ASSOCIATION OF BUSINESS TRIAL LAWYERS

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ORANGE COUNTY

REPORT

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Q&A with the Honorable James J. Di Cesare
By Heather Porter Condon

[Editor's Note: For this judicial interview, we met with the Honorable James J. Di Cesare of the Orange County Superior Court. Judge Di Cesare was appointed to the Orange County Superior Court in 2001 by Governor Gray Davis.]

Q: *What drew you to the practice of law?*

A: I was drawn to the practice of law as a result of my parents impressing upon me the importance of service.

Q: *Please tell us a little about the type of practice you had before taking the bench.*

A: After graduating from Pepperdine University School of Law in 1973, I joined the law firm of Aitken, Bradshaw & Andres, as the first associate ever hired at that firm. In 1976, I became a partner at Di Cesare & Weaver, established my own practice in 1985, and from 2000 until 2001, the year that I took the bench, served as a partner with Di Cesare & Behle.

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Saving or Waiving Attorney-Client Privilege During IP Due Diligence: Supporting or Criticizing *Hewlett-Packard v. Bausch & Lomb, Inc.*
By Paul A. Stewart and Joan Y. Chan

Companies that invest in or acquire another company generally perform a thorough due diligence review of the target company's assets before completing the transaction. The most critical assets of the target company often can be its intellectual property, including its patents and trademarks. For this reason, intellectual property counsel is often retained to review the scope of the target company's patent and trademark rights, and to assess the risk that the target company may be liable for infringing the intellectual property of others. To minimize legal costs, investors and purchasers often ask their intellectual property counsel to review existing legal opinions that have been prepared by the target company's counsel in the ordinary course of its business. These legal opinions may include patentability opinions, non-infringement opinions, analyses of competitors' products, and discussions of current or potential litigation.

These legal opinions are, of course, privileged communications between the target company and its counsel. However, by disclosing these confidential documents to an investor or purchaser, there is a risk that the target company will be considered to have waived the attorney-client privilege protecting these confidential communications. As a result, in current or future litigation involving either the target company or the potential investor or purchaser, the disclosed documents and related documents may be discoverable.

Ideally, privileged communications never would be disclosed during due diligence. However, if financial considerations or other reasons will require the disclosure of opinion letters or other privileged communications, the target company and the potential investors and purchasers can take steps to

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The President's Message
By Richard J. Grabowski

In the face of 2009's challenging economic environment, the ABTL continued to bring business litigators timely and relevant programs on topics that mattered. Our Chapter began the year with UCI Law School Dean Erwin Chemerinsky's timely remarks on his trail-blazing efforts to develop a law school for the 21st Century.

Our Chapter also recognizes the importance of developing the next generation of lawyers. In 2009, our Chapter established a Leadership Development Committee, charged with developing events and programs relevant to lawyers in practice ten years or less. The LDC is off to a terrific start under the leadership of Michael Penn. The LDC held several events throughout 2009. I expect the LDC will play an important role in our Chapter in the coming years.

Our Chapter continued to recognize the importance of giving back to the community, even in difficult times. Our annual June fundraiser for the Public Law Center achieved record attendance, and resulted in a record contribution to the PLC by our Chapter. This was a particularly remarkable achievement given the economic climate faced by our members. Our June program also brought our members the type of high quality and timely programs that are the signature of the ABTL. Bob Middlestaedt gave our members a fascinating inside account of what the Daily Journal proclaimed to be the Defense Verdict of the Year: *Bowoto v. Chevron.*

The effective administration of justice was also an issue of high priority for our members given the budget cuts experienced by our Superior Court. Budget cuts at the state level have led to regular court closures and much of our state judiciary has taken voluntary pay reductions. Despite the logistical challenges posed by the court closures and staff furloughs, our bench officers continue to work to assure the effective administration of justice. Our Superior Court judges established a voluntary settlement conference program, with judges volunteering their time on court closure days to try to resolve civil matters. Our attorney members provided an overwhelming response by volunteering their conference rooms to conduct these VSC's the days the courthouse is closed.

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California's Electronic Discovery Act
By Beth Cheeseman Kearney

On June 29, 2009, Governor Schwarzenegger signed into law the California Electronic Discovery Act, California Assembly Bill AB5. The Act, which is largely based on the 2006 amendments to the Federal Rules of Civil Procedure, establishes procedures for the discovery of electronically stored information and effectively extends the California Civil Discovery Act to the production of electronically stored information. California is one of at least 20 states to adopt its own electronic discovery rules. The Act passed unanimously in both houses of the legislature and became effective immediately when signed by the Governor as an urgency statute.

Attorneys should become familiar with the Act and the procedures governing the discovery of Electronically Stored Information ("ESI"), especially the obligations to ensure evidentiary preservation and appropriate production of ESI. Moreover, attorneys will want to be aware of the cost-shifting opportunities provided by the Act and how those may be used to control the costs of producing ESI.

The Act makes it important for attorneys to communicate with their clients at the outset of litigation concerning the requirements of the Act. It will be important for attorneys to understand their clients' electronic systems, how and what information is electronically stored, in what formats information is stored, and the accessibility of ESI. This information will aid attorneys in developing a plan to properly preserve any ESI and implementing a discovery strategy to respond to any discovery requests for ESI.

Definition of Electronically Stored Information

The Act allows the requesting party to inspect, copy, test, or sample "electronically stored information." Cal. Code Civ. Proc. § 2031.010(e). The Act amends prior California Code of Civil Procedure Section 2016.020 to specifically define the terms "electronic" and "electronically stored information." These definitions are incorporated throughout the Civil Discovery Act. "Electronic" is defined as "relating to technology having electrical, digital, magnetic, wireless, optical, electromagnetic, or similar capabilities." Cal. Code Civ. Proc. § 2016.020(d). "ESI" is defined as "information that is

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Brown-Bag Lunch With The Honorable James J. Di Cesare
By Jessica Elmassian & Daniel Kippen

On October 29, 2009, as part of the ABTL brown-bag lunch series, attorneys with less than 10 years experience were treated to a litigation workshop hosted by the Honorable James J. Di Cesare in Department C18 of the Orange County Superior Court.

Judge Di Cesare warmly welcomed the attorneys into his courtroom, and spent his entire lunch break addressing a variety of trial elements, including jury selection and procedures, presentation to the jury, opening statements, making use of courtroom technology, and admitting exhibits.

Judge Di Cesare offered the attorneys a unique opportunity to experience the courtroom from the perspectives of jurors and witnesses. Attorneys entered the courtroom as though they were jurors, sat in the jury box for voir dire, and were even removed from the jury pool. Attorneys were also given the chance to sit in the witness chair. Judge Di Cesare emphasized the importance of creating a comfortable yet serious courtroom environment, and discussed the benefits of presenting "mini openings."

Judge Di Cesare continued with a hands-on tutorial explaining how to use the court's technology. The podiums include a built-in Elmo, DVD/VCR, and laptop connection. Attorneys were encouraged to use the equipment and experiment with the various capabilities, including how to mark exhibits in front of the jury.

This worthwhile workshop provided attorneys with the privilege of getting to know Judge Di Cesare in an informal setting while receiving the opportunity to become familiar with, and to grow comfortable in, the courtroom.

♦ *Jessica Elmassian and Daniel Kippen are associates at Voss Cook & Thel LLP in Newport Beach.*

Thank You for Making Our Third Annual Holiday Gift Giving Program the Biggest One Yet.

The Orange County Chapter of ABTL collected gift cards totaling over **$2,160** for donation to the Orangewood Children's Home.

We also had a wonderful showing of support for the Orange County Superior Court's adoption program .

Thank you for your generosity.

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Q: *Did you have any role models or influences during your legal career?*

A: I consider my friend Wylie Aitken, who is also the godfather to my oldest daughter, to be not only a friend but a mentor.

Q: *Why did you decide to become a judge?*

A: After almost 30 years of practicing law, I was ready to contribute in a different way. As I have said in previous interviews: In my view, the judicial branch of government is charged with delivering the American promise – a promise that is at the very heart of our freedoms as a people – to provide a fair trial, irrespective of all our differences, including race, religion or lack thereof, gender, place of birth, economic status, gender preference, and all other things that make us so different from one another. That is a huge promise – one that we must protect for ourselves and our children, and one that we must protect in every courthouse, in every county and every state each and every day. For my small part I can make that happen in my courtroom. I realize that my role is small in the overall importance of the judicial system; however, it is the best way that I know to contribute.

Q: *What do you like most about being a judge?*

A: I enjoy working with the attorneys who appear before me, facilitating resolution, and encouraging the pursuit of justice. I enjoy providing a courtroom that is a friendly atmosphere to enhance the process. To that end, I do my best to provide a courtroom that is formal but also comfortable. Inside the courtroom, I am assisted by a remarkable staff. They are clerk Marycruz, court reporter Randy, courtroom assistant Loretta, the sixth floor legal research attorneys Jeff, Sharah, Angel, Cynthia, and Richard, and a wonderful group of bailiffs and legal processing clerks in the clerk's office that assist all the Judges. Outside the courtroom, I enjoy the company of a tremendous group of colleagues who are outstanding Judges. We are all fortunate to have an outstanding Orange County Bench. I firmly believe that no one becomes what they are by themselves; they succeed because of the family and friends who help and inspire them along the way. Likewise, I am blessed to have the caliber of staff and fellow judges surrounding me that I do.

Q: *What, if anything, do you like least about being a judge?*

A: Absolutely nothing – I enjoy every part of it.

Q: *How would you describe your judicial philosophy?*

A: I run a courtroom grounded in respect and courtesy. Any lawyer appearing before me will receive respect and courtesy from me and my staff; in return, I expect the same.

Q: *What advice would you give to lawyers appearing before you for the first time?*

A: I practiced law for many years. I have not forgotten what it is like to appear in a courtroom, and I have an appreciation for what it takes to be a trial lawyer. I encourage all who appear before me to be thoughtful and well prepared – know your case inside and out, including both the strengths and weakness, and be able and willing to confront hard issues or questions thoughtfully and head on. On my end, I strive to create a comfortable and welcoming environment, a courtroom that allows an attorney to focus on his or her client and case.

Q: *What are your pet peeves about lawyers who practice before you?*

A: Well, there are a few behaviors that I discourage. First, as I have previously mentioned, do not bring disrespect into my courtroom, or any courtroom. Second, it is not best to interrupt the Court. Third, attorneys should not be argumentative or approach or engage opposing counsel in a hostile manner. Fourth, do not tell anyone, particularly the Court, what it ***must*** do or what it is ***compelled*** to do. Fifth, avoid using the words "with all due respect;" this denotes an air of insult and condescension. Sixth, avoid addressing a judge as "madam" or "sir;" instead, a judge should be properly addressed as "Your Honor."

Q: *What is the most important lesson that you have learned during your career that you can impart on newly practicing attorneys?*

A: I have two. First, I encourage attorneys in the beginning of their practice to develop a professional and personal style of living of which they can always be proud, both in their practice and in their personal lives. I have learned that this can be best achieved by: 1) being honest, courteous and civil to all; 2) being genuine in your endeavors; 3) performing periodic self-assessments and adjusting your efforts to address any weaknesses; and, 4) abiding by the Golden Rule. Second, I encourage young lawyers to be wise when they are young – show day-to-day wisdom.

Q: *What do you enjoy doing in your spare time?*

A: I enjoy spending time with my family and friends, traveling, especially to my roots in Italy, and playing golf.

Thank you Judge Di Cesare for your time.

♦ *Heather Porter Condon in an associate in the Irvine office of Howrey LLP.*

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reduce the risk that the privilege will be deemed waived. These steps are rooted in the "common interest doctrine," an aspect of the law governing the attorney-client privilege.

The Common Interest Doctrine

The common interest doctrine is an exception to the general rule that disclosure of privileged communications to a third party waives the attorney-client privilege. The common interest doctrine allows a party to share privileged attorney-client communications with a third party who shares a "common interest" (sometimes called a "community of interest") with the disclosing party, without waiving the attorney-client privilege. The common interest doctrine appears to have originated in the context of joint defendants in litigation. Its expansion beyond that narrow context is often traced to the 1974 decision of the District Court for the District of South Carolina in *Duplan Corp. v. Deering Milliken, Inc.*, 397 F. Supp. 1146, 1172-74 (D. S.C. 1974). The *Duplan* court held that the common interest doctrine applies and the privilege is preserved only if the attorney's client and the third party share "an identical legal interest with respect to the subject matter of a communication between an attorney and a client concerning legal advice." *Id.* at 1172.In 1987, Judge Brazil of the District Court for the Northern District of California issued the leading opinion regarding the application of the common interest doctrine to the disclosure of existing legal opinions to a potential acquiring company. In that case, *Hewlett-Packard Co. v. Bausch & Lomb Inc*., 115 F.R.D. 308, 308 (N.D. Cal. 1987), Hewlett-Packard (HP) sued Bausch & Lomb for infringement of one of its patents. During the litigation, Bausch & Lomb shared its attorney's opinion letter concerning the validity and possible infringement of HP's patent with GEC, which was a prospective buyer of Houston Instruments, a division of Bausch & Lomb. *Id*. Ultimately, the acquisition did not occur. When HP learned of the opinion letter, it sought discovery of the document arguing that Bausch & Lomb had waived the attorney-client privilege by disclosing the letter to a third party. *Id*. The *Hewlett-Packard* court reiterated that in order for the common interest doctrine to apply, "the key consideration is that the nature of the legal interest be identical, not similar, and be legal, not solely commercial." *Id*. at 309 (citing *Duplan,* 397 F. Supp. at 1172). However, the court acknowledged that "it is not clear what it means, for purposes of this 'test', to have a 'common *legal* interest.'" *Id*. at 309-310. Ultimately, the court in *Hewlett-Packard* adopted what has been labeled as the "more expansive view" of the common interest doctrine and found no waiver of the attorney-client privilege when a target company's privileged communications were disclosed to a potential acquiring company. *See*, *e.g*., *Libbey Glass, Inc. v. Oneida*, 197 F.R.D. 342, 348 (N.D. Ohio 1999).

In order to gain insight into the best practices for preserving privileged communications during IP due diligence, this paper will review the standard set by *Hewlett-Packard*, as well as cases supporting or criticizing the case.

Hewlett-Packard Co. v. Bausch & Lomb Inc.

The District Court in *Hewlett-Packard* noted that, even though GEC decided not to purchase the Bausch & Lomb's division, "it seems clear that defendant and GEC anticipated litigation in which they would have a common interest." *Hewlett-Packard*, 115 F.R.D. at 310. The court said the parties shared an interest in "identical issues of law and of fact" regarding patent validity, patent enforceability, and patent infringement. *Id*. The court also said that although they may not be exposed to the same liability for damages, they would be expected to conduct a joint defense on all liability issues if the acquisition was completed. *Id*.

Although the court in *Hewlett-Packard* found a "clear" common interest between Bausch & Lomb and GEC in anticipated litigation, the court was "not completely confident" that the nature of the interest satisfied the strict test for a common "legal" interest announced in prior cases. Bausch & Lomb and GEC arguably had only an anticipatory or future common legal interest, because they were not currently facing the same legal adversary at the time of the due diligence activities. *Id*. (citing *Union Carbide Corp. v. Dow Chemical Co*., 619 F. Supp. 1036, 1047 (D. Del. 1985), which gave anticipated *joint* litigation as an example of a common legal interest). For this reason, the court turned to policy considerations to determine whether it should apply the common interest doctrine. The court explained:

> Holding that this kind of disclosure constitutes a waiver could make it appreciably more difficult to negotiate sales of businesses and products that arguably involve interests protected by laws related to intellectual property. Unless it serves some significant interest courts should not create procedural doctrine that restricts communication between buyers and sellers, erects barriers to business deals, and increases the risk that prospective buyers will not have access to important information that could play key roles in assessing the value of the business or product they are considering buying. *Id*. at 311.

Although the court described the case as a "close case,"

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the court expressed confidence that these policy concerns dictated that the attorney-client privilege should be protected. *Id*. at 312.In addition, the *Hewlett-Packard* court noted that the party claiming privilege "took substantial steps" to ensure confidentiality. *Id*. at 309. For example, Bausch & Lomb gave GEC only two copies of the document and instructed it to make no further copies. *Id.* As well, both copies were returned to Bausch & Lomb's counsel and not further disclosed to anyone else. *Id*. The court concluded "defendant [Bausch & Lomb] did everything within its power to impress upon GEC the importance of maintaining the confidentiality of the letter and GEC, in turn, seems to have undertaken to hold the letter in confidence." *Id*. at 311.

After *Hewlett-Packard*

Although, the court in *Hewlett-Packard* held that it was a "close case" and that it was "not completely confident" that the common interest shared by the parties was a common "legal" interest, today, it is a strong example of a case upholding the attorney-client privilege in the context of a disclosure during IP due diligence. Some later cases have even interpreted *Hewlett-Packard* as holding that there was a common legal interest, despite the *Hewlett-Packard* court's own doubts on this point. *See*, *e.g*., *Nidec Corp. v. Victor Co. of Japan*, 249 F.R.D. 575, 579 (N.D. Cal. 2007); *and Synopsis, Inc. v. Ricoh Co.*, No. C-03-2289 and C-03-4669, 2006 U.S. Dist. LEXIS 64270, at *9 n. 1 (N.D. Cal. 2006).

Since *Hewlett-Packard*, the courts have frequently held in various intellectual property contexts that the disclosure of legal advice to certain third parties did not result in a waiver of privilege. For example, in a subsequent Federal Circuit case, *In re the Regents of the University of California*, 101 F.3d 1386, 1387 (Fed. Cir. 1996), the Regents of the University of California (UC) sought a writ of mandamus to order the District Court for the Southern District of Indiana to vacate its order compelling deposition testimony of three attorneys at Eli Lilly. Eli Lilly had entered into an option agreement with UC for a license of UC's patents which was to become exclusive under certain conditions. *Id*. at 1388-89. During litigation, Genentech sought deposition testimony of three attorneys at Eli Lilly, arguing that communications between UC, Eli Lilly, and Eli Lilly attorneys were not protected by the attorney-client privilege because there was no common legal interest between UC and Eli Lilly. *Id*. at 1389. The Federal Circuit held that "Lilly was more than a non-exclusive licensee" and therefore "[b]oth parties had the same interest in obtaining strong and enforceable patents." *Id*. at 1390 (applying the 7th Circuit regional law and citing *Duplan*, 397 F. Supp. at 1172). Thus, the writ of mandamus was granted, preserving the privilege between a patent owner and a "more than a non-exclusive" licensee. *Id*. at 1391.

Similarly, in *Depomed, Inc. v. IVAX Corp*., No. C-06-0100, 2007 U.S. Dist. LEXIS 97835, at *3 (N.D. Cal. 2007), the District Court for the Northern District of California denied a motion to compel copies of a privileged memorandum. In a very brief opinion, the court found a common interest between joint developers in the field of pharmaceutical drugs. *Id*. The court cited *Hewlett-Packard* for the common interest doctrine and held that a joint development agreement "clearly created common goals." *Id*. at *2-3. Note that both *In re Regents* and *Depomed*, unlike *Hewlett-Packard*, involved two parties with a final business agreement in place.

The *Hewlett-Packard* standard has also been applied to other cases involving disclosures where there were no final business agreements in place. For example, in *BriteSmile, Inc. v. Discus Dental Inc*., No. C 02-3220, 2004 U.S. Dist. LEXIS 20023, at *5-6 (N.D. Cal. 2004), BriteSmile sued Discus Dental for patent infringement and sought discovery of a letter prepared by Discus Dental's attorney relating to BriteSmile's patent. BriteSmile claimed the privilege was waived because the document was disclosed to a third party, who was selling technology to Discus Dental. *Id*. Citing *Hewlett-Packard*, the District Court held that Discus Dental and the third party shared a common legal interest in whether the technology Discus Dental was purchasing was patentable and whether it infringed any patents. *Id*. at *9. In *BriteSmite*, although the parties eventually entered into a final business agreement, there was not a final agreement at the time of disclosure.

Another court, in declining to apply the common interest exception, nevertheless adopted the view that a final agreement at the time of disclosure is not required. In *Katz v. AT&T Corp*., 191 F.R.D. 433, 435 (E.D. Penn. 2000), Katz appealed from a Special Master's order to turn over negotiation documents between Katz and MCI, a non-exclusive licensee of Katz's patents. The Special Master found no protection in the communications because there was "no final agreement" at the time of the communications. *Id*. at 437. Citing *Hewlett-Packard*, the District Court for the Eastern District of Pennsylvania held "the common interest doctrine protects privileged and work-product materials even if there is no 'final' agreement or if the parties do not ultimately unite in a common enterprise." *Id*. (citing *Hewlett-Packard*, 115 F.R.D. at 310). However, the court upheld the Special Master's decision because Katz failed to meet its burden of showing a common legal interest with MCI. *Id*. at 438 n. 6.

There have also been some strong dissenting voices. The court in *Libbey Glass v. Oneida* characterized *Hewlett-*

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Packard as the "more expansive view" of the common interest doctrine and opted to follow the narrower view where "communications shared during a business undertaking lose their privileged status, even though such sharing helped address or ameliorate bona fide concerns about the legal implications of some aspect of the business venture." *Libbey Glass*, 197 F.R.D. at 348. In *Libbey Glass*, Libbey Glass sued Oneida and Oneida's manufacturer, Pasabahce, for trade dress infringement. *Id*. at 344. Libbey Glass sought production of advice given by Oneida's counsel to Oneida, which was disclosed to Pasabahce, who at the time of disclosure was Oneida's potential seller and manufacturer. *Id*. The District Court for the Northern District of Ohio found that although there was a common interest in the legal implications of the similarities between their glassware and Libbey's, it was "ancillary to the principal [commercial] activity" of forming a joint venture. *Id*. at 349.

One factor that may be differentiating *Libbey Glass* from *Hewlett-Packard* is that in *Hewlett-Packard*, Bausch & Lomb was already involved in litigation, and the potential third party purchaser of Bausch & Lomb's division had a high probability of being dragged into court if it completed the purchase. Thus, any potential purchaser of Bausch & Lomb's division would have a legitimate legal interest in the litigation. However, in *Libbey Glass*, there was not yet actual litigation. Also, Pasabahce's counsel was not involved, and Oneida did not take meaningful steps to ensure that the privileged disclosures were kept confidential. *Id*. at 348. Thus, Oneida failed to meet its burden of showing a common legal interest and no waiver of the attorney-client privilege. "The burden belongs on the party claiming privilege to have avoided uncertainty." *Id*. at 349.

A harsh critic of the *Hewlett-Packard* case is *Oak Industries v. Zenith Industries*, No. 86 C 4302, 1988 U.S. Dist. LEXIS 7985, *12 (N.D. Ill. 1988), which held "on facts very similar to this case," "[s]uch an expansion -- to all persons with whom the party may enter or consider entering into a business transaction -- would quickly swallow up the general rule that disclosure waives the attorney-client privilege." The case implies that business transactions involve interests that are solely commercial, and not legal. The District Court for the Northern District of Illinois in *Oak Industries* was influenced by the fact that the Seventh Circuit had construed the attorney-client privilege narrowly. *Id*. (citing *U.S. v. Lawless*, 709 F.2d 485, 487 (7th Cir. 1983)). In addition, the court found that the cases up to that time in 1988, not including *Hewlett-Packard*, almost all declined to apply the common interest exception for disclosures made during business negotiations. *Id*. at *11.

However, in a later decision, the District Court for the Northern District of Illinois, found, without much discussion, a common legal interest between a patent owner and a potential patent acquirer during due diligence and even cited *Hewlett-Packard* for support. *Tenneco Packaging Specialty & Consumer Products, Inc. v. S.C. Johnson & Son, Inc*., No. 98 C 2679, 1999 U.S. LEXIS 15433, *7-8 (N.D. Ill. 1999). In that case, Tenneco sued S.C. Johnson and KCL Corporation for patent infringement. *Id*. S.C. Johnson acquired a patent from DowBrands and Tenneco sought production of an opinion drafted by an attorney for DowBrands, which was shown to S.C. Johnson. *Id*. at *6-8. After citing *Hewlett-Packard* for the common interest doctrine, the court held that the privilege was not waived because DowBrands "took substantial steps to ensure that the opinion would remain confidential." *Id*. at *8. For example, the opinion was controlled by specific procedures to prevent dissemination, shown to a limited number of people, and only after acknowledgement of a confidentiality agreement and when the deal was "largely locked up." *Id*.

One judge (Judge Chen) within the same jurisdiction as *Hewlett-Packard* also had some significant criticism of the *Hewlett-Packard* decision. In *Nidec Corp. v. Victor Co. of Japan*, 249 F.R.D. 575, 577 (N.D. Cal. 2007), Nidec sued the defendant corporations for patent infringement. During the litigation, one of the defendant corporation's largest shareholders solicited bids to purchase its shares of the corporation. *Id*. To convince one potential purchaser of the value of those shares, the shareholder provided the potential purchaser with a "litigation abstract" that discussed the pending litigation. *Id*. at 579. Though the facts seems quite similar to those of *Hewlett-Packard*, the court found no common legal interest and held that the disclosure of the litigation abstract to a potential purchaser resulted in a waiver of the privilege. *Id*.

The critical distinction, the court explained, was that the potential purchaser was not likely to be a co-defendant in the pending patent infringement suit. *Id*. The purchaser would become only a shareholder of one of the corporate defendants. *Id*. In contrast, in *Hewlett-Packard*, the defendant was contemplating an outright sale of the division that manufactured infringing products. Thus, according to the *Nidec* court, in *Hewlett-Packard*, "it was 'quite likely' that both parties would be sued by the plaintiff and that the defendant would defend the marketing of the product in the years preceding the sale to the third party while the third party would defend the same product for the years following the sale." *Id*.

The court further stated that even if there were a common legal interest in *Nidec*, the common interest exception did not apply. *Id*. The *Nidec* court noted that the common interest exception applies where "(1) the communication is

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made by separate parties in the course of a matter of common interest; (2) the communication is designed to further that effort; and (3) the privilege has not been waived." *Id.* at 578 (citing *U.S. v. Bergonzi*, 216 F.R.D. 487, 495-6 (N.D. Cal. 2003)). Focusing on the second prong, the court said the disclosure was designed only to further a commercial decision as to whether the bidders would buy a majority of the defendant's shares as opposed to any common legal strategy. *Id.* at 580.

More significantly, the court also disagreed with the *Hewlett-Packard* decision's reliance upon "policy consideration[s] such as removing barriers to business deals" to expand the common interest doctrine and to remove "the requirement that the protected communication must be intended to further the specific legal effort." *Id.* The *Nidec* court disagreed with what appears to be the fundamental rationale underlying the *Hewlett-Packard* decision. On the other hand, it could be argued that the *Hewlett-Packard* court turned to policy considerations for a "close case" and that the disclosure did further the common interest in formulating a common strategy in the anticipated litigation.

In light of decisions such as *Nidec* and *Oak Industries*, there is little certainty in applying the common interest doctrine. If a court follows the rationale of these two cases, disclosures to potential acquirers and potential investors create a very substantial risk of causing a waiver of the attorney-client privilege, with investors facing a higher risk of waiver because they would not likely be a co-defendant in litigation. *See also Net2Phone, Inc. v. eBay, Inc.*, Civ 06-2469, 2008 U.S. Dist. LEXIS 50451, at *32-35 (D. N.J. 2008); *Corning Inc. v. SRU Biosystems, LLC*, 223 F.R.D. 189, 190 (D. Del. 2004). However, anticipated joint litigation is only one example of a common legal interest. For example, potential investors of IP can have a common legal interest in helping the target company to develop non-infringing products or to obtain strong, enforceable patents. Thus, disclosing legal opinions in these contexts, where the parties share a common and immediate legal goal, may not result in a waiver even in courts applying a narrow understanding of the common interest doctrine.

Despite these uncertainties, steps can be taken to increase the likelihood that the doctrine will apply to disclosures in the context of IP due diligence. As in all areas of the law, the steps that should be taken will depend on the particular facts and circumstances of the case. Nevertheless, the following steps should be considered in light of those facts and circumstances.

Best Practices

Determine if the communication was initially protected by the attorney-client privilege: The common interest exception only applies if the communication is first protected by the attorney-client privilege. Therefore, it is critical to make certain that the initial communication is privilege. All of the typical precautions should be applied, such as maintaining the communication in confidence and making certain that the communication is in furtherance of legal advice.

Determine what will be disclosed: Since there is a risk that a court will find that the common interest exception does not apply, plan as if any privileged document will be discoverable if disclosed to a third party. Thus, decide whether the disclosure of privileged information is really necessary. For example, instead of giving the third party an infringement opinion, one could give the third party the underlying patents and publications used in the analysis for his own analysis. If the disclosure of some privileged information proves to be critical, the amount of privileged material disclosed should be minimized to the extent possible.

Determine when to disclose: If it is necessary to disclose privileged information, one can disclose at different time periods depending on how sensitive the information is. The most sensitive information should be disclosed as close as possible to a final agreement.

Document the common legal interest: The burden falls on the party claiming privilege through the common interest exception to show a common legal interest. Thus, one should document what the common legal interest is, e.g., anticipated joint litigation, obtaining enforceable patents, developing non-infringing products. One place to document the interest could be in a common interest agreement between the disclosing party and the receiving party.

Document how the disclosure furthers the common legal interest: The party claiming no waiver through the common interest doctrine must also show how the disclosure furthers the common legal interest. Therefore, one should also document how the disclosure furthers the interest. Again, the documentation could be included in a common interest agreement.

Involve lawyers: Since the interest must be legal as opposed to commercial, try to limit disclosures between lawyers ("legal") as opposed to business ("commercial") men.

Take substantial steps to maintain confidentiality: The burden also falls on the party claiming privilege to show no waiver. Taking substantial steps to maintain confidentiality can help show intent not to waive the privilege. To main-

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tain confidentiality, treat the disclosures as confidentially as any other privileged communication and make sure the third party does the same. For example, limit the number of people who receive the disclosure. Mark all documents as confidential pursuant to a common interest agreement. If possible, show the documents directly to the receiving party in a meeting, leaving no copies behind. If this is not possible, limit the number of copies, prevent further copying, and ensure all copies get returned to the disclosing party or its attorney after a limited time.

Research: Because this is a developing area of the law, research case law to see if there are any recent cases and development on the common interest doctrine.

Of course, it is always best to avoid the disclosure of privileged communications altogether, if that is feasible.

Conclusion

The common interest doctrine may allow owners of intellectual property to share privileged legal advice with potential acquiring companies and others without waiving the attorney-client privilege. In the leading case upholding a claim of privilege, *Hewlett-Packard*, the court emphasized the public policy benefits of permitting companies to freely share privileged information to further business transactions, while at the same time requiring both parties to hold the communications as confidential. Other courts, however, have followed a narrower approach, rooted in a more rigid and formalistic application of legal doctrine. The full scope of the common interest doctrine in the context of intellectual property transactions thus remains very uncertain. The best practice, of course, is not to disclose privileged communications. However, this may not always be possible. Thus, considering the best practices outlined above in light of the particular facts and circumstances of a specific case can help increase confidence that confidential information will remain privileged.

♦*Paul A. Stewart is a partner and Joan Y. Chan is an associate at Knobbe, Martens, Olson & Bear LLP.*

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Our programs also reflected the importance of the issue of the effective administration of justice. At our September meeting, we were very honored to be joined by Associate Justice Ming Chin of the California Supreme Court. Justice Chin provided us with important insights on issues affecting the impartiality of courts, particularly with respect to contested judicial elections. The issue of judicial impartiality is central to the administration of justice, and we as members of the bar should be at the forefront of efforts to preserve and foster rules which advance this aim.

As 2009 came to a close, our final meeting featured Harvey Levine, who delivered an informative and entertaining program on jury selection in high-profile trials. Once again, our members provided record support for our now annual drive to collect gift cards for the Orangewood Children's Home and stuffed animals for the Superior Court's adoption program.

In 2009, despite the difficult times, our Chapter expanded its programs, increased its charitable giving, and ended the year in better financial condition than it started. This could not have been accomplished without the support of our outstanding and committed Executive Committee, Board of Directors, Judicial Advisory Council members and our Executive Director. They each deserve our appreciation for their efforts to successfully guide our Chapter through 2009.

In closing, I wish all of our members the best for 2010. I believe that the ABTL will continue to contribute to your successful practice as a business litigator in Orange County by continuing to present the highest quality educational programs, continuing to promote a dialogue between the bench and the bar, and continuing to provide opportunities for our younger lawyers. I hope to see you at our next meeting of February 3, 2010, when Sean O'Connor takes the reins as our next Chapter President.

♦*Richard J. Grabowski is the Partner-In-Charge of Jones Day's Irvine office, and is a member of the Firm's Trial Practice Group.*

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stored in an electronic medium." Cal. Code Civ. Proc. § 2016.020(e). The effect of this change is to make clear that all information stored on a computer or other digital media is potentially within the scope of discovery. For example, email, voicemail, instant messages, text messages, spreadsheets, databases, digital images, documents, and other digital forms that require the use of computer hardware or software all are covered by the Act, as is any information stored on a hard drive, flash drive, handheld device, or computer.

Form of Production

When requesting the production of ESI, the requesting party may specify the form or forms in which the information is to be produced. Cal. Code Civ. Proc. § 2031.030(a)

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(2). For example, the requesting party may specify that information is to be produced in native format, as a graphic file, or with or without certain metadata. The responding party must produce the ESI in the requested format or object to the specified format before producing the information. Cal. Code Civ. Proc. § 2031.280(c). If the responding party is objecting to the specified format, or if no format is specified, then that party must state in its response the form in which it intends to produce each type of information. *Id*. If no form is specified or agreed to between the parties, then the responding party may produce the ESI in the form "in which it is ordinarily maintained or in a form that is reasonably usable." Cal. Code Civ. Proc. § 2031.280(d)(1). The responding party is not required to produce the same ESI in more than one form. Cal. Code Civ. Proc. § 2031.280(d)(2). The Act provides for cost shifting and establishes that "[i]f necessary, the responding party at the reasonable expense of the demanding party shall, through detection devices, translate any data compilations included in the demand into a reasonably usable form." Cal. Code Civ. Proc. § 2031.280(e).

Information that is "Not Reasonably Accessible"

While all ESI is potentially discoverable, the Act does allow for the limitation of discovery of ESI that "is from a source that is not reasonably accessible because of undue burden or expense." Cal. Code Civ. Proc. § 2031.060(c). The responding party must identify in its response to the discovery request which types or categories of sources of ESI it will not search because they are not reasonably accessible. Cal. Code Civ. Proc. § 2031.210(d). The Act places the burden on the responding party to object to the production of ESI on the grounds that it is not reasonably accessible or to move for a protective order on those grounds. *Id*.; Cal. Code Civ. Proc. § 2031.060(c). The responding party also bears the burden to demonstrate that the requested ESI is not reasonably accessible because of undue burden or expense. Cal. Code Civ. Proc. §§ 2031.060(c); 2031.310(d). This is a significant departure from the Federal Rules of Civil Procedure, which places the burden on the requesting party to move to compel the information sought if the responding party asserts that the ESI is not reasonably accessible. Under the Act, once that responding party proves that the ESI is not reasonably accessible, the burden then shifts to the requesting party to show good cause for the production despite the fact that the ESI is not reasonably accessible. Cal. Code Civ. Proc. §§ 2031.060(d); 2031.310(e)). A court may order the production of ESI from sources that are not reasonably accessible if the court finds good cause exists. *Id*. If a court finds that good cause exists to order the production of ESI from a source that is not reasonably accessible, the court may still "set conditions" for the production of that information, including the allocation of the expense of discovery. Cal. Code Civ. Proc. §§ 2031.060(e); 2031.310(f).

Limitations on Production

The Act allows courts to impose other limits on the production of ESI and does not confine those powers to circumstances where the information is not reasonably accessible. The courts may also limit the discovery of accessible information where the information is able to be produced from a less-burdensome source, the discovery sought is unreasonably cumulative or duplicative, the party seeking discovery has had ample opportunity by discovery in the action to obtain the information sought, or the likely burden or expense of producing the ESI outweighs the likely benefit. Cal. Code Civ. Proc. §§ 2031.060(f)(1), (2), (3), (4); 2031.310(g)(1), (2), (3), (4). In determining whether the burden or expense of the proposed discovery outweighs any likely benefits, the courts are to consider such factors as the amount in controversy, the resources of the parties, the important of the issues in the litigation, and the importance of the requested discovery in resolving the issues. Cal. Code Civ. Proc. §§ 2031.060(f)(4); 2031.310 (g)(4).

Safe Harbor

While the Act incorporates existing rules on sanctions of the Civil Discovery Act, it specifically prohibits the imposition of sanctions on a party or attorney, "absent exceptional circumstances," for failure to produce ESI that has been lost, damaged, altered or overwritten as a result of the routine, good-faith operation of an electronic information system. Cal. Code Civ. Proc. § 2031.300(d)(1). There is no indication of what constitutes an "exceptional circumstance" under the Act that will warrant the imposition of sanctions. Keep in mind though that the Act states that the safe harbor provision does not alter any obligation to preserve discoverable information. Cal. Code Civ. Proc. § 2031.300(d)(2). Thus, the duty to preserve evidence still applies if there is pending or foreseeable litigation. This is why it is so important for attorneys to understand their clients' electronic systems at the outset of litigation. For example, if a client maintains ESI that is automatically overwritten every six months, and that ESI is potentially relevant to litigation and may become the subject of a future discovery request, then the client has a duty to preserve that information and to ensure that it does not get automatically overwritten at the end of the six-month cycle. Failure to take those necessary preservation steps could eliminate any protection against sanctions that the safe harbor may otherwise provide.

The safe harbor provision of the California Act is

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slightly broader than its federal counterpart. The Federal Rules protect against sanctions only where ESI is "lost," while the California Act also protects against sanctions where the ESI is "damaged, altered or overwritten" in addition to "lost."

Privilege

Because the production of ESI often involves the production of massive amounts of information, the risk of inadvertent disclosure of information protected by the attorney-client privilege and/or the attorney work product doctrine is heightened. While the Act does not have the clawback or sneak peak protections of Federal Rule of Evidence 502, it does provide some protection for parties who inadvertently produce privileged material. The party claiming inadvertent disclosure is to notify the receiving party of the privilege claim and the basis for the claim. Cal. Code Civ. Proc. § 2031.285(a). The receiving party is then to sequester the information and either return it and any copies or present the information to the court conditionally under seal for a determination of the privilege claim. Cal. Code Civ. Proc. § 2031.285(b). In the latter scenario, the receiving party is precluded from using or disclosing the specified information until the claim of privilege is resolved. Cal. Code Civ. Proc. § 2031.285(c)(1), (d)(2). If the receiving party is notified of a claim of privilege but has already disclosed the information in dispute, then the receiving party is to "immediately take reasonable steps to retrieve the information." Cal. Code Civ. Proc. § 2031.285(c)(2). If the receiving party disputes the privilege claim, it has 30 days to file a motion with the court seeking a determination of the privilege claim. Cal. Code Civ. Proc. § 2031.285(d)(1).

Because the Act is silent on the issue of whether there is a waiver of privilege by the inadvertent production of privileged information, a court will still have to engage in a substantive analysis to decide that issue.

Meet and Confer Requirement

Unlike the Federal Rules, the California Act does not require parties to meet and confer regarding ESI obligations before a pre-trial conference. In response to the lack of such a requirement, the Judicial Counsel of California amended California Rule of Court 3.724 on August 14, 2009, to include a duty to meet and confer regarding ESI no later than 30 calendar days before the date set for the *initial* case management conference. The parties are to consider the issues identified in California Rule of Court 3.727 as well as the following issues regarding electronic discovery:

(8) Any issues relating to the discovery of electronically stored information, including:

(A) Issues relating to the preservation of discoverable electronically stored information;

(B) The form or forms in which information will be produced;

(C) The time within which the information will be produced;

(D) The scope of discovery of the information;

(E) The method for asserting or preserving claims of privilege or attorney work product, including whether such claims may be asserted after production;

(F) The method for asserting or preserving the confidentiality, privacy, trade secrets, or proprietary status of information relating to a party or person not a party to the civil proceedings;

(G) How the cost of production of electronically stored information is to be allocated among the parties;

(H) Any other issues relating to the discovery of electronically stored information, including developing a proposed plan relating to the discovery of the information; . . .

Application to Third Parties

The Act adds a new section to the Code of Civil Procedure specifically addressing the use of subpoenas to obtain ESI from third parties. Cal. Code Civ. Proc. § 1985.8. Similar to the provisions of the Act that apply to parties to the litigation, the new section addressing discovery from third-parties allows the requesting party to specify the production format, places the burden on the subpoenaed party to prove that the ESI is not readily accessible, gives the court authority to allocate the production expenses to the requesting party, and allows the court to limit the discovery sought even if it is reasonably accessible. *Id.*

The complete language of the California Electronic Discovery Act may be found at http://www.leginfo.ca.gov/pub/09-10/bill/asm/ab_0001-0050/ab_5_bill_20090629_chaptered.pdf.

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