

# abt REPORT

NORTHERN CALIFORNIA

Volume 11 No. 1

NOVEMBER 2001

## Noncompete Battles Across State Lines: California Employers Beware

Things can get ugly between sister courts in the noncompete area. The issue: California Business & Professions Code section 16600 ("Section 16600"), which generally prohibits noncompetition agreements as against public policy, does not get the same respect from out of state courts that it does here in California. Thus, when an out of state employee with a noncompete agreement comes to work in California for a California employer, there is the possibility that a California court will find the noncompete invalid while a non-California court will not, leaving the California employer and employee in the uncertain middle. This article discusses this dilemma and strategies around it.

California courts have declared Section 16600 to have almost "untouchable" status, to the point that (1) merely to ask for a covenant not to compete, let alone enforce it, has been declared to be against fundamental

public policy (*D'sa v. Playhut, Inc.*, 85 Cal.App.4th 927 (2000)), (2) they have long ago given short-shrift to the

*Continued on Page 2*



Steven L. Friedlander

## Heading Off the Stampede of Inconsistent Appellate Decisions

One of the problems the state appellate system faces is that there aren't enough wranglers on the California Supreme Court to ride herd on the Court of Appeal. Someday, but probably not before the population of the state doubles again, we will adopt a dualistic arrangement featuring twice as many justices on separate high courts, or separate panels of the same court, for criminal and civil appeals (on, one hates to admit, some version of the Texas model). Until then, however, we must somehow add judicial personnel in some creative way to expand or assist the Supreme Court.

The number of judicial slots on the Court of Appeal is inching toward 100. That's fine. I will argue anon there should be even more by now. But the Supreme Court doesn't grow at all. Its full complement is just seven. And, unbelievably, the court's annual combined production in written opinions is often exceeded by many, sometimes most, individual members of the Court of Appeal.

An important reason for the Supreme Court's puny output is the haystack of petitions for review it receives each week from disappointed consumers of the Court of Appeal's product. Of course, a glance at these petitions reveals an obvious and large percentage where the filing fee would be better spent on the Lottery; but all of the justices review summaries of the petitions and vote on them in a weekly conference.

Another hugely inefficient consumer of Supreme Court time is automatic appeals in capital cases (nine people executed since the killing resumed in 1978; 600-some prisoners on death row threatening to die of old age). A vengeful electorate continues to exact a heavy toll on the

*Continued on Page 4*



Hon. Thomas F. Crosby, Jr.

### Also in this Issue

<i>Jan Klohonatz</i>	Asserting the Advice of Counsel in a Business Judgment Rule Defense .....p. 3
<i>William Hirsch</i>	On CLASS ACTIONS .....p. 7
<i>Howard Ullman</i>	On ANTITRUST .....p. 9
<i>James Yoon</i>	On PATENTS.....p. 11

Continued from Page 1

## California Employers Beware

device of asking for a non-California choice-of-law provision in conjunction with a noncompete, and other similar tricks (see, e.g., *Frame v. Merrill, Lynch*, 20 Cal.App.3d 668, 673 (1971) (choice-of-law provision applying New York law invalid), *Bosley Medical Group v. Abramson*, 161 Cal.App.3d 284 (1984) (“sham” stock transaction does not qualify under Business & Professions Code section 16601 exception to Section 16600), (3) the “inevitable disclosure” of trade secrets doctrine, popular outside California as a mechanism to prevent employees from using trade secrets when they land the same essential job at a competitor, has been rejected by a California federal court as a de-facto covenant not to compete (*Globespan, Inc. v. O’Neill*, 151 ESupp.2d 1229 (C.D. Cal.

2001) (“*Globespan*”), and (4) even a current Maryland resident who works for a California-based employer can get the benefit of Section 16600 as against her former Maryland employer (*Application Group, Inc. v. Hunter Group, Inc.*, 61 Cal. App.4th 881 (1998) (“*Hunter*”). Indeed, some have called Section 16600 the primary engine behind California’s high tech economy. As public policies go, Section 16600 is clearly one of California’s favorites.

Other states, however, are not as impressed as we in California with our

Section 16600 trump card. Thus, while in the main we can be confident that California courts will find noncompetes in California unenforceable (unless they fit one of the exceptions to Section 16600 stated in Business & Professions Code sections 16601 or 16602), the story does not end there. Non-California courts faced with the same facts can and do reach different results, with significant potential consequences to California employers, employees, and lawyers. The *Medtronic* case is a dramatic example of how this can play out. See *Advanced Bionics Corp. v. Medtronic, Inc.*, 87 Cal.App.4th 1235 (2001), rev. granted, 2001 Cal. LEXIS 3764 (June 13, 2001); *Medtronic, Inc. v. Advanced Bionics Corp.*, 630 N.W.2d 438 (Minn.App. Ct., June 26, 2001).

### Medtronic

On June 7, 2000, Mark Stultz and his new employer, Advanced Bionics Corporation (“ABC”), sued Stultz’s former employer, Medtronic, Inc., in Los Angeles Superior Court for declaratory relief from Stultz’s noncompetition agreement with Medtronic. Stultz, a then-Minnesota resident, was an executive who for the past five years had marketed a spinal-cord stimulation product for Medtronic, a medical device manufacturer based in Minnesota. ABC, a medical device manufacturer based in California, hired Stultz to help market a competing spinal-cord stimulation product. In their action for declaratory relief, Stultz and ABC set forth the conventional argument:

the noncompetition agreement was invalid as contrary to California’s fundamental public policy, and the choice-of-law provision in the agreement, which designated Minnesota as the source of governing law, was similarly unenforceable. On June 8, Stultz and ABC followed up by asking the California court for a temporary restraining order to prevent Medtronic from “taking any other action” to enforce its covenant not to compete. The court put the matter over for one day, rejecting concerns by Stultz and ABC’s counsel that Medtronic had a “well-known race to the court practice.”

What happened next was anything but conventional. In fact, what happened quickly became the stuff of mini-legal-legend, and has been well-chronicled in newspapers, legal periodicals and, most recently, *Forbes* magazine. In brief:

- Medtronic responded to the California lawsuit by immediately removing it to federal court on diversity grounds (thereby avoiding the hearing on the restraining order; the federal court subsequently remanded the case to state court) and, on June 9, by filing a separate lawsuit to enforce the noncompetition agreement in Minnesota state court. Also on June 9, Medtronic obtained a temporary restraining order from the Minnesota court that enjoined Stultz from working for ABC on the competing product and prohibited Stultz and ABC from taking any action in any other court that would interfere with the Minnesota action. Shortly thereafter, Medtronic moved for a stay in the California state court, which motion was denied.

- On August 3, the Minnesota court issued a preliminary injunction that prohibited Stultz from competing, but did not include the temporary restraining order language that restrained Stultz and ABC from pursuing other litigation.

- Stultz and ABC countered on August 8 by, without notice, obtaining an *ex parte* order from the California court that restrained Medtronic from taking any further steps in the Minnesota action. In granting this order, the California court stated that there was a “substantial chance” that Medtronics would “go to the Minnesota court [and] attempt to undercut” the California court’s jurisdiction.

- In light of the California court’s restraining order, on August 11 Medtronic requested “guidance” from the Minnesota court. The Minnesota court promptly provided such “guidance” by amending its August 3 preliminary injunction *nunc pro tunc* to prohibit Stultz and ABC from taking any further steps in the California action, except to ask the California court to vacate its restraining order on Medtronic with regard to the Minnesota action.

- The California court refused to vacate its order, with the result that Stultz and ABC were restrained by the Minnesota court from participating in the California action, while Medtronic was restrained by the California court from participating in the Minnesota action.

- Medtronic next moved to continue the California trial date, which motion was denied, and then filed a petition for a writ of mandate with the California appellate court, attacking the California court’s refusal to defer to the

Continued next page



Ronald A. Johnstone

Minnesota court. Not surprisingly, the California appellate court cited California's "materially greater interest" in furthering the public policy of Section 16600, and affirmed the trial court's restraining order, ordering the parties back to trial while recognizing that "the views expressed in this opinion will no doubt affect the manner in which this case is tried." The California bar and California employers breathed a collective sigh of relief. Checkmate, right?

- Not quite. Stultz and ABC had in the meantime appealed to the Minnesota appellate court based on the Minnesota trial court's rulings against them. That court, of course, found that Minnesota law applied and affirmed the Minnesota trial court's grant of a temporary injunction. So what did the Minnesota court say about California's "untouchable" Section 16600? Important yes, but Minnesota also has a strong interest in having contracts executed in Minnesota enforced in accordance with the parties' expectation. 630 N.W.2d at 449.

#### Avoiding A Medtronic Scenario

Whatever else it teaches us (and we are sure to learn more as the California Supreme Court has granted review of the California *Medtronic* case), the *Medtronic* situation cautions against California employers and counsel cavalierly assuming that all out of state noncompetition agreements will automatically buckle under the weight of California's fundamental public policy.

At the end of the day, our court system allows the kind of jurisdictional battles between sister courts that were fought in *Medtronic*, with notions of comity and the Full Faith & Credit Clause falling by the wayside of motivated competing courts. While there is no sure-fire method for eliminating the possibility of a *Medtronic* repeat performance, as counsel we can take certain steps to best advise a California employer ("CalCo") regarding an applicant who is bound by a noncompetition agreement with an out of state former employer ("OldCo").

*Step 1.* As a preliminary matter, of course, CalCo should analyze the applicability of the exceptions to Section 16600, Sections 16601 (sale of a business) and 16602 (sale of a partnership), so that it does not hire an applicant who is bound by a noncompete that is enforceable even in California.

*Step 2.* Assuming the noncompete is not enforceable in California, CalCo must next determine whether the noncompete is enforceable in the choice-of-law state. This analysis requires consideration of the choice-of-law state's treatment of noncompetes generally, as well as under the particular circumstances at issue. Important considerations include:

- *The choice-of-law state's choice-of-law rules.* Will the choice-of-law state automatically enforce the noncompete's choice-of-law provision? Or will the provision only be enforced to the extent that it does not conflict with the fundamental policy of a state with a materially greater interest in the matter? Most states follow the latter rule, as set forth in Restatement (Second) of Conflict of Law section 187(2)(b). Courts applying section 187(2)(b) generally give significant weight to the extent of an applicant's

*Continued on Page 5*

## *Asserting the Advice of Counsel in a Business Judgment Rule Defense*

The business judgment rule is a commonly recognized defense for corporate executives whose business decisions are questioned by the corporation or its shareholders. One particular aspect of the business judgment rule, reliance on the advice of legal counsel, can provide a director with a complete defense to a claim that the director breached his or her duty of care to the corporation.

Reliance on the business judgment rule and the advice of legal counsel to defend a director's decisions, however, results in a waiver of the attorney-client privilege which can extend into the work-product of any counsel who provided that advice, and potentially even into the files of trial counsel. These considerations must be weighed in determining whether reliance upon the advice of legal counsel should be asserted. More importantly, the question of waiver should be considered at the very outset of the representation, because the decision to assert the defense could impact how privileged communications are conducted between client and counsel, and how documents are generated and maintained.



**Jan Klohonatz**

#### Background

In California, the business judgment rule for directors has been codified in California Corporations Code section 309. The business judgment rule acknowledges that directors are not infallible. Directors are allowed to make mistakes in business decisions, so long as they act in good faith in what they believe to be in the best interests of the corporation, and do not have a conflict of interest. *Gailard v. Natomas Co.*, 208 Cal.App. 3d 1250 (1989).

In making business decisions, a director may rely on information, opinions, reports and statements of various knowledgeable professionals, including legal counsel. *See, e.g.*, Cal. Corp. Code section 309(b)(2); *Panter v. Marshall Field & Co.*, 646 F.2d 271 (7th Cir.), *cert. denied*, 454 U.S. 1092 (1981); *Tannenbaum v. Zeller*, 399 F. Supp. 945 (S.D.N.Y. 1975). Reliance on the advice of independent legal counsel in making a challenged decision can provide a director with a complete defense or at least be a significant factor in evaluating whether the director breached his or her duty of care. However, injecting the advice of counsel as a defense will effect a waiver of the attorney-client privilege surrounding that advice, and perhaps even a waiver of counsel's work-product protection.

*Continued on Page 4*

Continued from Page 3

## Asserting the Advice of Counsel

### Waiver

**California Cases.** In California, a waiver of the attorney-client privilege can be either a statutory waiver or an implied waiver. A statutory waiver occurs when the holder of the privilege voluntarily discloses a significant portion of the communication or consents to such disclosure made by someone else. Cal. Evid. Code section 912(a). An implied waiver occurs when a party puts “at issue” a matter that otherwise is privileged, such as advice received from legal counsel. It is this type of “at issue” waiver that occurs when reliance upon the advice of counsel is asserted in connection with the business judgment rule.

*Merritt v. Superior Court*, 9 Cal. App. 3d 721 (1970), was the first California decision to recognize the theory of an “implied waiver” of the attorney-client privilege. The court in *Merritt* held that the plaintiff had impliedly waived the privilege by putting at issue the state of mind of his former attorney with respect to the limits of insurance coverage. The scope of the waiver, however, was limited to the particular communications with plaintiff’s former counsel concerning the coverage issues. *Id.* at 725-26, 730-31. See also, *Transamerica Title Ins. Co. v. Superior Court*, 188 Cal. App. 3d 1047, 1053-54 (1987) (reliance upon advice of counsel defense in connection with filing claims resulted in waiver of pre-filing attorney-client communications).

More recently, in *Wellpoint Health Networks, Inc. v. Superior Court*, 59 Cal. App. 4th 110 (1997), the court allowed a “subject matter” waiver with respect to the employer defendant’s investigation of plaintiff’s harassment claims. In *Wellpoint*, the employer’s attorneys investigated the plaintiff’s harassment claims on the employer’s behalf. The defendant then asserted as a defense that it had taken reasonable steps in response to the plaintiff’s allegations. During discovery, the plaintiff sought documents relating to the attorney’s investigation file. The court stated that, “[i]f a defendant employer hopes to prevail by showing that it investigated an employee’s complaint and took action appropriate to the findings of the investigation, then it will have put the adequacy of the investigation directly at issue, and cannot stand on the attorney-client privilege or work product doctrine to preclude a thorough examination of its adequacy.” *Id.* at 128.

These cases aside, there is little law in California regarding implied waivers and/or the appropriate scope of any such waiver. Unless a case fits squarely into one of the above scenarios, your opponent and the court may be tempted to look to federal authorities to determine the breadth of any advice of counsel waiver.

**Federal Cases.** Federal case law discussing the scope of the advice of counsel waiver arises largely, but not exclusively, in the patent infringement context. In patent infringement cases, where willful infringement is alleged, the “advice of counsel” defense can be asserted to show the defendant’s conduct was not willful because, based on the advice of counsel, the defendant believed no infringement was taking place.

The rationale of the privilege waiver and the scope of

the waiver is one of fairness. Fairness mandates that “[a] party should not be allowed to rely on self-serving documents in its defense while withholding potentially damaging information under the guise of the attorney-client privilege.” *Mushroom Associates v. Monterey Mushrooms, Inc.*, 24 U.S.P.Q. 2d 1767, 1770 (N.D. Cal. 1992). In a breach of fiduciary duty setting it has been stated that fairness requires that the party opposing an advice of counsel defense be able to test (1) what information had been exchanged between client and counsel regarding that advice, (2) whether counsel was provided with all material facts in rendering their advice, (3) whether counsel gave a well-informed opinion, and (4) whether that advice was heeded by the client. *Glenmede Trust Co. v.*

Continued on Page 10

Continued from Page 1

## Heading Off the Stampede

wrong target, the administration of justice. One day the automatic appeals will have to be shipped down to the appellate court. But the politics of death don’t permit serious contemplation of this salutary move at present.

The truth is that very few of the Supreme Court’s opinions are produced personally by a justice; they just don’t have time. It has been argued, correctly I think, that the high court justices are forced to delegate too much of the decision-making process to an insular cadre of attorneys who are not accountable to the public. These are permanent staffers, most of whom will serve longer than all but a few justices. Their influence is difficult to calculate, but it is surely considerable — and growing as their tribe increases. The same problem now afflicts the Court of Appeal and has gotten progressively worse over the past 20 years, so let’s turn to that for a moment.

The relatively high production in numbers of opinions of the Court of Appeal is explained by a simple exigency. It, unlike the Supreme Court (with exceptions, such as the automatic appeals), is a court of error where an appeal is of right and the primary goal is to obtain the correct result in each individual case, not produce the next *Marbury v. Madison* (where an individual’s meritorious petition was denied for the greater good). Importantly, all appellants are entitled to a decision “in writing with reasons stated.” (Cal. Const., art. 4, sect. 14.) And the appellate court takes this mandate seriously, rarely dispatching cases on its own motion by dismissal or summary disposition. Depending on the district involved, the Court of Appeal’s present caseload varies between a raging torrent (the Fourth) and a gentle stream on a mountain lea (the First). As the state’s population grows, and litigation with it, the Court of Appeal will have to grow as well, or be roped into far less satisfactory solutions, e.g., repeal of the requirement of a written decision.

Justice Otto Kaus once lamented in a famous article that the culture of the Court of Appeal is no three-justice panel need follow decisions of sister panels. Thus, every new judicial slot brings the virtual certainty of increasing the incidence of conflicting decisions (and nutty ones,

Continued on Page 6

Continued from Page 3

### *California Employers Beware*

contacts with California in determining whether to disturb a noncompetitor's choice-of-law provision. Similarly, a choice-of-law state is much more likely to enforce a choice-of-law provision where the parties to the noncompetitor have stronger contacts with that state than they do with California.

- *The choice-of-law state's deference to California's fundamental public policy.* Most states acknowledge California's fundamental public policy against noncompetes. Many of these states, in the presence of substantial California contacts, are also willing to defer to this policy. As a recent example, a Massachusetts court took notice of California's "strong public policy...to ensure that every citizen shall retain the right to pursue any lawful employment and enterprise of their choice," and disregarded a Massachusetts choice-of-law provision in a noncompetitor because "the ends of justice strongly indicate[d] that the controversy may be more suitably tried" in California. *Aware, Inc. v. Ramirez-Mireles*, 13 Mass. L. Rep. 257 (Mass. Super. Ct. 2001).

- *The choice-of-law state's own public policy regarding noncompetes.* CalCo should also consider whether the choice-of-law state has its own strong or fundamental public policy in favor of enforcing noncompetes. Most states allow "reasonable" noncompetes, but when the circumstances show substantial California contacts, do not find that they have a fundamental interest in enforcing these agreements when compared to California's public policy. Other states, like Minnesota (as described by the Minnesota appellate court in the *Medtronic* case), have articulated a strong interest in enforcing noncompetes, and are considerably less likely to defer to California's public policy even in the face of substantial California contacts. A related point is that CalCo should check the law of the choice-of-law state to see if the noncompetitor complies with the reasonableness and other requirements of a valid noncompetitor in that state.

*Step 3.* CalCo must next analyze whether OldCo is likely to seek enforcement of the noncompetitor. There are a number of factors to consider in this analysis, including:

- *OldCo's financial situation.* Cash-strapped companies are unlikely to pursue enforcement, and even less likely to engage in protracted litigation over such enforcement. An exception may exist if the noncompetitor includes an attorneys' fee provision.

- *Is CalCo a direct competitor of OldCo?* The stronger the similarities between business models, product lines or customer lists, the more that OldCo will be motivated to aggressively protect itself by attempting to enforce the noncompetitor. Also significant is the similarity between the applicant's prospective duties with CalCo, and his or her former duties with OldCo. Where it is arguably "inevitable" that OldCo's former employee will use its trade secrets in his or her new job, it will be motivated to enforce the noncompetitor and argue the inevitable disclosure doctrine in a non-California court.

- *The circumstances of the applicant's separation with OldCo.* Was the separation amicable, or did the appli-

cant burn bridges with OldCo? If the applicant was laid off by OldCo as part of a reduction in force, or resigned by giving sufficient advance notice and cooperated with transition efforts, OldCo may be less inclined to enforce the noncompetitor. If, however, the applicant was terminated as a result of egregious behavior, or abruptly quit to work for a direct competitor, OldCo may be disposed towards more aggressive enforcement efforts. Additionally, a number of states will refuse to enforce a noncompetitor where the employer terminated the employment relationship without cause. *See, e.g., In re UFG Int'l, Inc.*, 225 B.R. 51, 55-56 (Bankr. S.D.N.Y. 1998).

- *Does OldCo typically enforce noncompetes?* Due diligence can reveal whether OldCo usually ignores violations of its noncompetes, or is likely to pursue enforcement through litigation. This intelligence can best be obtained through an interview of the employee (be careful not to elicit any trade secrets or proprietary information of OldCo), Internet searches, searches of court filings and/or consultation with counsel in OldCo's state.

- *Is OldCo aware of the applicant's new employment opportunity?* If the applicant left OldCo quietly, and the new position with CalCo is relatively low-profile, the enforcement issue may never arise. Consider negotiating a deal to remove the cloud over the employee's new employment with CalCo but, before making a negotiation overture, be sure you are not just putting CalCo on OldCo's radar screen.

*Step 4.* If CalCo determines that OldCo is likely to seek enforcement of the noncompetitor, it has to ask itself whether it cares. Even assuming the validity of the noncompetitor, would CalCo and the employee be violating its terms? Because even states that allow noncompetes have reasonableness constraints, CalCo and the employee may be able to comply with "reasonable" provisions. Also, do CalCo or the employee have any contacts in OldCo's state? If not, and there is no reasonable probability of enforcement of the judgment or contempt proceedings, CalCo and the employee may decide to take the calculated risk of allowing a sister state default judgment to be entered against them. This can be a highly risky strategy, however, and should be carefully considered.

*Step 5.* If CalCo determines that OldCo is likely to seek enforcement, and that it cares, CalCo must then decide whether the employee is worth the fight. In making this decision, CalCo should evaluate whether the applicant's skills and talents are truly unique, or whether alternative applicants can accomplish its business goals.

*Step 6.* Assuming the applicant is worth fighting for, and that it has the resources and motivation to engage in litigation, CalCo must formulate a litigation strategy for avoiding enforcement of the noncompetitor. This can be accomplished: (1) by filing an action for declaratory relief in California; (2) by defending against an enforcement action in the choice-of-law state; and/or by (3) consolidating/coordinating actions.

1. *Declaratory Relief Action.* Being the first to file and serve a lawsuit to ensure that the matter is heard in a California court is the more aggressive alternative, and

Continued on Page 8

Continued from Page 4

### Heading Off the Stampede

too). This, of course, is seen as an evil by most observers because it introduces a disturbing uncertainty into the law at a very high level and sets trial judges free to pick any precedent that strikes their fancy on a given day.

Let's consider two ugly practices sometimes defended as necessary to combat the problem of inconsistent appellate opinions. First, the Legislature has cited the concern with inconsistency in confronting the ever-increasing demand for the Court of Appeal's product. Rather than create new Court of Appeal judgeships, the Legislature in the last several decades has generally pretended to cut costs by adding more professional staff to assist the existing justices (at least when the Governor and the majority of the respective houses of the Legislature have not been of the same political party). This has spread the problem of the Supreme Court staff's non-accountability to the public to the appellate court; and I believe it is reasonable to argue that the number of permanent staff attorneys is approaching unconscionable, if not unconstitutional, levels in both courts. To repeat, these "hired hands", good as they may be (and most I know are very good), are not appointed by the Governor, confirmed by the Commission on Judicial Appointments or put before the electorate periodically; yet they do the bulk of the "writing with reasons stated."

Let me explain: Having "been there," I appreciate the wisdom of the "reasons stated" requirement. I think stating those reasons personally is what the Constitution contemplates the justices at both levels should be doing. I found it quite true, as someone said, "If it won't write, it ain't right." The expression of a decision in writing demands a familiarity with the case and the legal issues far more intense than one can derive from skimming briefs and listening to truncated oral arguments — and that's all most members of the Court of Appeal have time for. They must sign off on 150 of their own opinions and 300 more from colleagues every year (in addition to dealing with writs, motions and the scribblings of the Supreme Court's staff attorneys).

The problem is surely incurable at the Supreme Court level, even with a "Texas twosome"; but that is no reason to repeat the mistake with the appellate court. Yet the Court of Appeal's ever-increasing caseload, combined with the legislative tendency to add attorneys and not justices, has come to mean just that. If the trend continues, all Court of Appeal justices, like those of the Supreme Court, will soon be reduced to "big picture people" whose personal input in their own opinions will consist of some educated editing and a signature. Many of them are in that mode already and write few, if any, opinions themselves.

I said there were two ugly methods defended as necessary to manage the slowly expanding herd of appellate court justices. Given my negative view of the first, maybe the second one, depublishation, might seem defensible. But it is not. At its harshest, when the Supreme Court depublishes all the cases emerging on one side of an issue (and those it sees as guilty as well), the system is

conceding it has given up attempting to do justice for most of those litigants.

One excuse for the depublishation practice, *i.e.*, to keep the cost of law libraries within the means of practitioners, has no validity in our brave new cyberworld. Depublished opinions can generally be retrieved in Westlaw and on line from the Reporter of Decisions (as well as West's California Reporter), yet they can't be cited by those who need them most. Take it from one whose best work in an 18-year appellate career was depublished: Censorship in a free society is an oxymoron and certainly has no place in a system where the producers of the work are required to issue written decisions and face the public on election day, presumably in light of their most important opinions, the published ones. (Of course, maybe I survived all those years because the Supreme Court protected me from myself. Pleeeez.)

Well, here comes the smut, Martha: What ought we do about this problem of the seven wranglers with too many cattle to head out? Justice Kaus's notion that appellate panels should apply *stare decisis* to each other's opinions will not be adopted any more than steers can be taught good manners. There have been unseemly efforts in the past to be the first in print on sundry controversial topics (some of the silly anti-crime initiatives come to mind — but that is another matter); and such should not be encouraged by a herd mentality, *i.e.*, dogged acceptance of the first opinion published on a particular issue.

No, I propose a solution similar to one offered by Stanley Mosk about 20 years ago. Its time has come — and then some. My version of Justice Mosk's idea would be an en banc procedure similar to that employed by the federal circuits. It would operate this way: Periodically, each member of the Supreme Court would name two or three members of the Court of Appeal (kindred spirits, presumably) to an en banc panel. Its purpose would be to resolve conflicting opinions in the Court of Appeal deemed unworthy of consideration by the Supreme Court (and correct some of the obvious mistakes, too, perhaps). When the Supreme Court identifies a divisive issue emerging from the flood of petitions for review, it assigns all such cases not yet final in the appellate court to the en banc panel for decision as to that specific issue only. The panel then draws nine names from the unconflicted pool of justices to hear the matter (previous service on a panel that decided the same issue would constitute a conflict). The cases would then be resolved in the usual way with discretionary review by the Supreme Court still available. Unless reversed or later disapproved, an en banc decision would have the force of a Supreme Court opinion.

With this new team of cowpunchers to help, the Supreme Court could rein in the despicable practice of herding the Court of Appeal by depublishation and the Legislature would lose one tinhorn excuse for the constitutionally ugly practice of responding to consumer demand for appellate beef with an ersatz product of unknown origin and quality. Meanwhile, though, watch your step on the range.

Thomas F. Crosby, Jr. recently retired as a justice of the Fourth Appellate District, Division Three.



WILLIAM HIRSCH

## On CLASS ACTIONS

**C**lass actions continue to capture public and judicial attention. Significant decisions leap from the advance sheets almost weekly. In California and the Ninth Circuit, there were important developments in the last year concerning diversity jurisdiction and certification of nationwide classes.

### The Ever Shrinking World Of Diversity Jurisdiction

Three recent Ninth Circuit decisions have made it harder to establish diversity jurisdiction in class actions.

In *Gibson v. Chrysler Corporation*, 261 F.3d 927 (9th Cir. 2000), the Ninth Circuit joined several other circuits in holding that 28 U.S.C. section 1367, the supplemental jurisdiction statute enacted in 1990, overrules *Zahn v. International Paper Company*, 414 U.S. 291 (1973). Accordingly, in class actions, only the named plaintiffs must meet the amount-in-controversy requirement.

However, the Ninth Circuit also made it clear in *Gibson*, and in two sister cases, *Kanter v. Warner-Lambert Co.*, 2001 U.S. App. LEXIS 20137 (9th Cir. Sept. 10, 2001) and *McCauley v. Ford Motor Company*, 2001 U.S. App. LEXIS 19700 (9th Cir. Sept. 6, 2001), that the door to federal court will be closely guarded. In these cases, the Ninth Circuit rejected attempts to establish diversity jurisdiction by attributing potential awards of attorneys' fees solely to the named plaintiffs, aggregating disgorgement or punitive damage claims, or considering the "defendant's viewpoint" in determining the cost of an injunction.

The crux of these holdings is that in class actions, plaintiffs' claims may only be aggregated for jurisdictional purposes if the class has "a common and undivided" interest or right — that is, only if the defendants owe an obligation to the plaintiffs as a group. Aggregation is not permitted if the class members have separate and distinct claims. Applying these principles to claims for disgorgement, punitive damages and injunctive relief, the Ninth Circuit concluded that aggregation was not permissible, since each class member could individually pursue these claims.

### Raising The Threshold For Nationwide Classes

In *Washington Mutual Bank v. Superior Court*, 24 Cal. 4th 906 (2001), the California Supreme Court addressed two critical issues concerning certification of nationwide classes: (1) what legal principles apply when determining the applicable law in a multistate class action, and (2) whether certification is proper if the laws of multiple states apply.

The answer to the first question has two parts. In cases involving choice-of-law agreements, the chosen state's law will be applied if it has "a substantial relationship to the

parties or their transaction, or a reasonable basis otherwise exists for the choice of law...unless the other side can establish both that the chosen law is contrary to a fundamental policy of California and that California has a materially greater interest in the determination of the particular issue." *Id.* at 917.

Significantly, where there is no enforceable choice-of-law agreement, California law may be applied to the claims of nonresidents. To do so, the class action proponent must first demonstrate that each class member has sufficient contacts with the state. California law will then be applied, unless the foreign law proponent satisfies the three-part governmental interest test initially set forth in *Clothesrigger, Inc. v. GTE Co.*, 191 Cal.App. 3d 605 (1987). Under that test, foreign law will be applied only if the proponent shows that the foreign law materially differs from California law, that each foreign state has an interest in applying its law, and that the foreign state has a greater interest than California in having its law applied.

The Supreme Court's answer to the second question — whether to certify class actions requiring the application of the laws of multiple states — places the burden squarely on the class action proponent and requires a detailed showing at the time of class certification that the class action is manageable and that state law variations can be addressed adequately at trial. This is a heavy burden, since "even slight variations and nuances in applicable state laws may affect predominance and manageability." *Id.* at 924. Moreover, even differences that are not "outcome determinative" must be considered.

Nonetheless, nationwide classes may still be certified. In *Wershba v. Apple Computer, Inc.*, 91 Cal. App. 4th 224 (2001), the court distinguished *Washington Mutual* on the grounds that it involved a choice-of-law agreement and that, absent such an agreement, the *Clothesrigger* test applies. Applying that test, *Wershba* affirmed the certification of a nationwide settlement class in a case involving unfair competition claims, holding that state consumer protection laws were relatively homogeneous, that California's consumer protection laws were among the strongest in the country, and that application of those more favorable laws to nonresidents was proper when their own states had no identifiable interest in denying such persons full recovery. *Wershba* never reached the manageability issues raised by *Washington Mutual*, since multiple state laws were not at issue.

In sum, these recent developments mean that more class actions will be litigated in state court and fewer will involve nationwide classes. Stay tuned — the story is still unfolding.

Mr. Hirsch is a partner with the firm of Lief, Cabraser, Heimann & Bernstein, specializing in class actions and complex litigation. [whirsch@lchb.com](mailto:whirsch@lchb.com)



William Hirsch

Continued from Page 5

### *California Employers Beware*

one that should be used if the applicant is either exceptionally important to CalCo, or if there is little doubt that OldCo will seek enforcement of the noncompete in the choice-of-law state. The litigation advantages to CalCo of taking this action are significant:

- *Application of California law.* Even if a noncompete contains a foreign choice-of-law provision and the employee formerly worked outside of California, the cases are clear that when an employee comes to work for a California company in California, a California court will not enforce the provision and will apply California law. Indeed, California courts are unambiguously hostile towards noncompetes of almost all shapes and sizes, and federal courts applying California law are also generous in enforcing the state's public policy. *See, e.g., Globespan, supra*, 151 F.Supp.2d 1229; *but see IBM Corp. v. Bajorek*, 191 F.3d 1033 (9th Cir. 1999).

- *Comity principles.* Where two courts in different states have concurrent jurisdiction, general principles of comity suggest that the first court to assume jurisdiction over a particular subject matter should take precedence over the second court. As noted above, motivated courts sometimes do not act in accordance with these principles; nevertheless, they provide CalCo with an argument that a later-filed enforcement action in the choice-of-law state should be stayed in deference to an earlier-filed declaratory relief action in California.

- *Preemptive restraining order/injunction.* While California courts do not have the power to tell out of state courts what to do, they do have power over the parties before them. As such, in order to tie OldCo's hands, CalCo should consider seeking an order that restrains OldCo from attempting to enforce the noncompete in a non-California court. Clearly there is an advantage to being the first one to obtain such an order, which argues powerfully for CalCo to seek this antisuit injunction at the same time it files for declaratory relief and, to learn the lesson of the *Medtronic* case, to do everything possible to get relief at that time. As evidenced in *Medtronic*, the California court's delay of even one day allowed Medtronic to remove the case to Federal Court to avoid the court's ruling.

- *The Full Faith And Credit Clause.* "Rushing to judgment" can actually have salutary effect for CalCo in this context, in that it allows CalCo to argue that the out of state court should defer to a California court judgment under the Full Faith and Credit Clause. Being first to file will allow CalCo to progress towards this end, including by positioning itself to get the California court to set the earliest possible trial date.

As noted above, when faced with an out of state noncompete, there are significant advantages to CalCo in filing for declarative relief in California as soon as possible. This strategy, however, is not without its potential risks. First, there is the possibility that the action was avoidable. For example, OldCo may not have been aware of the applicant's new opportunity with CalCo, or may have simply opted not to do anything about it. Once it is sued,

however, things may change. Advance diligence regarding OldCo's likely course of action can minimize this risk.

Second, some courts may refuse to grant declaratory relief in the absence of an "actual controversy relating to the legal rights and duties of the respective parties," as required by California Code of Civil Procedure section 1060. Additionally, some courts may stay or dismiss a declaratory relief action when the lawsuit appears to be a preemptive strike against an enforcement action. *See, e.g., Federal Ins. Co. v. May Dep't Stores Co.*, 808 F.Supp. 347, 350 (S.D.N.Y. 1992) (misuse of a declaratory relief action "to gain a procedural advantage and preempt the forum choice of the plaintiff in the [enforcement] action militates in favor of dismissing the declaratory judgment action"). Proper due diligence and research as to whether declaratory relief is likely to be granted by a particular court under the particular circumstances is essential to minimize these risks.

2. *Enforcement Action Defense.* CalCo may also choose to do nothing unless OldCo files an enforcement action (which, if filed, will likely be filed in the choice-of-law state). Because OldCo may not seek enforcement of the noncompete, this would allow CalCo to avoid unnecessary litigation and its attendant costs. The primary risk of this strategy, however, is significant and the flipside of the advantages attendant to CalCo filing first: should OldCo file an enforcement action in the choice-of-law state, CalCo may find itself "home-courted," as was the case for ABC and Stultz in the Minnesota *Medtronic* courts. Thus, while many states will acknowledge California's fundamental public policy against noncompetes, and may even be willing to apply California law in certain circumstances, such circumstances are typically limited to those situations where California's contacts with the employee and/or OldCo are stronger than those of the choice-of-law state. Moreover, states like Minnesota emphasize OldCo's contractual expectations over California's public policy, irrespective of the fact that an employee may have moved to California in order to work for a California employer.

3. *Consolidating/Coordinating Actions.* Regardless of which strategy CalCo believes is in its best interest, it is not entirely in control of the matter, and may find itself arguing against the validity of the noncompete in California while simultaneously defending against enforcement of the noncompete in the choice-of-law state. This presents CalCo with the uncomfortable prospect of facing inconsistent judgments in California and the choice-of-law state.

If both actions end up in federal court (whether through initial filing or removal), CalCo should consider whether it can consolidate the competing actions. This decision may turn on whether CalCo was the first to file. Under the "first to file" rule, the first federal court to assume jurisdiction over the subject matter is the transferee court and will apply the choice-of-law rules of the state in which it sits. *See Globespan, inc. v. O'Neill, supra*, 2001 U.S. Dist. LEXIS 12822, \*8. Thus, if the action were first filed in California, the California federal court would be the transferee court and would apply California's choice-

Continued on page 10



HOWARD ULLMAN

## On ANTITRUST

Here's a little puzzle: if you enter into a joint defense agreement with your competitors, either to prosecute or defend an action, can that joint defense agreement later be used against you as evidence of an antitrust conspiracy? The issue is worth pondering, because these arrangements can raise concerns about information sharing, joint negotiation, and even broader antitrust offenses.

Whether a joint defense agreement can come back and bite you depends, not surprisingly, on its provisions. Like an onion, a hypothetical joint defense agreement may have various "layers" or provisions. As we peel away the layers, the antitrust risk increases. The vast majority of agreements go no further than the outer layer, and thus raise no real concern.

At the outer layer, consider the most basic type of joint defense agreement — one which allows parties to exchange information (including information on settlement discussions), and legal strategies in confidence. Not only is this sort of agreement permissible, but it will not itself constitute evidence of any sort of antitrust conspiracy. That is the teaching of cases such as *Lemelson v. Bendix Corp.*, 104 F.R.D. 13 (D. Del. 1984), *later proceeding*, 621 F.Supp. 1122 (D. Del. 1985), and the recent case of *Hise v. Philip Morris, Inc.*, 46 F.Supp. 2d 1201 (N.D. Okl. 1999), *aff'd*, 208 F.3d 226 (10th Cir. 2000), *cert. denied*, 531 U.S. 959 (2000). The *Lemelson* court granted summary judgment on an antitrust claim to defendants who had engaged in a joint defense effort after the plaintiff claimed that they were infringing his patents. In *Hise*, the court granted summary judgment to defendant tobacco companies accused of conspiring by, *inter alia*, jointly negotiating a settlement with 40 states over tobacco claims.

There are two rationales for these results. First, parties each have their own valid independent reasons to cooperate in a joint defense effort. An antitrust plaintiff must produce evidence that points to conspiracy and is inconsistent with legitimate, independent conduct. A joint defense agreement is not, by itself, evidence of an unlawful conspiracy absent proof that the parties' actions were against their independent economic interests. (More on this below.) Second, the bringing of claims and lawsuits is protected petitioning activity under the *Noerr-Pennington* doctrine, and cannot be challenged under the antitrust laws unless the claims are: (1) objectively baseless and (ii) brought to interfere with a competitors' business through the process (not outcome) of the suit. See *generally Professional Real Estate Investors, Inc. v. Columbia Pictures Industries*, 508 U.S. 49 (1993). This protection has been extended to the joint defense of legal proceed-

ings, absent a showing that the defense is pursued in bad faith as a mere sham.

The same reasoning also protects meetings to negotiate a joint defense agreement. The *Lemelson* court held that antitrust immunity for joint defense agreements would provide little solace if negotiations regarding the agreement constituted an independent basis for antitrust liability. The protection also extends to one firm jointly representing more than one client. See, e.g., *In re Circuit Breaker Litigation*, 984 F.Supp. 1267, 1276 n. 7 (C.D. Cal. 1997) ("representation by one law firm is not grounds for antitrust liability").

At the next layer, consider a joint defense agreement that limits the parties' ability to negotiate independently with the other side. In *Jones Knitting Corp. v. Morgan*, 244 F.Supp. 235 (E.D. Pa. 1965), *aff'd in part, rev'd in part*, 361 F.2d 451 (3d Cir. 1966), the agreement required participants to notify other members of a trade association of the terms of any settlement offer before negotiating with the plaintiff. The court viewed this restriction as a concerted refusal to deal that was *per se* illegal. Since *Jones Knitting* was decided, application of the *per se* rule to various forms of concerted refusals to deal has been relaxed, and its application to joint defense agreements in particular criticized. See, e.g., *Gould v. Control Laser Corp.*, 462 F.Supp. 685, 690-91 (M.D. Fla. 1978), *aff'd*, 650 F.2d 617 (5th Cir. 1981). Nevertheless, it is still wise to avoid these kinds of provisions, because it may be difficult to establish that each party agreed to further its own independent economic interests. Compare *Lemelson*, 621 F.Supp. at 1134 (suggesting that if all settlement decision-making authority were reposed in common counsel, antitrust concerns could be triggered).

Finally, the most problematic sort of joint defense provision would be one that substantively affects the parties' conduct outside the context of the joint defense itself. As an egregious example, competitors might agree in the course of a joint defense to fix prices. Not surprisingly, this sort of agreement remains *per se* illegal, and it will not be insulated by an otherwise valid joint defense agreement. See, e.g., *Hise*, 46 F.Supp. 2d at 1208.

There are gray areas. For example, should price information be shared pursuant to a joint defense agreement? On the one hand, such an information exchange arguably should be protected; on the other hand, it may look like part of an illegal agreement to fix prices. In deciding whether to exchange such information, counsel should consider how relevant it really is to the defense, and should consider taking steps (such as designating it as "attorney's eyes only" and exchanging only historic, as opposed to current, prices) to preclude use outside the joint defense context.

Mr. Ullman is an associate with Orrick, Herrington & Sutcliffe LLP. [hullman@orrick.com](mailto:hullman@orrick.com)



Howard Ullman

Continued from Page 4

### *Asserting the Advice of Counsel*

*Thompson*, 56 F.3d 476 (3rd. Cir. 1995).

Federal courts have adopted differing views of what constitutes a “fair” privilege waiver, from a limited waiver, to a waiver which includes privileged documents in counsel’s files that “contradict or cast doubt” on the advice relied upon, and even to all documents relating to the subject matter of the advice relied upon — whether or not communicated to the client — including work product in counsel’s files.

In *Micron Separations, Inc. v. Pall Corp.*, 159 F.R.D. 361 (D. Mass. 1995), for example, Micron Separations raised the “advice of counsel” defense generally to a charge of willful patent infringement. It then attempted to freeze discovery as of the time of the opinion letter containing the advice. The court held that the waiver in that case was a “subject matter” waiver — *i.e.*, a waiver of all communications on the same subject matter.” *Id.* at 363. Accordingly, the scope of the subject matter waiver of the attorney-client privilege encompassed all documents received by Micron Separations relating to Micron Separations’ alleged infringement, even those dated after the opinion letter, up to the filing of the litigation. The court reasoned that if Micron Separations received information relevant to the infringement *after* the formal opinion letter, that information would still impact Micron Separations’ state of mind during the alleged continuing infringement. *Id.* at 363-64.

With respect to the work product doctrine, the court analyzed the waiver a bit differently. The court “decline[d] to apply the waiver to documents containing the opinion work product of present trial counsel which is solely consistent with the opinion letter and does not in any way cast doubt on the validity of the opinions expressed or the bases for those opinions.” *Id.* at 365. Nevertheless, the alleged infringer was required to disclose opinion work product communicated to it before the litigation started, including opinion work product from trial counsel that “contradicted” or “cast doubt” on the opinion letter or the bases of the opinions contained therein. *Id.* at 366.

The *Mushroom Associates* decision, another willful patent infringement case, went one step further. The court there ordered that “[a]ll documents containing work product relevant to the infringement issue must be produced.” 24 U.S.P.Q. 2d at 1771. The *Mushroom Associates* court did not expressly discuss any distinction between documents generated or received after litigation was initiated, or between trial counsel and counsel who gave the underlying advice. Again, the justification for this extensive waiver is that an opponent can only attack the advice of counsel defense by having available all the facts and circumstances surrounding that advice.

Another federal decision went to great lengths to avoid any ambiguity and to state clearly the position that no distinction should be made between trial counsel and counsel who provided the initial opinion, or between documents generated before and after the litigation was commenced. In *D.O.T. Connectors Inc. v. J.B. Nottingham & Co., Inc.*, 2001 U.S. Dist. LEXIS 739 (N.D. Fla. 2001), the

court initially noted that, “the cases which have determined the scope of the waiver are somewhat in disarray.” *Id.* at \*5. The court then set forth the following rules which it distilled from the advice of counsel waiver cases: (1) the waiver extends to opinions of any counsel, including trial counsel, which address the subject matter of the underlying advice and were communicated to the client; (2) the waiver extends to all opinions and documents communicated to the client, whether consistent or inconsistent with the underlying advice; (3) the waiver extends to communications and documents both before and after the filing of the litigation; and (4) the waiver extends to any evidence considered by any attorney who gave an opinion (*i.e.*, work product), whether or not such material was communicated to the client, but does not extend to legal research or other types of opinion work product in

Continued on Page 12

Continued from Page 8

### *California Employers Beware*

of-law rules. Under such circumstances CalCo may want to seek consolidation in order to get the advantage of California’s choice-of-law rules. *But see Federal Ins. Co. v. May Dep’t Stores Co.*, 808 F.Supp. 347, 350 (S.D.N.Y. 1992) (refusing to apply the “first to file” rule where the first filed action was for declaratory relief which was intended to preempt a broader state court enforcement action).

Similarly, if CalCo’s case remains in the state court system — particularly if it has filed first — CalCo can argue that in order to avoid the prospect of inconsistent judgments and for reasons of judicial economy, the out of state court action should be stayed pending conclusion of the California action. The success of this argument obviously depends on the particular case and court; these authors, however, will bet against you if you raise it in Minnesota.

*Medtronic Revisited.* The end of the *Medtronic* story has yet to be written, and the California Supreme Court’s upcoming decision will hopefully help us sort through these important issues. For Stultz and ABC, however, how we sort things out in California may have little practical significance. Pursuant to the Minnesota injunction, Stultz remains enjoined from working for ABC on its competing product for the duration of his noncompete (until June 2002). This is an important lesson to those California employers and lawyers who are too quick to dismiss non-competes as unenforceable in California. Given the uncertainty and developing law in this area, it also suggests that if CalCo is intent on hiring an employee irrespective of his or her out of state noncompete, it should discuss with the employee the possibility that the non-compete will be enforced, and agree on the obligations between CalCo and the employee in the event it is. We hate to think that Mr. Stultz is being paid by ABC to build sand castles for two years.

Steven L. Friedlander ([friedlanders@cooley.com](mailto:friedlanders@cooley.com)) is a partner and Ronald A. Johnstone ([rjohnstone@cooley.com](mailto:rjohnstone@cooley.com)) is an associate in the San Francisco office of Cooley Godward LLP, specializing in employment litigation and counseling.

JAMES YOON

## On PATENTS

**A**t the start of a case, patent litigators diligently analyze a patent to determine the strength of the infringement case and the validity defenses. While such analysis is important, it tends to put the cart before the horse. Too often, otherwise excellent litigators fail to investigate the most important subject in any patent case — the client’s commercial realities.

Patent litigation is the sport of kings. Today, even mid-size cases can exceed two million dollars in fees, take two years to litigate, and consume the time of client personnel. Such burdens — unless directed to a clear and achievable goal — undermine the attorney-client relationship. Thus, it is important for litigators to establish a common set of objectives and expectations with their clients.

At the start of a lawsuit, a litigator should meet with client decision makers (technical, financial and legal) to educate them regarding the benefits and limitations of litigation. Because the benefits are more obvious than the limitations, it is particularly important to explain the limitations. For example, where the client is the plaintiff, the litigator should explain the likely delays in obtaining relief, the projected fees, and the fact that relief is limited to activities inside the United States. This last factor is particularly important in industries where competitors or markets are centered outside the United States.

After such meetings, if the client still believes that litigation is in its best interest, the litigator and the client should openly confirm the client’s commitment to a litigation strategy. Preferably, this confirmation will come in the form of a litigation budget and a memorandum identifying the client’s objectives.

### The Budget

Most litigators dread preparing a budget because they believe that it will (1) scare the client away or (2) come back to haunt them when unexpected expenses arise. I disagree. Budgets should be viewed as a tool for increasing client satisfaction.

Budgets act as a lens that focuses litigators and clients on reasonable litigation strategies. Budgets ensure that costs of legal strategies do not exceed the value of the case. For example, a budget may demonstrate that it is in the client’s best interest to rethink its settlement position. By facilitating early cost saving in “unprofitable” cases, litigators greatly increase the likelihood that their clients will hire them again in the future.

Moreover, in cases where the client believes that the potential gain (or savings) exceeds the expected costs, the budget helps the client view legal fees as an investment. Of course, like any investment, the associated risks should be clearly explained.

### Identifying “Successful” Results

A “wish list” of successful results is a great way to focus litigators on issues important to the client. For instance, if the client desires to obtain a license from the opposing side, the litigator and client should acknowledge that such a result exceeds any relief the Court could grant. The litigator then should work with the client to position the case in a manner that maximizes client leverage in license negotiations.

Failure to educate the client and identify successful outcomes can be disastrous. Months ago, I represented a defendant in a case where the plaintiff had a strong infringement case and our validity defenses appeared suspect. At first blush, this case did not look promising. However, after several meetings with the client, it appeared that we had a much “better” case than the plaintiff did.

One theme emerged from the meetings: the client wanted a reasonable license. The client stated that it did not want the cloud of litigation over its products and that it believed that the plaintiff would sue them on another patent even if we won. As a result, we focused our efforts on convincing the plaintiff that its lawsuit strategy would not provide the return it was seeking.

In contrast, it was clear that the plaintiff believed that its patent was invulnerable and that people should pay for use of its invention regardless of where and to whom it was sold.

After some discovery, we participated in a settlement meeting with the plaintiff. At this meeting, the first thing we stated was that (for the purposes of settlement) we would not contest infringement or validity. We then presented our “financial” case to the plaintiff.

First, we explained that plaintiff’s damages claims were limited to sales that occurred *after* the commencement of the lawsuit because plaintiff failed to provide the required notice. Next, we explained that 50% of our products were immune from damage claims because they were sold outside the United States. We then asserted that 90% of the products sold in the United States were sold to the plaintiff’s licensees, who possessed “have made” rights to the patented technology. And finally, we asserted that the plaintiff’s “best case” was a \$250,000 recovery.

The plaintiff was stunned. It had never contemplated that its “super” patent could provide so little return. The case settled for roughly half of what our client had offered prior to the lawsuit.

**I**n summary, the “successful” prosecution of any case depends on achieving results that advance a client’s non-litigation interests. Sometime these interests require victory in Court. Sometimes they do not. Before initiating a “patent war,” a litigator should confirm that the client is willing to commit the resources necessary for victory and that such a victory is in the client’s best interest.

*Mr. Yoon is a partner and patent litigator with Wilson Sonsini Goodrich & Rosati. [jyoon@wsgr.com](mailto:jyoon@wsgr.com).*



**James Yoon**

Continued from Page 10

### *Asserting the Advice of Counsel*

counsel's files unless communicated to the client. *Id.* at \*7 - \*10.

#### Arguing the Scope of Waiver

It is a matter of dispute whether *Micron Separations* and other patent infringement cases must be limited to that context and so should not be followed by a California state court. One could argue in favor of importing the federal case law into California that, while the scope of the advice of counsel waiver is most extensively and frequently discussed in patent infringement cases, the analysis is not limited to that context. Indeed, *Micron Separations* relied upon *Panter v. Marshall Field & Co.*, 80 F.R.D. 718, 725 (N.D. Ill. 1978), which, in a director and officer breach of fiduciary duty case, held that "the defendants' reliance in this litigation upon the advice of counsel as a major justification for their actions...and as a defense to the shareholder suits renders the advice and actions of counsel a central issue, and as such overcomes the attorneys' work product privilege." See also, *Glennmede Trust Co. v. Thompson*, 56 F.3d 476, 486-87 (3rd Cir. 1995) (same).

On the other hand, one could argue that, "[q]uestions involving the scope of waiver of the attorney-client privilege in patent cases where willful infringement is an issue would appear to be unique to patent litigation." *Steelcase Inc. v. Haworth, Inc.*, 954 F.Supp. 1195, 1197 (W.D. Mich. 1997). The continuing nature of a willful patent infringement, as opposed to more time specific, discrete conduct that is typical in other circumstances, supports limiting the waiver rules developed in patent cases to that context. See *Eli Lilly & Co. v. Zenith Goldline Pharmaceuticals, Inc.*, 149 F.Supp. 2d 659 (S.D. Ind. 2001). And at least one California court has stated that there is "a serious question" as to whether federal cases regarding waiver of the attorney-client privilege wherein advice of counsel has been asserted have any application whatsoever to California courts and their interpretation of waiver and privilege issues under the California Evidence Code. *Aetna Casualty & Co. Surety v. Superior Court*, 153 Cal. App. 3d 467, 474 (1984).

Nevertheless, pursuant to the "fairness doctrine," California courts agree that a litigant cannot selectively waive the attorney-client privilege for only those communications helpful to its position, while attempting to preserve the privilege with respect to harmful communications. See, e.g., *Kerns Construction Co. v. Superior Court*, 266 Cal. App. 2d 405 (1968). From there, it is a short step to consideration of the patent infringement decisions as guides for implementing the "fairness doctrine."

As the foregoing discussion illustrates, raising an advice of counsel defense exposes counsel and the client to a proverbial Pandora's box of waiver issues. Before deciding whether to assert reliance upon counsel in connection with a business judgment rule defense, counsel must fully analyze the ramifications of the resulting waiver. Understanding the extent to which attorney-client communications — and even counsel's own internal files —

will be subject to discovery will educate counsel as to whether assertion of the advice of counsel defense is prudent and also will allow better control of information. Counsel then must determine whether to assess the accuracy of the original advice, what, if anything, to put in writing about the original advice, and whether litigation counsel should communicate any assessment of the original advice to the client.

The dangers of reassessing the original advice and creating discoverable information that could undermine the defense do not necessarily justify taking a "hands off" approach with respect to that advice. Case law has stated that the reasonableness of the reliance on counsel may be scrutinized in connection with this defense. *In re Nuveen Fund Litigation*, 1996 U.S. Dist. LEXIS 8062 (N.D. Ill. 1996). Thus, counsel needs to analyze the circumstances surrounding the original advice, the extent of the investigation and analysis underlying or supporting the advice, and any other indicia of reliability or unreliability before asserting the advice of counsel defense.

Jan Klohonatz practices with Taylor & Co. Law Offices in Alameda. [jklohonatz@tcolaw.com](mailto:jklohonatz@tcolaw.com)

ASSOCIATION OF BUSINESS TRIAL LAWYERS



NORTHERN CALIFORNIA

1050 Marina Village Pkwy, #101  
Alameda, California 94501  
(510) 865-9401 • Mailbox: (415) 544-8125  
[www.abtlnorcal.org](http://www.abtlnorcal.org)

#### OFFICERS

Stephen E. Taylor, *President*  
Robert D. Fram, *Vice President*  
Susan A. Creighton, *Secretary*  
John J. Bartko, *Treasurer*

#### BOARD OF GOVERNORS

Denise M. Alter • James P. Bennett • William Bernstein  
Hon. Charles R. Breyer • Leslie Caldwell  
Hon. Maxine M. Chesney • Hon. Alfred G. Chiantelli  
Eugene Crew • Peter Detkin • Sarah G. Flanagan  
David H. Fleisig • Robert A. Goodin • Roberta S. Hayashi  
Stephen D. Hibbard • Hon. Laurence D. Kay  
Nancy J. Koch • Hon. John F. Kraetzer  
Hon. Elizabeth D. Laporte • Steven R. Lowenthal  
Hon. Patrick J. Mahoney • Hon. Carol Mittlesteadt  
James N. Penrod • Charles R. Rice • Benjamin K. Riley  
Hon. Conrad L. Rushing • Dirk M. Schenkkan  
Bruce L. Simon • Hon. Mark B. Simons • Claude M. Stern  
Jon Streeter • Robert J. Stumpf • Hon. James Ware

#### EDITORIAL BOARD — ABTL REPORT

Ben Riley • Tim Nardell, Co-Editors  
(415) 693-2000

#### Columnists

Peter Benvenuti • Dave Dolkas • William Hirsch  
Mary McCutcheon • Trent Norris • Chip Rice  
Walter Stella • Howard Ullman • James Yoon