for the Court rejecting the proposed settlement.

V. <u>CONCLUSION</u>

For all the reasons discussed above, the parties respectfully request the Court approve the proposed settlement, approve the proposed notice, and adopt the Order and schedule attached to this motion.

Dated: January 28, 2019 BAKER CURTIS & SCHWARTZ, P.C.

By: Chris Baker

Attorneys for Plaintiffs
JOHN DOE, DAVID GUDEMAN
AND PAOLA CORREA

Dated: January 28, 2019 JACKSON LEWIS P.C.

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