

### Sheppard Mullin Obtains Decision of \$14.6 Million Judgment

12.29.2004

Sheppard, Mullin, Richter & Hampton LLP is proud to announce that partner Andre Cronthall, along with associate Whitney Jones, obtained a judgment on behalf of the State Compensation Insurance Fund, in one of the largest awards of its type in the history of California's workers' compensation system.

The State Fund won a \$14.6 million judgment against two Rancho Cucamonga businesses that used an elaborate 'shell game' to avoid paying correct workers' compensation premiums and payroll taxes. The judgment represents an estimated \$1.3 million in unpaid premium owed to State Fund, interest and costs, and a \$13 million penalty pursuant to Insurance Code 756.

Cronthall commented, "This judgment is significant because it relied on Insurance Code 756 which permits recovery of a penalty amounting to ten times the amount of premium owed when the policyholder willfully reports false payroll information to insurers in order to reduce workers' compensation insurance premium."

San Bernardino County Superior Court Judge Ben Kayashima awarded the judgment against Ideal Payroll Plus, Ltd. and Ideal Management LP -- both Professional Employer Organizations (PEOs) formerly insured by State Fund. San Bernardino County resident David W. Clancy Jr. formed the PEOs, which underreported payroll to the State Fund and other government agencies.

As part of the scheme, Clancy failed to disclose the amount of the so-called "K-1 dividend" paid to each employee, which usually amounted to more than half of the employee's income, and thereby avoided paying correct premiums to State Fund. State Fund uncovered Clancy's scheme during an audit. State Fund then cancelled the policies issued to the PEOs and filed suit for damages.

#### **About Sheppard, Mullin, Richter & Hampton LLP**

Sheppard, Mullin, Richter & Hampton LLP is a full service AmLaw 100 firm with more than 430 attorneys in nine offices located throughout California and in New York and Washington, D.C. The firm's California offices are located in Los Angeles, San Francisco, Santa Barbara, Century City, Orange County, Del Mar Heights and San Diego. Sheppard Mullin provides legal expertise and counsel to U.S. and international clients in a wide range of practice areas, including Antitrust, Corporate and Securities; Entertainment and Media; Finance and Bankruptcy; Government Contracts; Intellectual Property; Labor and Employment; Litigation; Real Estate/Land Use; and Tax, Employee Benefits, Trusts and Estate Planning. The firm was founded in 1927.

###