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	UNITED STATES DISTRICT COURT		
12	CENTRAL DISTRICT OF CALIFORNIA		
13	LYDIA OLSON, MIGUEL PEREZ,	Case No. 2:19-0	ev-10956-DMG-RAO
14	POSTMATES INC., and UBER TECHNOLOGIES, INC.,	BRIEF AMICI	
15	Plaintiff,		PLAINTIFFS' . A PRELIMINARY
16		INJUNCTION	
17	V.	Judge: Hearing Date:	Hon. Dolly M. Gee February 7, 2020
18	STATE OF CALIFORNIA; XAVIER BECERRA, in his capacity as Attorney	Time:	2:00 P.M.
19	General of the State of California; and "JOHN DOE," in his official capacity,		
20	Defendant.		
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For the reasons set forth herein, *Amici Curiae* the Chamber of Commerce of the United States of America, Engine Advocacy, and TechNet respectfully urge this court to grant Plaintiffs' Motion for a Preliminary Injunction and enjoin defendants from enforcing AB 5 against them, or otherwise causing it to be enforced against them, pending final judgment.

### I. INTEREST OF AMICI CURIAE<sup>1</sup>

The Chamber of Commerce of the United States of America ("Chamber") is the world's largest business federation. It represents approximately 300,000 direct members and indirectly represents the interests of more than three million companies and professional organizations of every size, in every industry sector, and from every region of the country. An important function of the Chamber is to represent the interests of its members in matters before the courts, Congress, and the Executive Branch. To that end, the Chamber regularly files *amicus curiae* briefs in cases, like this one, that raise issues of concern to the nation's business community.

Engine Advocacy ("Engine") is a non-profit technology policy, research, and advocacy organization that bridges the gap between policymakers and startups, working with government and a community of high-technology, growth-oriented startups across the nation to support the development of technology entrepreneurship.

<sup>&</sup>lt;sup>1</sup> No counsel for a party in this litigation authored this brief in whole or in part. No person or entity, other than *amici* or their counsel, made a monetary contribution intended to fund the preparation or submission of this brief.

Engine conducts research, organizes events, and spearheads campaigns to educate elected officials, the entrepreneur community, and the general public on issues vital to fostering technological innovation. Engine seeks to bring to the court's attention the particularly severe burdens that would fall on early-stage companies in the absence of a preliminary injunction in this case.

TechNet is the national, bipartisan network of technology CEOs and senior executives that promotes the growth of the innovation economy by advocating a targeted policy agenda at the federal and 50-state level. TechNet's diverse membership includes 83 dynamic American businesses ranging from startups to the most iconic companies on the planet and represents over three million employees and countless customers in the fields of information technology, e-commerce, the sharing and gig economies, advanced energy, cybersecurity, venture capital, and finance. TechNet seeks to bring to the Court's attention the significant harm to its member businesses and the state's economy if a preliminary injunction does not issue in this case.

#### II. SUMMARY OF ARGUMENT

In September 2019, the State of California adopted Assembly Bill 5 ("AB 5"), which purports to cure the "harm" and "unfairness" to workers who are "exploited" when they are classified as independent contractors rather than employees under state labor and wage and hour laws. AB 5, Section 1(b), (d). But AB 5 has already had precisely the *opposite* effect, making it more difficult for countless workers (and

would-be workers) to earn their livelihood. The law likewise harms businesses, the consuming public, and the state's economy writ large. For these reasons, the court should grant plaintiffs' request for a preliminary injunction.

#### III. ARGUMENT

As explained in their brief, plaintiffs have established each of the four preliminary injunction factors. *See Winter v. Natural Res. Def. Council, Inc.*, 555 U.S. 7, 20 (2008). For starters, they are likely to succeed on the merits of their claims; at a minimum, they have raised "serious questions going to the merits" of their claims, justifying injunctive relief. *City & Cty. of San Francisco v. U.S. Dept. of Homeland Security*, 944 F.3d 773, 789 (9th Cir. 2019) (quoting *All. for the Wild Rockies v. Cottrell*, 632 F.3d 1127, 1135 (9th Cir. 2011)).

As the Ninth Circuit has recognized, regulatory exclusions that are irrational, arbitrary, or serve illegitimate purposes violate the Fourteenth Amendment's Equal Protection Clause. *See, e.g., Fowler Packing Co., Inc. v. Lanier*, 844 F.3d 809, 815-16 (9th Cir. 2016) (inclusion of exceptions in legislation solely for the purpose of obtaining support of organized labor violates Equal Protection); *Merrifield v. Lockyer*, 547 F.3d 978, 986 (9th Cir. 2008) (irrational exclusions contained in statute violates Equal Protection). AB 5 denies covered businesses the equal protection of the laws because it singles out "gig" economy workers and other particular industries and business models—the ones that unions want to target for organizing drives—for unfavorable regulatory treatment without any legitimate or rational basis (other than

the capriciousness of the unions).

Moreover, AB 5 dramatically restricts the freedom of businesses and individuals to contract with one another to set the terms and conditions of their labor, unlawfully "impairing the Obligation of Contracts." U.S. Const., Art. I, § 10. The Contracts Clause prohibits States from substantially impairing contractual rights without sufficient justification. *See Allied Structural Steel Co. v. Spannaus*, 438 U.S. 234, 241 (1978) (Contract Clause imposes limits on state abridging existing contractual relationships even when exercising otherwise legitimate police power). AB 5 violates that constitutional prohibition.

Plaintiffs have accordingly met their burden of establishing that they are likely to succeed on the merits of their claims.

The balance of the equities also favors the plaintiffs. *See* Memorandum in Support of Plaintiffs' Motion for Preliminary Injunction, Docket No. 14-1, at 22-23. *Amici* focus their brief on the irreparable harm in the absence of injunctive relief and the strong public interest favoring such relief.

To be clear, *amici* do not contend that AB 5 applies to any particular Plaintiff, that a Company Plaintiff's workers would (or should) be classified as statutory employees under AB 5, or that the Company Plaintiffs cannot meet the ABC test in EITHER AB 5 or *Dynamex Operations West v. Superior Court*, 416 P.3d 1 (Cal. 2018). In fact, in a pre-AB 5 case, another federal district court in California recently ruled that a worker who used an online platform comparable to Plaintiff Postmates's

platform was properly classified as an independent contractor under California law. *See Lawson v. Grubhub, Inc.*, 302 F. Supp. 3d 1071 (N.D. Cal. 2018). Many of the same factors analyzed by the court in *Lawson* are part of the analysis required by AB5's ABC test. *Compare id.* at 1083, *with Dynamex*, 416 P.3d at 36-40.

# A. Plaintiffs Will Suffer Irreparable Harm Without Injunctive Relief.

And it is not even necessary to decide or assume that AB 5 does require reclassification of workers using either Company's apps for purposes of adjudicating their motion for injunctive relief: the imminent threat of governmental enforcement (even if unsuccessful), and the accompanying prospect of potential civil and criminal penalties, are sufficient to establish irreparable harm. *See Valle del Sol, Inc. v.*Whiting, 732 F.3d 1106, 1029 (9th Cir. 2013) ("credible threat" of unconstitutional statute's enforcement establishes likelihood of irreparable harm). Indeed, it is well established in this Circuit that the likely deprivation of constitutional rights constitutes an irreparable injury. *See, e.g., id.*; Associated General Contractor v. Coal. for Econ. Equity, 950 F.2d 1401, 1412 (9th Cir. 1991) ("We have stated that '[a]n alleged constitutional infringement will often alone constitute irreparable harm." (quoting Goldies's Bookstore v. Superior Ct., 739 F.2d 466, 472 (9th Cir. 1984))).

But even beyond the constitutional harm, the threat of enforcement of AB 5, backed by both civil and criminal penalties, threatens the livelihood of hundreds of thousands of workers and businesses by decreasing the flexibility of workers who

have *chosen* to work as independent contractors. In 2020, during an era of historically low unemployment, workers certainly could choose to enter the workforce as a traditional W-2 employee. This was noted in a 2018 study from Beacon Economics:

The argument that alternative work arrangements are a sub-optimal form of employment for workers is harder to make at a time when the national unemployment rate stands at multi-decade lows. While it may be possible to make the case that workers who are engaged in alternative work arrangements might seek more standard types of employment when the economy is operating below capacity, it is difficult to make this claim as the economy nears full employment. In other words, in a growing economy, workers should be much more able to find the types of employment they seek, subject to their qualifications.

Christopher Thornberg et al., Understanding California's Dynamex Decision, Beacon Economics (2018), p. 6.

Many workers in California and throughout the country have continued to work as independent contractors. In a 2005 report, the Bureau of Labor Statistics (BLS) surveyed contractors, and concluded that: "The majority of independent contractors (82 percent) preferred their work arrangement to a traditional job." U.S. Dep't of Labor, Bureau of Labor Statistics, *Contingent and Alternative Employment Relationships* (July 2005). And BLS found similar results in its 2017 survey: "Independent contractors overwhelmingly prefer their work arrangement (79 percent) to traditional jobs. Fewer than 1 in 10 independent contractors would prefer a traditional work arrangement." U.S. Dep't of Labor, Bureau of Labor Statistics, *Contingent and Alternative Employment Relationships* (May 2017).

The BLS surveys show that for many years independent contractors prefer their

work arrangements to traditional W-2 employment, and in this highly favorable job market, these workers could freely switch to W-2 jobs if they so choose. AB 5 largely denies workers this choice, forcing them to choose between their livelihoods and employment relationships which they neither want nor need.

Traditional employment arrangements will irreparably harm contractors by requiring that they give up the flexibility and freedom to be their own boss which independent contracting provides. Mobile platforms such as the Uber and Postmates apps operate in a way that is incommensurate with an employment relationship between the platform company and the driver or courier. The app establishes an online marketplace for users to find one another other and transact for services.

California's employment rules do not map well onto such a platform. For example, the California Wage Orders require employers to provide an uninterrupted 10-minute rest period to employees for every four hours worked, or major fraction thereof. *See, e.g.*, IWC Order 5-2001, Section 12. Failure to provide the required rest period results in a penalty of one hour of pay, due to the employee. California Labor Code § 226.7. California Labor Code § 512 also requires that employees receive a duty-free, uninterrupted 30-minute meal period before the end of the fifth hour of work. Again, failure to provide the required rest period triggers a penalty of one hour of pay, due to the employee. California Labor Code § 226.7. So for an eight-hour work day, employees must be away from their homes and families for at least eight and a half hours per day.

Yet another example is that employers must reimburse their employees for business expenses. See California Labor Code § 2080. This makes remote work complicated—employers potentially must reimburse those who work at home for such things as home internet access, furniture, heat, and electricity, and rent. As a result, employers naturally significantly limit remote work.

These restrictions limit when, where, and how California employees work, making it impossible for them to have true flexibility. By contrast, independent contractors can work as many or as few hours in a day, with as many or as few breaks, as they choose. They can eat when they like so they can end work when they want and pursue other endeavors, such as spending more time with their family. And they are much freer to choose where they work because they cover their own expenses.

AB 5 largely eliminates this work-life flexibility which independent contractors enjoy.

Moreover, businesses such as the Plaintiffs here are confronted with difficult compliance questions and draconian civil and criminal penalties if they make the wrong choice. For example, how do California's meal-and-break requirements apply where a putative "employee" performs services throughout the workday for a series of different companies? Many "gig" economy workers "multi-app,"—*i.e.*, they use multiple online platforms simultaneously to find their customers. Which, if any, company must provide the required breaks? If a multi-apping worker uses his or her car to perform services for numerous companies for various purposes throughout the day—say, delivering groceries in the afternoon, passengers during rush hour, and

restaurant meals in the evening—which company or companies must reimburse mileage and other business-related expenses? These difficult legal questions will inevitably arise, and the state labor code carries very serious consequences for potentially "wrong" answers. Insofar as AB 5 directly threatens the viability of such platform-based services, it likewise threatens the financial viability of new and fledgling businesses that rely on them and the many early-stage platform startups that are not parties to this litigation but face significant harms from AB 5. Injunctive relief is appropriate to halt each of these ongoing injuries.

Moreover, businesses such as the Plaintiffs here are confronted with difficult compliance questions and draconian civil and criminal penalties if they make the wrong choice. For example, how do California's meal-and-break requirements apply where a putative "employee" performs services throughout the workday for a series of different companies? Many "gig" economy workers "multi-app," completing tasks for several platform-based companies each day. Which, if any, company must provide the required breaks? If a multi-apping worker uses his or her car to perform services for numerous companies for various purposes throughout the day—say, delivering groceries in the afternoon, passengers during rush hour, and restaurant meals in the evening—which company or companies must reimburse mileage and other business-related expenses? These difficult legal questions will inevitably arise, and the state labor code carries very serious consequences for potentially "wrong"

answers.<sup>2</sup> Insofar as AB 5 directly threatens the viability of such platform-based services, it likewise threatens the financial viability of new and fledgling businesses that rely on them and the many early-stage platform startups that are not parties to this litigation but face significant harms from AB 5. Injunctive relief is appropriate to halt each of these ongoing injuries.

Indeed, federal courts in the Ninth Circuit have already recognized that AB 5's civil and criminal penalties, and the threat of their enforcement, constitute irreparable harm justifying preliminary injunctive relief. *See California Trucking Association v. Becerra*, No. 3:18-cv-02458-BEN-BLM, 2020 WL 248933, at \*10-11 (Jan. 16, 2020); *see also Garrett v. City of Escondido*, 465 F. Supp. 2d 1043, 1052 (S.D. Cal. 2006) (holding that threats of enforcement are sufficient to establish irreparable harm).

## **B.** The Public Interest Strongly Favors A Preliminary Injunction.

As detailed above, AB 5 is already harming workers, businesses, consumers, and the entire California economy.

The innovative business models used by Company Plaintiffs significantly enhance social welfare. They provide goods and services to consumers more efficiently, at lower prices. For example, on-demand ride-sharing services provide faster and more efficient transportation than traditional medallion-based taxi services.

<sup>&</sup>lt;sup>2</sup> For example, in addition to steep civil penalties, the California Labor Code imposes criminal penalties for failure to pay required overtime pay, *see* Cal. Lab. Code § 553, and minimum wage, *see id.* § 1199, to workers classified as employees (including those who would be newly classified as employees under AB 5).

See, e.g., "Faster and Cheaper: How Ride-Sourcing Fills a Gap in Low-Income Los Angeles Neighborhoods," BOTEC Corporation, July 2015, available at <a href="http://botecanalysis.com/wp-content/uploads/2017/02/Uber-LA-Report.pdf">http://botecanalysis.com/wp-content/uploads/2017/02/Uber-LA-Report.pdf</a> (last accessed January 27, 2020). The growth of platform-based on-demand rideshare services has likewise reduced drunk driving. See James Sherk, "The Rise of the Gig Economy: Good for Workers and Consumers," Heritage Foundation (October 6, 2016) (citing Brad Greenwood and Sunil Wattal, "Show Me the Way to Go Home: An Empirical Investigation of Ride Sharing and Alcohol Related Motor Vehicle Homicide," Temple University Fox School of Business Research Paper No. 15-054, January 29, 2015, <a href="https://papers.ssrn.com/sol3/papers.cfm?abstract\_id=2557612">http://papers.ssrn.com/sol3/papers.cfm?abstract\_id=2557612</a>), available at <a href="https://www.heritage.org/jobs-and-labor/report/the-rise-the-gig-economy-good-workers-and-consumers#">https://www.heritage.org/jobs-and-labor/report/the-rise-the-gig-economy-good-workers-and-consumers# ftn21">https://www.heritage.org/jobs-and-labor/report/the-rise-the-gig-economy-good-workers-and-consumers# ftn21</a> (last accessed January 27, 2020)).

AB 5 undermines these public benefits, threatening enforcement actions that increase Company Plaintiffs' costs, which the consuming public will ultimately bear through higher prices. Plaintiffs have supplied ample evidence of AB 5's economic harm from potentially requiring platform-based companies to reclassify their workers as full-blown employees. *See generally* Declaration of Justin McCrary in Support of Plaintiffs' Motion for Preliminary Injunction, Docket No. 19.

This harm goes far beyond direct costs to companies, or lost earnings to workers. For example, platform-based services may facilitate greater competition. A large, national chain restaurant may enjoy the economies of scale and name

recognition needed to maintain a workforce of dedicated delivery drivers. But a new, independent restaurant with slim profit margins may be unable to afford to hire a delivery employee, even on only a part-time basis. But that same restaurant, at a fraction of the cost, can subscribe with any number of platform-based delivery services to deliver their meals to a wide range of customers. Because AB 5 directly threatens the viability of such platform-based services, it likewise threatens the financial viability of new and fledgling businesses that rely on them.

An analysis done earlier this month by the Chamber makes clear that the harmful effects on the "gig" economy of state regulation like AB 5 are not limited solely to workers or the platform-based companies that they utilize. On the contrary, they harm a far broader swath of the economy and even government itself:

Logically, platform holders would have to make some changes to their models. If gig workers become employees, they will be subject to state wage-and-hour laws. Platform holders will become responsible for providing an hourly minimum wage and overtime. So to ensure they can continue making a profit, platform holders will have to take more control over when where gig employees work. . . .

And these controls will necessarily change the nature of gig work—often to the detriment of gig workers. Military spouses, transitioning service members, ex-offenders, students, parents, and moonlighters may no longer have access to the gig economy. Legislators will have closed an avenue for millions of Americans to supplement their incomes or sustain themselves when they are in between jobs. In that sense, they may actually be raising costs for the state, which may need to provide social services to people who no longer have alternative work opportunities. And they will, perhaps, have smothered a nascent industry in its cradle.

U.S. Chamber of Commerce Employment Policy Division, Ready, Fire, Aim: How

State Regulators Are Threatening the Gig Economy, at 36-37 (emphasis added) (attached hereto as Exhibit B, and available at: <a href="https://www.uschamber.com/report/">https://www.uschamber.com/report/</a> ready-fire-aim-how-state-regulators-are-threatening-the-gig-economy-and-millions-of-workers (last accessed January 27, 2020)).

The threat of AB 5's enforcement is already causing harm to the livelihood of hundreds of thousands of workers in California. California State Assemblyman Kevin Kiley has collected the testimony of these victims in the recently published *AB 5 STORIES: Testimonials of Californians Who Have Lost Their Livelihoods* (attached hereto as Exhibit A, and available at <a href="https://ad06.asmrc.org/sites/default/files/districts/ad06/files/AB5%20Booklet\_0.pdf">https://ad06.asmrc.org/sites/default/files/districts/ad06/files/AB5%20Booklet\_0.pdf</a> (last accessed January 29, 2020)). Just a small sampling of these accounts makes clear that AB 5 has already wreaked, and continues to threaten, irreparable collateral harm to workers and small businesses alike.

- Ryan: "I am the owner of a pediatric therapy company. We provide work to approximately 40 ICs who want to see a few clients in addition to their full time jobs. *This law would force me to let go of all 40 ICs as I cannot afford to pay them.*"
- Jan: "I'm an older woman with two teaching credentials living in a small county who cannot find employment outside of independent contractor online teaching jobs. One company has already announced they will no longer contract with California teachers. I care for a disabled husband. I will lose my home if I cannot work for those companies."
- Ernie: "I'm retired and at age 75 the freelance writing I do for several publications is an important supplemental income source for me and my family. I'm good at what I do and produce about 200 articles a year. *Yesterday I was notified that my work is being cut in half and I am losing one column entirely*

- because I submit more than the arbitrary 35 to that publication."
- Cori: "AB 5 is detrimental to my small blog. Hiring contractors to do small things for me here and there is how I make it work. I cannot ask all of those contractors to become employees. It is unsustainable. *I will have to look out of state for help.*"
- Hope: "This bill will devastate the services the Deaf community receive.

  Almost all of the American Sign Language Interpreters that work in the community are Independent Contractors. We get the bulk of our work through agencies that work like clearing houses that send out the work. We set our pay and take the work if we want or don't want."
- Donna: "I am a bandleader and work with 20 different musicians through the course of the year. Some I will use once some 15-20 times. *The costs of making them employees, work comp, payroll costs etc. will put me out of business.*"
- Andrea: "I'm a freelance writer who writes dozens of pieces for various clients each month. I did my writing through a content mill, which has now blocked California writers from communicating with any new clients and is limiting us to 34 articles per year for the clients we already had. For perspective, I often wrote more than 34 articles per MONTH for ONE of my clients alone. I am now losing these clients, many of whom I've worked with for years. I was incredibly happy with my work life prior to AB 5. I made enough money to satisfy my needs, and I was able to work when I wanted and take time off when I wanted, something I needed due to my chronic health problems."
- Susan: "I am a tax preparer. I prepare corporate and partnership returns for mostly entertainment clients. *If they are forced to become employees of the studios, I lose my business.* I've had some of my clients for 30 years."
- Marsha: "I lost my job of 12 years as a medical transcriptionist because of AB
   Many in this profession value the flexibility in hour and working from home more than employee status. Now I have no money at all."
- Andi: "Just lost my ability to earn a living because of California Assembly Bill 5. My freelance brokerage company says that they have to let California authors go. *Almost a decade of hard work gone in an instant. I can't stop crying. Right before Christmas.*"

(Emphases added.) These examples demonstrate how, contrary to its stated purpose,

AB 5 has caused workers and small businesses serious and sometimes devastating financial and personal harm. Because of AB 5, much less work is available. Clients no longer do business with contractors, threatening their economic security. AB 5 also removed essential flexibility in their working arrangements that allowed them to care for ailing family members or otherwise balance work and life commitments.

Small and independent businesses are likewise suffering, as the threat of AB 5 enforcement forces them to dramatically restructure their businesses in unsustainable ways.

Additional economic harm from AB 5 is already well documented, as California businesses close and businesses (and workers) leave the state to pursue their livelihood free of AB 5's reach. See, e.g., Karen Anderson, "Another Voice: Assembly Bill 5 harms hundreds of industries and professions," *Sacramento Business Journal* (January 24, 2020) (describing how AB 5 has led to closures of businesses, outflux of California independent contractors, and relocation of California platformbased employers); Nellie Bowles & Noam Scheiber, "California Wanted to Protect Uber Drivers. Now It May Hurt Freelancers," *New York Times* (December 31, 2019) (detailing deleterious effects of AB 5 on freelance workers, including writers, translators, transcriptionists, performers, and clergy); Max Willens, "'It definitely limits our options': Under AB 5, publishers and freelancers see costs rise," Digiday (January 17, 2020) (cataloging negative economic impact of AB 5 on freelance writers and publishers that engage them).

A preliminary injunction against the enforcement of AB 5 as applied to the Plaintiffs therefore would advance the public interest.

### IV. CONCLUSION

For the foregoing reasons, the Chamber respectfully urges this court to grant Plaintiffs' Motion for a Preliminary Injunction and enjoin defendants from enforcing AB 5 against them, or otherwise causing it to be enforced against them, pending final judgment.

Dated: February 4, 2020

/s/ Bruce J. Sarchet BRUCE J. SARCHET, Bar No. 121042 MICHAEL J. LOTITO, Bar No. 108740 JAMES A. PARETTI, JR.

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