

TERAOKA

LEGAL COUNSEL

PACIFIC COUNSELOR™

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Law Bulletin from TERAOKA & PARTNERS LLP



We bring Summer greetings and take this moment to reach out to you — our valued clients — with a message of continuing steadfast support.

There is no question that the current economic climate presents real challenges for businesses of all sizes. Uncertainty has become a familiar companion, and for many, the path forward can feel difficult to chart. Strategic decisions that once seemed straightforward now require greater care, and the confidence to set a clear course of action is harder to come by.

In times like these, we believe the most powerful step a business can take is to return to its foundations — to the core operations, values, and strengths that made it valuable in the first place.

For us, that means what it has always meant: providing you with sound, practical legal counsel. We focus on understanding the full picture of your circumstances, offering advice that is grounded in real-world practicalities, and working with you toward outcomes that genuinely serve your interests. That commitment does not waver with the seasons or with shifting economic winds.

Our advice to you: stay nimble, stay flexible, and stay focused. The businesses that will emerge strongest from this period of uncertainty are those that resist the temptation to overcorrect, keep their eyes on specific, meaningful targets, and lean on the expertise and relationships they have built over time.

We are here — as we have always been for the last 50 years — to help you navigate whatever lies ahead with clarity and confidence.

We wish you a productive and rewarding Summer, and look forward to continuing to serve you.

Best regards,

Steven Teraoka

An Honor Beyond Expectation

Receiving Japan's Foreign Minister's Commendation



In Spring, the Consul General of Japan of San Francisco, the Honorable Kotaro Otsuki, hosted a dinner at his official residence for Steve, his wife Marsha, along with close friends, to officially present Japan's Foreign Minister's Commendation to Steve. Consul General Otsuki presented the award on behalf of Japan's Minister of Foreign Affairs, Mr. Takeshi Iwaya. The award was given to Steve for his devotion to promoting economic relations between Japan and the United States which contributed to friendship and goodwill between the two nations. He was commended for his life long service. Steve's close friends, Mr. and Mrs. Jack and Mayumi Sakazaki and Mr. Hide Tanigami and his wife Mrs. Judy Bogard-Tanigami, were present along with other consular officials to celebrate the evening.

Steve commented that when interacting in cross border affairs, he simply did what came naturally to someone who had grown up living between two worlds. Being Japanese American in America meant growing up inherently bicultural — aware from an early age of the differences between two ways of seeing the world, and sensitive to the quiet art of navigating between them. It made him attuned to nuance, to the unspoken, to the places where misunderstanding could take root if no one took the time to truly listen. That perspective, he came to understand, was the most valuable thing he could offer when helping clients and friends who were working across borders. Not expertise alone, but empathy. Not just knowledge of both cultures, but a genuine love for what each had to teach the other. That was the perspective he tried to bring to the table — in the truest sense of that phrase — throughout his career. And standing in the Consul General's residence that evening, he found himself quietly grateful that it had mattered to someone. That it had mattered enough for this.

After the ceremony, they moved to dinner, and the evening shifted into a joyful and unhurried affair, with laughter and conversation that flowed freely among good friends. The Consul General's private chef prepared a meal that was nothing short of extraordinary. They were so thankful for the Consul General's hospitality—for the thoughtfulness that went into every detail and generosity of spirit that made the occasion feel less like an official ceremony and more like a gathering among friends.

Steve left that evening feeling a profound sense of humility and gratitude. Humility, because he knew that no honor of this kind belongs to one person alone. And gratitude, because he was acutely aware of how much was accomplished was made possible by the people besides him—the colleagues, the clients, the friends, the partners on both sides of the Pacific Ocean who trusted and challenged him and walked the road with him over the last 50 years. This award was as much theirs as it was his. It was such an honor to collaborate with them in bridging these two remarkable countries. He was more grateful than words can properly express.



EMPLOYEE OR CONTRACTOR? NEW LAW DEVELOPING

Are your staff employees or independent contractors? The classification of workers significantly affects how businesses operate, and the rules for classification are shifting.

On February 26, 2026, the U.S. Department of Labor (DOL) issued a Notice of Proposed Rulemaking to revise how it determines whether a worker is an employee or an independent contractor under the federal Fair Labor Standards Act (FLSA), the Family and Medical Leave Act (FMLA), and the Migrant and Seasonal Agricultural Worker Protection Act (MSPA).

Key Changes from the 2024 Rule

The proposed rule rescinds the 2024 Biden-era rule, which used a “totality of the circumstances” six-factor test. The DOL argues that this approach was too vague, led to unpredictable outcomes, and was inconsistent with Supreme Court precedent. Instead, it returns to a framework similar to the 2021 Trump-era rule, which is considered more pro-business.

Core Classification Factors

The proposed rule provides an “economic reality” test with two core factors that carry the most weight:

- Nature and degree of control over the work.
- Opportunity for profit or loss based on initiative and/or investment.

If both core factors point in the same direction, classification is usually clear. The rule also lists three additional factors as “guideposts” (less probative):

- Amount of skill required for the work.
- Degree of permanence of the working relationship.
- Whether the work is part of an integrated unit of production.

The DOL emphasizes that actual practices matter more than theoretical possibilities.

The proposed analysis would apply to the implementation of the following laws: **FLSA** (minimum wage, overtime, other protections), **FMLA** (job protection during leave), and **MSPA** (employment protections for seasonal agricultural workers).

Next Steps

Employers should consider the following steps:

- Assess how workers are classified using the proposed “core factors” analysis.
- Ensure human resources and legal teams are familiar with the proposed changes and are prepared to implement any necessary adjustments.
- Stay informed on the status of the rulemaking and any related litigation or enforcement guidance.
- State laws may impose additional worker classification requirements and criteria. Employers must comply with both federal and state laws.

LEGAL ISSUES WITH AI

As AI permeates the business landscape, companies are experiencing first-hand the efficiency and convenience of AI integrations in daily functions. Large language models (LLM), AI systems that can understand and generate natural language outputs, are widely used through free and public platforms like Anthropic’s Claude, Open AI’s ChatGPT, Microsoft Copilot, and Google Gemini. While these tools are alluring and businesses may be tempted to utilize them for their common legal needs, the following are just a few of the issues that businesses should take note as they consider the benefits and risks of incorporating these tools.

Confidentiality

Information inputted into these LLMs are used to continuously train and improve the AI systems and services. The information may be retained by the LLM provider indefinitely stored in the cloud outside of one’s control. Uploading information to use these systems may compromise the confidentiality of proprietary and sensitive information.

Further, such action may be deemed a breach of confidentiality obligations in existing nondisclosure agreements. The information shared in these systems could be mishandled or further disseminated in unanticipated ways. Businesses should carefully consider what information is inputted into these systems and consider the risk of how the data may be compromised or exposed.

Hallucinations

LLMs are known to generate false answers or statements called “hallucinations.” This problem can be especially damaging in the legal context where written law and authority serve the basis for sound decisions. LLMs have been known to create case law in support of a legal theory out of thin air. Hallucinations can fabricate convenient answers and lead to inaccurate legal conclusions. Relying on unconfirmed conclusions that may be untrustworthy can present significant risk exposure to businesses.

Limitations on Input and Output

Because the output generated in an LLM is only as good as the prompt that is inputted, answers generated in a LLM has its limitations. Business terms or contractual clauses generated in an LLM may fail to consider the specific context or circumstances of the situation one seeks to address. The LLM may fail to identify issues or a significant legal concern because it is responding to a prompt that may lack the background and history of a specific business concern. For example, a simple question about the applicable law in one jurisdiction may have a completely different answer in another jurisdiction.

While these LLMs are increasingly able to process complex questions, the user is still left to fine-tune the prompts. As users may be operating with blind spots and may fail to identify all the legal issues of a particular situation, the guidance provided in an AI system may fail to provide a comprehensive answer.

As attorneys we view these AI tools with a cautious optimism and skepticism. While we recognize the benefits they may pose to businesses, we have also seen AI-generated legal documents that are fraught with internal inconsistencies and incorrect legal conclusions. As such, we continue to urge clients to consider how they are using these new tools and what risks are presented with such use before blindly adopting widespread use of AI.

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Photos



Catherine & Steve with Keizai Silicon Valley Honoree, Kristi Yamaguchi, Olympic Gold Medalist.



Steve at California State Senate Floor in Sacramento with Japanese Business Leaders Delegation in June for US Japan business diplomacy.
Introduced by Senator Monique Limon, California Senate President pro Tempore, standing next to Steve.



At JCCNC New Years Gala, Steve honored before 500 guests as recipient of the Foreign Minister's Commendation.



Firm luncheon at Waterfront Restaurant on San Francisco wharf.



Steve next to Jennifer Barrera, President of California Chamber of Commerce, at 25th anniversary luncheon of the Cal Chamber and Japan Business Leaders including Presidents of JCC of NorCal and JBA of SoCal.



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