ASSOCIATION OF BUSINESS TRIAL LAWYERS
abtl REPORT
Volume XXIX No. 1 Fall 2006

Multidistrict Litigation: Requirements and Procedures for Transfer

The modern approach toward handling multidistrict litigation in the federal courts evolved from a series of more than 1,800 civil actions that followed the convictions of several individuals and entities in the electrical equipment industry for criminal antitrust violations. Neal and Goldberg, *The Electrical Equipment Antitrust Cases: Novel Judicial Administration*, 50 A.B.A.J. 621 (1964) The treatment of the electrical equipment cases revolutionized the subsequent handling of multidistrict litigation by leading to the enactment of 28 U.S.C. § 1407.


Randall A. Spencer

The statute established a Judicial Panel on Multidistrict Litigation to determine whether civil actions in different districts should be transferred to one or more districts for pretrial purposes. The report that accompanied the legislation observed:

> The types of cases in which massive filings of multidistrict litigation are reasonably certain to occur include not only civil antitrust actions but also, common disaster (air crash) actions, patent and trademark suits, product liability actions and securities law violation actions, among others.

H.R. Rep. No. 1130, 90th Cong. 2d Sess., reprinted in 1968 U.S. Code Cong. & Adm. News 1898, 1900.

28 U.S.C. § 1407(a) provides:

> When civil actions involving one or more common questions of fact are pending in different districts, such actions may be transferred to any district for coordinated or consolidated pretrial proceedings. Such transfers shall be made by the judicial panel on multidistrict litigation…upon its determination that transfers for such proceedings will be for the convenience of

(Continued on page 2)

INSIDE

Insurance Coverage for Business Torts

Lawsuits involving business or commercial disputes often trigger the coverage provisions of standard form Commercial General Liability ("CGL") policies. In lawsuits involving claims of infringement, misappropriation or the violation of the right of privacy, the key portion of a CGL policy is the "personal injury" or "advertising injury" coverage found in Coverage B of the current CGL policy form [Insurance Services Office Commercial General Liability Insurance Policy Form, Section I, Coverage B (2001)]. That language provides as follows:


Peter S. Selvin

a. We will pay those sums that the insured becomes legally obligated to pay as damages because of "personal and advertising injury" to which this insurance applies. We will have the right and duty to defend any "suit" seeking those damages…

b. This insurance applies to "personal and advertising injury" caused by an offense arising out of your business but only if the offense was committed in the "coverage territory" during the policy period.

This article explores the scope of, and recent developments concerning, this aspect of CGL coverage. Practitioners should note that coverage for business torts may also be provided under Coverage A of CGL policies. *See, e.g., Ericsson, Inc. v. St. Paul Fire & Marine Ins. Co.*, 423 F. Supp. 2d 587 (N.D. Tex. 2006) (class action claims against cell phone manufacturer for injuries caused by radio frequency radiation fall within Coverage A for "bodily injury"); *Prime TV, LLC v. Travelers Ins. Co.*, 223 F. Supp. 2d 744 (M.D. N.C. 2002) (insurer required to defend insured in class action suit because sending unsolicited faxes constituted "property damage").

Enumerated Offenses

Unlike Coverage A in a GCL policy, coverage for personal or advertising injury does not depend on the existence of an "occurrence, " which typically is defined in terms of "accidental" conduct. *See, e.g., General Accident Ins. Co. v. West American Ins. Co.*, 42 Cal. App. 4th 95, 103 (1996). Thus, coverage for personal and advertising injury is not limited to negligence and may even cover intentional torts. *See, e.g., David Kleis, Inc. v. Superior Court*, 37 Cal. App. 4th 1035, 1047 (1995).

There is another key distinction between Coverages A and B. While the insuring clause of Coverage A is expressed in general

(Continued on page 5)

Multidistrict Litigation

Continued from page 1

> parties and witnesses and will promote the just and efficient conduct of such actions.

Since the enactment of § 1407, a considerable body of case law on multidistrict litigation has evolved. This article will examine the basic principles of multidistrict litigation developed by the Panel and the Courts. The first part of this article will discuss the requirements and procedures for transfer of MDL cases. The second part will discuss the selection of a transferee district and proceedings after transfer.

How the Panel Gets Cases

Cases come to the Panel in two ways: (1) when a party in one or more of the MDL cases files a motion with the Panel, requesting a transfer, R.J.P.M.L. 7.2; or (2) when the Panel, on its own motion, issues an order to show cause as to why the cases should not be transferred. R.J.P.M.L. 7.3. The rules of the Panel appear at 199 F.R.D 425 and in the pocket parts of the United States Code. For a discussion on motion practice before the Panel, *see Earl F. Kyle, IV, The Mechanics of Motion Practice Before the Judicial Panel on Multidistrict Litigation*, 175 F.R.D. 589 (1998)

The Panel may order a transfer when the following requirements have been satisfied.

- The actions must be civil actions.
- The actions must be pending in different districts.
- The actions must involve common questions of fact.
- A transfer would be for the convenience of the parties and witnesses.
- A transfer would promote the just and efficient conduct of the actions.

By definition, criminal actions are excluded from transfer and under 15 U.S.C. § 78(v)(g) actions for equitable relief commenced by the Securities and Exchange Commission are not transferable without its consent. Civil antitrust actions by the United States for injunctive relief also are excluded from transfer, § 1407(g), but under § 1407(h), damage actions are not.

Considerable overlap exists among the remaining requirements.

Common Questions of Fact

Common questions of fact are presumed when there are two or more complaints against the same defendant with comparable allegations. *In re Air West, Inc. Securities Lit.*, 384 F.Supp. 609, 611 (J.P.M.L. 1974), but a complete identity or majority of common factual questions is not required, *In re Accutane Products Liability Litigation*, 343 F.Supp. 2d 1382, 1383 (J.P.M.L. 2004) and a transfer may be ordered if a party is involved in only one of the MDL cases. *In re Airport Car Rental Antitrust Lit.*, 448 F.Supp. 273, 275 (J.P.M.L. 1978).

In one of its earliest cases, however, one of its members, Judge Stanley Weigel, stated that "neither the convenience of witnesses and parties nor the just and efficient conduct of actions are served, *ipso facto* by transfer just because there are common questions of fact in the civil actions involved. "*In re "East of the Rockies" Concrete Pipe Antitrust Cases*, 302 F.Supp. 244, 254, 255-256 (J.P.M.L. 1969) (Opinion of Weigel, J., concurring). A transfer will be denied if unique questions of fact, or questions of law predominate, *In re Pharmacy Benefit Plan Administrators Pricing Lit.*, 206 F.Supp. 2d 1362 (J.P.M.L. 2002) (unique questions of fact). *In re U.S. Navy Variable Re-Enlistment Bonus Lit.*, 407 F.Supp. 1405, 1407 (questions of law), but the presence of different legal theories will not, by itself, prevent a transfer. *In re Air Crash at Schenley Golf Course, Etc.*, 510 F.Supp. 1228, 1231 (J.P.M.L. 1979).

Convenience of Parties and Witnesses

The requirement that a transfer be "for the convenience of the parties and witnesses" probably is the least important requirement because a transfer always involves some inconvenience to parties or witnesses but that inconvenience must be weighed against the greater good and overall efficiency contemplated by § 1407. *In re Sugar Industry Antitrust Litigation*, 471 F.Supp. 1089, 1094 (J.P.M.L. 1979) (Inconvenience to some parties must be weighed against the overall savings and convenience to be gained from transfer pursuant to § 1407). Likewise, the Panel has said that it "must consider the interests of all parties and must consider multidistrict litigation as a whole in light of the purpose of section 1407. (Citation)." *In re Commonwealth Oil/Tesoro Petroleum Securities Lit.*, 458 F.Supp. 225, 229 (J.P.M.L. 1978). Accordingly, in the *Swine Flu Immunization Products Litigation*, 446 F.Supp. 244, 247 (J.P.M.L. 1978), the Panel ordered a transfer despite the financial burden to plaintiffs and in the *Anthracite Coal Antitrust Litigation*, 436 F.Supp. 402, 404 (J.P.M.L. 1977), the Panel held that inconvenience to counsel will prevent a transfer only if it impinges on the convenience of parties or witnesses.

Just and Efficient Conduct of the Actions

In order to satisfy the requirement that a transfer be for the just and efficient conduct of the actions, the Panel has identified several factors not mentioned in the statute. These factors include:

• *Avoidance of Overlapping Class Actions Or Conflicting Pretrial Rulings*. The possibility of overlapping class actions or conflicting pretrial rulings traditionally has been a strong factor which would support a transfer. *In re Isolagen, Inc. Securities & Derivative Lit.*, 416 F.Supp. 2d 1366, 1367 (J.P.M.L. 2006) (overlapping class actions); *In re LTV Corp. Securities Lit.*, 470 F.Supp. 859, 862 (conflicting pretrial rulings). In the *Exterior Siding and Aluminum Coil Litigation*, 538 F.Supp. 45, 47-48 (D. Minn. 1982), mandamus denied, 705 F.2d 980, the court said:

> …class certification determinations are to be resolved by the transferee court free from the influence of any initial determinations of transferor courts [and] the transferee court may resolve conflicting requests for class action determination and review, modify, expand, revise or vacate any prior order as in its judicial discretion is desirable or necessary in the interests of justice. (Citation)

538 F.Supp. at 48.

The Court proceeded to certify a class action although a motion for class certification had been denied by the transferor judge. One factor is, however, seldom dispositive of the issue of transfer and in the *Southern R.Y. Emp. Prac. Lit.*, 441 F.Supp. 926, 927 (J.P.M.L. 1977), the Panel declined to transfer a pair of related actions despite the possibility of overlapping class actions.

• *Number of Cases*. In one of its earliest cases, the Panel said that "where…there are a minimal number of cases involved in the litigation the moving party bears a strong burden to show that the common questions of fact are so complex and the accompanying common discovery so time consuming as to overcome the inconvenience to the party whose action is being transferred and its witnesses." *In re Scotch Whiskey*, 299 F.Supp. 543, 544 (J.P.M.L. 1969). That burden has, however, been met on several occasions. *In re Starmed Health Personnel, Inc. Fair Labor Standards Act Lit.*, 317 F.Supp. 1380, 1381 (J.P.M.L. 2004) (transfer of two actions and one potential tag-along action); *In re Mosaid Technologies, Inc. Patent Lit.*, 283 F.Supp. 2d 1359, 1360 (J.P.M.L. 2003) (two actions); *In re Mailblocks, Inc. Patent Lit.*, 279 F.Supp. 2d 1379, 1380-1381 (J.P.M.L. 2003) (same). The presence of a large number of cases does not however, by itself, guarantee that a transfer will result.

(Continued on Page 3)

Multidistrict Litigation

Continued from page 2

In the *Eli Lilly & Co. Oraflex Products Liability Litigation*, 579 F.Supp. 422, 423 (J.P.M.L. 1984), the Panel denied a transfer of 27 actions and in the *Zimmer, Inc., Centralign Hip Prosthesis Products Liability Litigation*, 366 F.Supp. 2d 1384, 1385 (J.P.M.L. 2005) transfer of 22 actions was denied.

• *Progress of the Actions*. The progress of the MDL actions prior to a transfer proceeding also is considered by the Panel. *In re Western States Wholesale Natural Gas Lit.*, 290 F.Supp. 2d 1376, 1378 (J.P.M.L. 2003). Where discovery in a case is nearing completion, or has been completed, a strong argument can be made that the case should not be transferred because little, if anything, would be gained from inclusion of the case in MDL proceedings. *In re Ecuadorian Oil Concession Litigation*, 487 F.Supp. 1364, 1368 (J.P.M.L. 1980). In the *Telecommunications Providers, Fiber Optic Cable Installation Litigation*, 199 F.Supp. 2d 1377, 1378 (J.P.M.L. 2001), the Panel denied a transfer where discovery was completed or nearly completed and a substantial number of class certification, summary judgment, dismissal, remand and other motions were pending or decided. The Panel has, however, transferred a case for inclusion in MDL proceedings even though a settlement had been proposed. *In re Managed Care Lit.*, 246 F.Supp.2d 1363, 1365 (J.P.M.L. 2003).

• *Other Factors*. Other factors which have influenced the Panel's decision on whether to order a transfer are the pendency of an appeal in one or more of the actions, *In re U.S. Navy Variable Re-Enlistment Bonus Lit.*, 407 F.Supp. 1405, 1407 (J.P.M.L. 1976) and the possibility of collateral estoppel in patent and trademark cases. *In re "Lite Beer" Trademark Lit.*, 437 F.Supp. 754, 755 (J.P.M.L. 1977). In the *ATM Interchange Fee Antitrust Lit.*, 350 F.Supp. 2d 1361 (J.P.M.L. 2004), the Panel denied a transfer where the prospect of elimination of the multidistrict character of the actions by motions for transfer of venue under § 1404(a) to a district where other actions are pending would, if granted, place all actions in a single district for all purposes and eliminate the docket's multidistrict character. As of December 31, 2003, the Panel had ordered transfers almost 75 percent of the time. Martin, *"Reducing Delays in Hatch-Waxman Litigation*, 71 U. of Chi. L. Rev. 1173, 1191 (n. 129) (2004). For the various considerations of whether to initiate, support or oppose a transfer proceeding, see, Mark P. Robinson Jr. and Kevin F. Calcognie, *"To Join an MDL or Not*," 37 Trial (No. 7) 34 (July, 2001); Herrmann, *To MDL or Not to MDL? A Defense Perspective*," 24 Litigation (No. 4) 43 (Summer, 1998).

Review of Transfer Orders

Under § 1407(e), transfer orders are reviewed by way of a petition for an extraordinary writ pursuant to 28 U.S.C. §1651 in the Court of Appeals with jurisdiction over the proposed transferee district. Normally this means that the petition writ should be filed with the regional Circuit Court of Appeals with jurisdiction over the proposed transferee district. Where, however, the Court of Appeals for the Federal Circuit would have appellate jurisdiction, a transfer order is reviewed by that court. *In re Regents of the University of California*, 964 F.2d 1128, 1130 (Fed. Cir. 1992). § 1407(e) also provides that there is no review of an order denying transfer.

Jurisdiction of the Panel

Frequently, motions will be pending in the various transferor courts when the Panel is considering a transfer. The pendency of those motions does not affect the jurisdiction of the Panel to order a transfer. *In re Ivy*, 901 F.2d 7, 9 (2d. Cir. 1990) (transfer upheld despite pending objection to jurisdiction of transferor court); *In re Massachusetts Diet Drug Lit.*, 338 F.Supp. 2d 198,

(Continued on Page 8)

Prop. 64 Principles Limit Class Actions and Maybe More

The first published opinion on Prop. 64's impact on class certification has substantially narrowed potential class actions by requiring reliance proof for both the class representative and all absent class members in Business & Professions Code § 17200 actions based on misrepresentations. *Pfizer v. Superior Court*, 141 Cal. App. 4th 290 (2006). The opinion may have even broader impact by re-invigorating reliance requirements for non-UCL claims and shifting future class certification battles toward issues of implied and presumed reliance.

Laurence Jackson

In the Spring 2006 issue, the *abtl Report* printed a debate on the potential impact of Prop. 64 on class certification motions. No published California opinion had addressed this issue at that time. Two United States District Court judges had reached differing views. The recent Second District decision in *Pfizer* has now supplied the first answers. Even more recently, in *In re Tobacco II Cases*, 2006 WL 2535256 (Sept. 5, 2006), the Fourth District Court of Appeal affirmed the denial of certification of a Section 17200 class on factual grounds that appear consistent with the reasoning of the *Pfizer* opinion.

What *Pfizer* Held

In 2005, the Los Angeles Superior Court certified a post-Prop. 64 class action under Section 17200 brought on behalf of buyers of Listerine bottles bearing labels that claimed the mouthwash was as effective as dental floss. The Court of Appeal in *Pfizer* reversed the certification as an error of law in including in the class buyers who might not have relied on the label or been injured in fact by holding:

> In order to meet the "community of interest" requirement of Code of Civil Procedure section 382, which requires, *inter alia*, the class representative to have claims typical of the class, it is insufficient if the class representative alone suffered injury in fact and lost money or property as a result of the unfair competition or false advertising. (§§ 17204, 17535.) The class members being represented by the named plaintiff likewise must have suffered injury in fact and lost money or property as a result of such violation. 141 Cal. App. 4th at 303.

The court further concluded that unless an action under the UCL or the FAL [False Advertising Law, B & P C 17500 *et seq.*] is brought by the Attorney General or local public prosecutors, the mere likelihood of harm to members of the public is no longer sufficient for standing to sue. Persons who have not suffered any injury in fact and who have not lost money or property as a result of an alleged fraudulent business practice cannot state a cause of action merely based on the "likelihood" that members of the public will be deceived. (§§ 17204, 17535.) *Id.* at 304.

Further, inherent in Prop. 64's requirement that a plaintiff suffered "injury in fact…as a result of "the fraudulent business practice or false advertising" (§§ 17204, 17535, italics added) is that a plaintiff actually relied on the false or misleading misrepresentation or advertisement in entering into the transaction in issue."

(Continued on page 4)

Prop. 64 Principles Limit Class Actions

Continued from page 3

Id. at 295-96.

The Court of Appeal remanded and stated that its decision was without prejudice to plaintiff renewing its class certification motion before the Superior Court based on a revised class definition. The plaintiffs petitioned the California Supreme Court for review in August. 141 Cal. App. 4th 290 (2006).

In a separate decision dated September 5, 2006, the Fourth District Court of Appeal affirmed the San Diego Superior Court's decertification of a 17200 class action based on alleged cigarette companies' false advertising over the past several decades. *In re Tobacco II Cases*, 2006 WL 2535256 (Sept. 5, 2006). The Superior Court had decertified the class following adoption of Prop. 64.

The Court of Appeal opinion does not cite to *Pfizer* or state the explicit holdings of the *Pfizer* opinion. Somewhat inherent in the Court of Appeal opinion is the premise that each class member must ultimately prove his or her own injury resulting from the alleged misrepresentations. For example, the Court of Appeal found an absence of commonality because different class members undoubtedly received different representations; although the opinion does not address why the "likely to deceive" the public test under pre-Prop. 64 case law would not eliminate that issue. As a consequence, *In re Tobacco II Cases* may ultimately be interpreted as either agreeing with *Pfizer* or as simply applying ordinary class certification principles without deciding whether Prop. 64 altered those principles.

How Does *Pfizer* Affect Potential Future Hot Issues in Class Certification?

The next hot issue in class actions based on misrepresentations may well be doctrines of implied or presumed reliance. Before Prop. 64 and the *Pfizer* holding, the availability of Section 17200 provided a class certification vehicle that eliminated reliance as a potential non-common issue. Future certification decisions guided by *Pfizer* may ride on trial court and Court of Appeal application of doctrines of implied or presumed reliance as expressed in *Vasquez v. Superior Court*, 4 Cal. 3d 800, 814 (1971) [presumed reliance based on uniform, material affirmative misrepresentation], and *Massachusetts Mutual Life Ins. Co. v. Superior Court*, 97 Cal. App. 4th 1282, 1292-1293 (2002) [presumed reliance based on material omission held sufficient for class certification purposes under the Consumer Legal Remedies Act]. In the absence of implied or presumed reliance, the specter of actual reliance proof will likely doom certification efforts. *In re Currency Conversion Fee Antitrust Lit.* (SDNY, 2004) 224 FRD 555, 568. Courts have also shown a willingness to grant summary judgment against typical plaintiffs' claims based on insufficient proof of justifiable or reasonable reliance. *Slivinsky v. Watkins-Johnson Co.*, 221 Cal. App. 3d 799, 806 (1990); *Hinesley v. Oakshade Town Center*, 135 Cal. App. 4th 289, 303 (2004).

The *Pfizer* Court did not reach questions of implied or presumed reliance and there is no discussion of this issue or *Vasquez* or *Massachusetts Mutual* in the opinion. The Court states in its opinion that the factual predicate of a class-wide affirmative representation was alleged in the plaintiff's class definition. The Superior Court had relied on *Massachusetts Mutual* in certifying the class. In addition, the parties briefed applicability of *Massachusetts Mutual*. The Court may have reasoned that the Prop. 64 requirement of "injury in fact" made it unnecessary to consider presumed or implied reliance; although those doctrines could be argued to be consistent with the injury in fact requirement if they are viewed as simply evidence rules that could be applied to support an ultimate fact finding of injury in fact.

Pfizer may also bolster arguments that reliance proof is required under other statutes with express causation requirements, but without explicit reliance requirements. The logic of *Pfizer*, that proof of injury caused by a misrepresentation inherently requires proof of actual reliance, would appear to apply as well to other statutory schemes as it does to Section 17200 after Prop. 64.

Plaintiffs' Tactical Approaches in Light of *Pfizer*

The *Pfizer* opinion suggests several possible strategies that might enhance prospects for class certification:

• Cast allegations as stating unfair and unlawful claims under Section 17200 or eliminate Section 17200 altogether in misrepresentation class actions. If *Pfizer* is upheld, Section 17200 classes appear to be no more certifiable than common law and other statutory fraud claims under *Vasquez* and *Massachusetts Mutual*.

• Narrow the class definition to persons who relied on a single printed, broadcast or scripted representation and also were injured in fact due to their reliance. Then argue that eligibility to be such a class member can be decided after certification and trial or settlement by a claims administrator; thereby minimizing non-common issues for trial. Further argue that class certification should not be denied merely because of potential individual issues on eligibility and damages based on *Sav-On Drug Stores, Inc. v. Superior Court*, 34 Cal.4th 319, 333 (2004) ("a class action is not inappropriate simply because each member of the class may at some point be required to make an individual showing as to his or her eligibility for recovery").

• Consider limiting the plaintiff to a single class representative and an early certification motion with minimal discovery as a way to limit evidence of actual examples of differing reliance and injuries.

Defendants' Strategy Following *Pfizer*

Strategies stated in the Spring 2006 *abtl* Report continue to merit consideration as ways to develop evidence of actual class members' differing facts and claims. The *Pfizer* decision suggests several further potentials:

• Counter any shift to unfair and unlawful Section 17200 claims by developing evidence that the potential class members were not unfairly treated because the business practice was disclosed and then consented to by entry into the transaction. This may add back to the case the representational aspect that plaintiff has sought to minimize.

• Develop survey evidence or evidence from other potential class members to show actual absence of reliance, failure to see the advertisement, failure to remember the ad by the time of purchase, knowledge that the ad was just hyperbole, etc.

• Counter any plaintiffs' attempt to narrow the class to only those who relied by evidence of the administrative impracticality and burden of identifying such class members. Argue that the defendant has a due process right to a trial on whether a person relied; that this issue cannot be decided by a claims administrator without discovery, cross-examination, and resulting demeanor evidence presented live before the Court as a finder of fact.

• Develop evidence raising trial questions with individualized proof of differing levels of materiality for different potential class members as a counter-argument to *Vasquez* and *Massachusetts Mutual*. Introduce sample individualized proof in opposition to class certification as a way to show that due process requires materiality to be decided at trial for each plaintiff and not by the judge's personal opinions on what is material.

— Laurence Jackson

Continued from page 1

terms ("insurer will pay damages which an insured…becomes legally obligated to pay because of bodily injury or property damage arising from an occurrence…"), Coverage B is limited to enumerated "offenses". Thus, in the 2001 version of Coverage B, the triggering offenses are described as follows:

- False arrest, detention or imprisonment;
- Malicious prosecution;
- The wrongful eviction from, wrongful entry into, or invasion of the right of private occupancy of a room, dwelling or premises that a person occupies, committed by or on behalf of its owner, landlord or lessor;
- Oral or written publication, in any manner, of material that slanders or libels a person or organization or disparages a person's or organization's goods, products or services;
- Oral or written publication, in any manner, of material that violates a person's right of privacy;
- The use of another's idea in your "advertisement"; or
- Infringing upon another's copyright, trade dress or slogan in your "advertisement".

The enumerated offenses in a policy define the scope of coverage under Coverage B. Because policy language has evolved over time, with variations in the above-cited language in those policies pre-dating the 2001 revisions, it is critical to examine how those offenses were described in a policy that is the subject of litigation. For example, policies before 1986 may, unlike later versions, include the offenses of "piracy," "unfair competition" and "infringement of copyright, title or slogan." Other iterations of the coverage form may cover "misappropriation of advertising ideas or style of doing business," another offense which is not found in the current form.

Offenses Committed During the Course of Advertising

In order for a claim arising out of one of the cited offenses to be covered, the claim must arise out of the insured's advertising activities. *Bank of the West v. Superior Court*, 2 Cal. 4th 1254, 1258 (1992). This requirement embraces two aspects — first, the activities in question must involve "advertising; " and second, there must be a causal connection between the "advertising" and the underlying claim or injury.

The question of what constitutes "advertising" has been frequently litigated and was recently addressed by the California Supreme Court in *Hameid v. National Fire Ins. of Hartford*, 31 Cal. 4th 16 (2003). *Hameid* involved two competing beauty salons. The suit arose when two employees of the policyholder's competitor joined the policyholder's operation. Those two employees then utilized the competitor's customer list to solicit customers for the policyholder's operation.

Characterizing the case as one involving "solicitation, " rather than "advertising," the Court found that the employees' one-on-one solicitation of the competitor's customers would not be treated as "advertising" for purposes of insurance coverage. The Court interpreted the term "advertising" as used in the CGL policies to mean "widespread promotional activities usually directed to the public at large." *Id*. at 24. The Court also noted that a majority of other jurisdictions that had considered this question had come to a similar conclusion. *Id*.

Prior to the California Supreme Court's decision in *Hameid*, there had been some case authority for the proposition that "advertising" embraced rather limited, even one-on-one, solicitations. *See, e.g., New Hampshire Ins. Co. v. Foxfire, Inc*., 820 F. Supp. 489 (N.D. Cal. 1993); *American States Ins. Co. v. Canyon Creek*, 786 F. Supp. 821, 828 (N.D. Cal. 1991) ("even one-on-one oral representations have been found to constitute advertising").

With the advent of the *Hameid* decision, however, California joins the majority view that "advertising" must involve broadcasting or other *widespread* public distribution. *See, e.g., EKCO Group, Inc. v. Travelers Indem. Co*., 273 F.3d 409, 415 (1st Cir. 2001); *Playboy Enterprises, Inc. v. St. Paul Fire & Marine Ins. Co*., 769 F.2d 425, 428-29 (7th Cir. 1985) (widespread distribution to public at large); *American Home Assur. Co. v. The Selective Group Inc*., 2006 Mich. App. LEXIS 1946 (June 20, 2006) (filing of subdivision plans with township is not directed to the public at large or prospective purchasers so it is not advertising). A minority of courts hold otherwise. *See, e.g., John Deere Ins. Co. v. Shamrock Industries*, 696 F. Supp. 434, 440 (D. Minn. 1988).

Forms of Advertising

Because of the variety of ways in which "advertising" can be communicated, coverage has been found in cases of TV, radio, newspaper and magazine advertising; displays and brochures at trade shows (*Fireman's Fund Ins. Co. v. Bradley Corp*., 660 N.W.2d 666 (Wis. 2003)); catalogues (*El-Com Hardware, Inc. v. Fireman's Fund Ins. Co*., 92 Cal. App. 4th 205 (2001)); and internet sites (*State Auto Prop. & Cas. Ins. Co. v. Travelers Indem. Co*., 343 F.3d 249 (4th Cir. 2003)).

But not all marketing activities have been found to constitute "advertising." Thus, the distribution of electronic product samples (*IDG, Inc. v. Continental Cas. Co*., 275 F.3d 916 (10th Cir. 2001)), business manuals (*Sentry Ins. Co. v. R.J. Weber Co*., 2 F.3d 554 (5th Cir. 1993)) or press releases (*Walk v. Hartford Cas. Ins. Co*., 852 A.2d 98, 108-09 (Md. 2004)) have generally not been deemed to constitute "advertising." Similarly, a premises decoration (*Ziman v. Fireman's Fund Ins. Co*., 73 Cal. App. 4th 1382 (1999)), price lists (*A. Meyers & Sons Corp. v. Zurich American Ins. Group*, 545 N.E.2d 1206 (N.Y. 1989)), product packaging and product labels have been characterized as not constituting "advertising." But *see Flodine v. State Farm Ins. Co*., 2001 U.S. Dist. LEXIS 2204 (N.D. Ill. 2001) (tags attached to products that described items as made by Native Americans served to promote the items and were thus mini-ads); *Hewlett Packard Co. v. ACE Prop. & Cas. Co*., 2003 U.S. Dist. LEXIS 3586 (N.D. Cal. 2003) (inkjet refill package inserts are advertising).

Causal Connection

In order for "advertising injury" claims to be covered, there must be a causal relationship between the advertising and the underlying claim or injury. As interpreted by the California Supreme Court, this requirement means that the promotion of the product or service at issue must constitute "advertising" within the meaning of the policy language; and additionally, the advertising activities must have in some sense caused the advertising injuries. *Bank of the West, supra*, 2 Cal. 4th at 1277.

Similar language appears in other cases. *See, e.g., Novell, Inc. v. Federal Ins. Co*., 141 F.3d 983, 988-90 (10th Cir. 1998); *Microtec Research v. Nationwide Mut. Ins. Co*., 40 F.3d 968, 971 (9th Cir. 1994); *El-Com Hardware Inc., supra*, 92 Cal. App. 4th at 215-216.

Importantly, certain offenses, such as trademark and trade dress infringement, have been held by some courts to be so inherently related to an insured's advertising activity that the causal nexus requirement will be automatically met. *See, e.g., Houbigant, Inc. v. Federal Ins. Co*., 374 F.3d 192, 200-02 (3rd Cir. 2004) (equating use of trademarks with advertising); *Massachusetts Bay Ins. Co. v. Preville, Inc*., 1996 U.S. Dist. LEXIS 9671 (S.D.N.Y. 1996) (trade dress); but *see Peerless Lighting Corporation v. American Motorists Ins. Co*., 82 Cal. App. 4th 995 (2000) (rejecting policyholder's argument that advertising was "inherent" in allegation of trade dress infringement).

(Continued on page 6)

Continued from page 5

Key Business Torts Potentially Covered Under Advertising Injury Coverage

As noted above, the scope of coverage available under "advertising injury" coverage is determined, in the first instance, by the description of the particular offenses contained in the pertinent policy. Because policy language may vary, the following list is a sample of possible business torts which, depending on the language of the policy in question, could potentially be covered:

• *Trademark infringement*. The current CGL form excludes liability based on infringement of trademarks, trade secrets or other intellectual property. However, earlier CGL forms were ambiguous regarding coverage for trademark infringement, and the 1986 CGL form added coverage for "misappropriation of advertising ideas or style of doing business" which some courts interpreted to include coverage for trademark infringement. *See Central Mutual Ins. Co. v. StunFence, Inc*., 292 F. Supp. 2d 1072, 1078-79 (N.D. Ill. 2003); *Lebas Fashion Imports of USA, Inc. v. ITT Hartford Ins. Group*, 50 Cal. App. 4th 548, 562-563 (1996) (a trademark can reasonably be considered an integral part of an entity's style of doing business). Courts have also found coverage for trademark infringement when the policy provides coverage for infringement of slogans or titles and the trademark is part of a slogan or title. *J.A. Brundage Plumbing & Roto-Rooter, Inc. v. Massachusetts Bay Ins. Co*., 818 F. Supp. 553 (W.D.N.Y. 1993).

• *Trade dress infringement*. At least one court has held that trade dress infringement is a species of trademark infringement and is covered when trademark infringement is an enumerated offense. *El-Com Hardware Inc., supra,* 92 Cal. App. 4th at 215. When trademark infringement is not a covered offense, a majority of courts consider "style of doing business" the same as trade dress. *See, e.g., Dogloo, Inc. v. Northern Ins. Co. of New York*, 907 F. Supp. 1383, 1389 (C.D. Cal. 1995). However, the current CGL form provides coverage for trade dress only if it is part of the policyholder's advertising. Although some courts have held that trade dress inherently constitutes advertising (*e.g., Poof Toy Products, Inc. v. United States Fidelity & Guar. Co*., 891 F. Supp. 1228, 1235-36 (E.D. Mich. 1995)), a majority of courts have held that the trade dress infringement must occur in the policyholder's advertising. *See, e.g., R. C. Bigelow, Inc. v. Liberty Mutual Ins. Co*., 287 F.3d 242, 247 (2d Cir. 2002).

• *Copyright infringement*. In the current CGL form, coverage for copyright infringement is provided when the infringement is part of the insured's advertising; the issue in these cases is usually whether the insured can show the required nexus between the infringement and its advertising. *See, e.g., Sentry Ins. v. R.J. Weber Co*., 2 F.3d 554 (5th Cir. 1993) (publishing, distributing, and selling competitor's copyrighted works does not bear sufficient causal connection to sustain coverage for advertising injury); *Robert Bowden, Inc. v. Aetna Cas. & Sur. Co*., 977 F. Supp. 1475 (N.D. Ga. 1997) (no nexus found when insured claimed it was induced to copy software in order to create its advertising campaign).

• *Patent infringement*. Where patent infringement is not a specified policy offense, the majority view is that it will not be covered under "advertising injury" coverage. *See, e.g., Iolab Corp. v. Seaboard Surety Co*., 15 F.3d 1500 (9th Cir. 1994); *New Hampshire Ins. Co. v. R.I. Chaides*, 847 F. Supp. 1452 (N.D. Cal. 1994). But *see Amazon.com International, Inc. v. American Dynasty Surplus Lines Ins. Co*., 120 Wash. App. 610 (2004) (patent infringement covered under "misappropriation of advertising ideas" offense where infringed software itself constituted or embodied advertising technique).

• *Misappropriation of trade secrets*. The majority view is that there is no coverage for theft or misappropriation of trade secrets. *See, e.g., Simply Fresh Fruit, Inc. v. Continental Ins. Co*., 94 F.3d 1219 (9th Cir. 1996); *Hameid, supra*, 31 Cal. 4th at 20 (noting that lower court had found no duty to defend "because the underlying lawsuit claimed misappropriation of trade secrets, and not advertising injury"). But *see Sentex Systems, Inc. v. Hartford Accident & Indem. Co*., 93 F.3d 578, 580 (9th Cir. 1996) (distinguishing *Simply Fresh* on the ground that the claims for misappropriation of trade secrets related to marketing and sales and not to secrets relating to the manufacture and production of the underlying products).

• *Libel, slander and defamation*. Because libel, slander and defamation are often listed as enumerated offenses, the issue often addressed by the cases is whether a complaint which does not expressly allege one of these torts may nonetheless give rise to a "potential for liability". *See, e.g., American Guarantee and Liability Ins. Co. v. Vista Medical Supply*, 699 F. Supp. 787, 793-94 (N.D. Cal. 1988) (there was potential for defamation claim in wrongful termination lawsuit); *CNA Cas. of California v. Seaboard Surety Co*., 176 Cal. App. 3d 598 (1986) (antitrust claim included allegations that the insured made misrepresentations; those allegations created potential liability under policy coverage for libel, slander or other defamatory material). Both *American Guarantee* and *Seaboard* were decided before the California Supreme Court decision in *Buss v. Superior Court*, 16 Cal. 4th 35 (1997). In *Buss*, the Court held that in a "mixed action", where both covered and uncovered claims are alleged, the insurer must defend the entire action and may not "parse" or apportion its defense allegations. *Id*. at 49. Inasmuch as only a "potential for coverage" will trigger this duty, there may often be a potential for coverage in cases involving business torts — even where one of enumerated offenses is not expressly alleged.

• *Violation of right of privacy*. The right of privacy encompasses the following four torts: public disclosure of private facts; intrusion into private places, conversations, or other private affairs; presentation to the public in a false light; and misappropriation of one's image or personality. The right of privacy belongs only to individuals, so business entities cannot sue for violation of the right of privacy. *Fibreboard Corp. v. Hartford Accident. & Indem. Co.*, 16 Cal. App. 4th 492, 515-516 (1993).

• *Unfair competition*. Where unfair competition is listed as an enumerated offense, coverage for such claims has been limited to common-law claims and not claims arising under particular statutes, such as Cal. Bus. & Prof. Code § 17200. *Bank of the West, supra*, 2 Cal. 4th at 1263. *See also A-Mark Financial Corp. v. Cigna Property and Cas. Companies*, 34 Cal. App. 4th 1179 (1995) (no coverage for unfair competition arising under foreign state's statute, even though that statute allowed for recovery of damages). Where unfair competition is not listed as an enumerated offense, there is no coverage even though an enforcement action alleging violation of a state unfair competition statute involves a policy holder's advertising and marketing practices. *GPSC Charters Ltd. v. Fireman's Fund Ins. Co*., 2006 U.S. Dist. LEXIS 44716 (E.D. Pa. June 30, 2006). As noted above, the more recent policy forms have eliminated this tort as a specifically enumerated offense.

As the examples above indicate, courts have upheld coverage for a wide variety of business torts under the advertising injury provision of CGL policies. Although courts in different jurisdictions are not uniform in their interpretation of what constitutes advertising, it does appear that most courts broadly construe the advertising injury language to encompass activities beyond traditional commercials and print advertisements. This suggests that insureds will be more likely to notify their insurance carriers when confronted with complaints alleging business torts, which can lead to more litigation over the duty of insurance carrier to defend such actions.

— Peter S. Selvin

Using an Employer's E-Mail: Attorney-Client Privilege Issues

Every business litigator knows that e-mail has become an important means for communicating with clients. As issues of privacy regarding e-mail communications evolve, the courts and legislatures continue to sort out their impact on the privilege for attorney-client e-mail communications. Recently, courts have begun to consider whether a client's e-mail communications with his or her personal attorney using an employer's computers and e-mail systems are protected from disclosure by the attorney-client privilege. Litigants are questioning whether an employer's access to employee e-mails, particularly where the employer has an express policy addressing its access to and monitoring of employee e-mails, renders those communications insufficiently confidential to support the attorney-client privilege. So far, those challenges have failed.

Tyler G. Newby

In 1999, the American Bar Association ("ABA") addressed whether attorney-client e-mail communications lose their privileged nature when a third party may be able to access them. The ABA's Committee on Ethics and Professional Responsibility responded to concerns over whether unencrypted e-mail communications between attorneys and their clients were sufficiently safe from prying eyes to be "confidential" by issuing Formal Op. 99-413. That opinion provided that "a lawyer sending confidential client information by unencrypted e-mail does not violate [the client confidentiality model rule requirement] in choosing that mode to communicate. This is principally because there is a reasonable expectation of privacy in its use." ABA Comm. on Ethics and Prof'l Responsibility, Formal Op. 99-413 (1999). The ABA's opinion relied, in part, on the illegality of intercepting e-mail communications to find a reasonable expectation of privacy.

The evolution of business e-mail systems and policies, which have eroded an employee's expectations of privacy, has added a new twist on this issue and raises new questions not answered by the ABA's 1999 opinion. For example, if an employer may legally access an employee's e-mails, would the privilege analysis change? Similarly, does an employee who knows or has reason to know that an employer may access her e-mails still have the requisite expectation of privacy, as set forth in the ABA's opinion? The few cases that have confronted these circumstances have continued to sustain the privilege, but the narrowness of the holdings leaves the issue unsettled.

Guidance from New York

In a case of first impression, the United States Bankruptcy Court for the Southern District of New York confronted these issues in 2005. In *In re Asia Global Crossing, Ltd.*, 322 B.R. 247 (S.D.N.Y. 2005), the court ruled that an employee's use of his employer's e-mail system does not, in all cases, waive the attorney-client privilege. There, after receiving subpoenas for documents from the appointed trustee, several members of the debtor company's former management team withheld e-mails between themselves and their personal attorneys that had been sent, received and stored on the debtor's e-mail network. The trustee argued that the e-mails were not protected by the attorney-client privilege because they were stored on the company network. The court rejected the trustee's argument and upheld the claim of privilege.

The *Asia Global Crossing* court found that the following four factors should be considered to determine whether a client had an objectively reasonable expectation of privacy when engaging in the communications: (1) whether the corporation had a policy of prohibiting sending personal e-mails or other objectionable use of the company e-mail system, (2) whether the company monitored the use of the employee's computer or e-mail, (3) whether third parties had a right of access to the computer or e-mails, and (4) whether the corporation notified the employee, or the employee otherwise was aware, of the use and monitoring policies regarding the e-mail system. *Id.* at 257. Applying these factors, the court found that there was not sufficient evidence to show that the privilege had been waived. Central to the court's ruling was a factual dispute over whether the company had implemented and enforced a publicized policy of monitoring its employees' e-mails. Although the trustee submitted documents referring to a company e-mail policy that authorized the company to monitor and access its employees' computers and e-mail accounts, there was no evidence that those policies had been adopted or communicated to the employees. *Id.* at 259-61.

Jan J. Klohonatz

A similar issue arose more recently in *Curto v. Medical World Communs., Inc.*, 2006 U.S. Dist. LEXIS 29387 (S.D.N.Y. May 15, 2006). In that case, an employee used her private e-mail account to communicate with her personal attorney. Even though she used her private e-mail account, she did so on a company-owned laptop computer. The employer had an express policy prohibiting personal use of company-issued computers, and the employee had signed an acknowledgment expressly stating the following:

> Employees expressly waive any right of privacy in anything they create, store, send, or receive on the computer or through the Internet or any other computer network. Employees consent to allowing personnel of [employer] to access and review all materials employees create, store, send, or receive on the computer or through the Internet or any computer network. Employees understand that [employer] may use human or automated means to monitor use of computer resources.

Id. at *2-*3.

Despite her acknowledgment of this policy, the employee, who frequently worked from home, used two company-issued laptops for her personal use. *Id.* at *3. Not only did she use the company's computers to communicate with her personal attorney through her private America Online e-mail account, she did so about potential claims against the employer. *Id.* Moreover, prior to returning the laptops to her employer, the employee attempted to delete all of her personal files, including the e-mails with her attorney. *Id.* It was only after hiring a forensic consultant that her employer was able to discover the personal e-mails with her attorney. *Id.* at *4.

Despite the former employee's undisputed breach of her employer's computer usage policy, and her express acknowledgment that she had no right to privacy in any materials stored on company-issued computers, the district court upheld a magistrate judge's ruling that the employee had not waived the attorney-client privilege by using the company-owned computer to communicate with her personal attorney. *Id.* at *24-*25. The court specifically distinguished the line of cases holding that an

(Continued on page 8)

Using an Employer's E-Mail

Continued from page 7

employee does not have a reasonable expectation of privacy in e-mails generated or received using her employer's computers and e-mail network on the ground that those cases had not dealt with attorney-client communications. *Id.* at *15-*20. Furthermore, the district court held that the magistrate judge had not committed clear error in considering the employer's lack of enforcement of its computer-usage monitoring policy in its finding that the former employee had not waived the attorney-client privilege. *Id.* at *14-*15. In effect, the magistrate judge had found that the employer's failure to enforce its policy created a sense of security and expectation of privacy among its employees in their personal uses of the company's computers, even in light of the express acknowledgment of the policy. *Id.* at *8.

Application in California

There is little California case law on these privilege issues, but the results in the *Asia Global Crossing* and *Curto* decisions may have application in California. The California legislature appears to have contemplated that technological advancements could affect the attorney-client privilege analysis. Evidence Code section 917(a) provides that communications between an attorney and client are *presumed* to be confidential. In 2002, Evidence Code section 917 was amended to add subsection (b), which provides that:

> A communication…does not lose its privileged character for the sole reason that it is communicated by electronic means or because persons involved in the delivery, facilitation, or storage of electronic communication may have access to the content of the communication.

The Evidence Code incorporates the definition of "electronic" from Civil Code section 1633.2, which provides that:

> "Electronic" means relating to technology having electrical, digital, magnetic, wireless, optical, electromagnetic, or similar capabilities.

The plain language of Evidence Code section 917 suggests that an individual's use of her employer's computer network to communicate with her personal attorney does not waive the privilege for the sole reason that the employer may access those communications.

Section 917 is based on a similar statute in New York, Civil Practice Law and Rules section 4548, which was cited in both the *Asia Global Crossing* and *Curto* decisions. The California Evidence Code version departs somewhat from the New York statute in two respects. The New York statute provides that an electronic communication does not lose its privileged character if persons "necessary" for the "delivery or facilitation" of the communication may have access. The California statute replaces "necessary" with "involved," and adds persons involved in the storage of communications to those who may have access to the communications without defeating the privilege. The California legislation thus provides even broader protection of the privilege than its New York counterpart.

One potentially instructive opinion, *albeit* now depublished, was decided by the California Court of Appeal for the Sixth Appellate District. In *People v. Jiang*, 131 Cal. App. 4th 1027 (2005), *depublished* at 2005 Daily Journal DAR 11824, the court addressed a tangential topic, but its reasoning could provide some guidance about how a California court might analyze application of the attorney-client privilege for personal e-mails on an employer's system.

In *Jiang*, the prosecutor obtained by way of a subpoena duces tecum files from the defendant's employer-owned laptop, including password-protected documents that defendant had stored in a folder labeled "Attorney." *Id.* at 1052. The defendant had signed an "Employee Proprietary Information and Inventions Agreement" which gave his employer the right to inspect the employee's computer. The trial court ruled that defendant did not have an *objectively* reasonable expectation of privacy when he stored the files on his work computer, and thus the stored information was not privileged.

The appellate court reversed, holding that the defendant had a *subjectively* reasonable expectation that the documents he created at the direction of his attorney and stored on his work laptop would remain private. *Id.* at 1054. The test applied by the California appellate court thus differed from the *Asia Global Crossing* court's test, which looked at whether the expectation of privacy was objectively reasonable. The Court of Appeal in *Jiang* based its finding of a subjectively reasonable expectation of privacy on the fact that the purpose of the company's policy was to protect its intellectual property and not to invade the privacy of its employees, and that the company did not prohibit its employees from using company-issued computers for personal use. *Id.* at 1053-54.

The California Evidence Code provides courts with a basis on which they can fashion rules for protecting the attorney-client privilege where the client uses her employer's e-mail system for communications with her private attorney. Indeed, the Evidence Code creates a presumption of confidentiality for any electronic communications, including wireless, optical and electromagnetic communications, that are accessible to persons involved in their delivery, facilitation or storage. As the notes to Evidence Code section 917 recognize, "electronic [communication] is broad, including any intangible media which are technologically capable of storing, transmitting and reproducing information in human perceivable form." (internal quotations omitted). The presumption of confidentiality is not defeated simply because someone involved in the delivery, facilitation or storage of such a communication, such as an employer, may have access to the content of that communication. How California courts apply Evidence Code section 917 to decide these privilege issues on a case-by-case basis remains to be seen.

— Tyler G. Newby and Jan J. Klohonatz

Multidistrict Litigation

Continued from page 3

201 (D. Mass. 2004), citing R.J.P.M.L. 1.5; *In re Sinking of the Motor Vessel Ukola*, 462 F.Supp. 385, 387 (J.P.M.L. 1978) (motions to dismiss and motions to quash service of process). Those motions may be decided by the transferee court after transfer. As a matter of comity, however, the Panel may defer a decision until the transferor court rules on the motion. *In re Air Crash Disaster at Tenerife, Etc.*, 435 F.Supp. 927, 928 (n.3) (J.P.M.L. 1977). The transferor court retains jurisdiction to decide pending motions until the transfer order is filed with the clerk of the transferee court. *Johnson v. Micron Technology*, 354 F.Supp. 2d 736, 738-739 (E.D. Mich. 2005); *Smith v. Mail Boxes, Etc.*, 191 F.Supp. 2d 1155, 1157 (E.D. Cal. 2002).

A transferor court is not, however, required to decide all pending motions before a transfer and may stay proceedings pending a decision by the Panel. *Betts v. Eli Lilly & Co.*, 435 F.Supp. 2d 1180 (S.D. Ala. 2006) (recognizing rule but denying a stay); *Conroy v. Fresh Del Monte Produce, Inc.*, 325 F.Supp. 2d 1049, 1053 (N.D. Cal. 2004); *Moore v. Wyeth-Ayerst Laboratories*, 236 F.Supp. 2d 509, 511-512 (D. Md. 2002) (motion to remand previously removed action stayed); *Hertz Corp. v. The Gator Corp.*, 250 F.Supp. 2d 421, 424 (D.N.J. 2002) (stay of motion for preliminary injunction); *Sevel v. AOL Time Warner*, 232 F.Supp. 2d 615, 617-618 (E.D. Va. 2002) (motion for selection and approval of lead counsel stayed); *Meyers v. Bayer A G*, 143 F.Supp. 2d 1044, 1049 (E.D. Wis. 2001) (explaining methodology for deciding whether to grant a stay).

(Continued on page 9)

Multidistrict Litigation

Continued from page 8

In a similar vein, the jurisdiction of the Panel to order a transfer is unaffected although some of the actions against a party have been stayed. *In re Ephedra Products Liability Lit.*, 416 F.Supp. 2d 1358, 1359 (J.P.M.L. 2006) (bankruptcy stay); *In re Capital Underwriters, Inc. Securities Lit.*, 464 F.Supp. 955, 960 (J.P.M.L. 1979) (stay of actions pending arbitration).

The Panel may order a transfer of some of the constituent actions and deny a transfer of the remaining ones. *In re Nortel Networks Corp. Securities & "Erisa" Lit.*, 269 F.Supp. 2d 1367, 1368-1369 (J.P.M.L. 2003). The Panel also may separate any claim, cross-action, counter-claim or third-party claim and remand it to the transferor court before the rest of the action is remanded or sever and remand a primary action while transferring a third-party claim. *In re Vioxx Marketing Sales Practices and Products Liability Lit.*, 416 F.Supp. 2d 1354, 1355 (J.P.M.L. 2006); *In re Merrill Lynch & Co., Inc. Research Reports Securities Litigation*, 214 F.R.D. 152, 155-156 (S.D.N.Y. 2003). But the Panel will not exercise either power unless it is convinced that the claims to be remanded have little or no factual overlap with the claims to be transferred. *In re 1980 Decennial Census Adjustment Lit.*, 506 F.Supp. 648, 650-651 (J.P.M.L. 1981).

Although a close reading of § 1407(a) suggests that the Panel can transfer related cases only to a single district, the Panel fashioned a bifurcated structure of consolidation in the *Sugar Industry Antitrust Litigation* upon its determination that the geographical distinction in the sugar market was substantial enough to outweigh the risk of overlapping discovery. 405 F.Supp. 1404, 1406-1407 (J.P.M.L. 1975). Subsequently, the Panel rejected the suggestion of a further division of the actions according to various sub-markets, by assigning several groups of actions to five different judges who would act under the overall guidance of a "litigation supervision judge." 427 F.Supp. 1018, 1026-1027 (J.P.M.L. 1977). In the *Janus Funds Investment Litigation*, 310 F.Supp. 2d 1359, 1361-1362 (J.P.M.L. 2004), however, the Panel transferred the MDL cases to a single district, but then assigned the cases to three judges within that district.

The Panel may transfer MDL cases to a district where no related actions are pending. *In re Southwestern Life Insurance Co. Sales Practices Litigation*, 268 F.Supp. 2d 1377, 1378 (J.P.M.L. 2003) or to a district not favored by any party. *In re Natural Gas Liquids Regulation Lit.*, 434 F.Supp. 665, 667 (J.P.M.L. 1977); *In re Asbestos & Asbestos Insulation Materials Lit.*, 431 F.Supp. 906, 910. The Panel also may retransfer MDL cases to a different district if circumstances arising after transfer make it clear another district is a more appropriate forum, *In re Petro Products Antitrust Lit.*, 419 F.Supp. 712, 715, 719 (J.P.M.L. 1976) but the Panel will do so only in the most extraordinary cases. *In re South Central States Bakery Products Antitrust Lit.*, 462 F.Supp. 388, 391 (J.P.M.L. 1978) (retransfer denied).

A transfer under § 1407 is not restricted by considerations of venue or personal jurisdiction, *In re Peanut Crop Insurance Litigation*, 342 F. Supp.2d 1353, 1354 (J.P.M.L.2004); *In re Waste Management, Inc. Securities Lit.*, 177 F. Supp. 2d 1373, 1374 (Transfer granted despite venue provision in stock purchase agreement), *In re FMC Patent Lit.* 422 F. Supp.1163, 1165 (J.P.M.L. 1976) (Lack of personal jurisdiction of transferee court irrelevant.) and a denial of a § 1404(a) motion for a change of venue will not preclude a transfer under § 1407. *In re Regents of the University of California*, 964 F.2d 1128, 1133 (Fed.Cir. 1992).

When more than three Panel members have a financial interest in the litigation, the "rule of necessity" permits those Panel members to participate in a decision. *In re Adelphia Communications Corp. Securities & Derivative Lit.*, 273 F.Supp. 2d 1353, 1354 (J.P.M.L. 2003).

Limitations on the Panel's Jurisdiction

Although its powers are broad, the Panel lacks the authority to order coordination or consolidation with state cases, *In re Celotex Corp. "Technifoam" Products Liab. Lit.*, 68 F.R.D. 502, 503 (J.P.M.L. 1975); to order expedited discovery as an alternative to transfer, *In re Westinghouse Elec. Corp. Uranium Contract Lit.*, 436 F.Supp. 990, 996 (J.P.M.L. 1977) or to review decisions of the transferor or transferee judge, *In re Data General Corp. Antitrust Lit.*, 510 F.Supp. 1220, 1226-1227 (J.P.M.L. 1979). In air crash litigation, the Panel lacks the authority to require airlines to file a list of passengers, next of kin or settled claims, *In re Air Crash Disaster at Tenerife, Etc.*, 435 F.Supp. 927, 929 (J.P.M.L. 1977) or to notify potential litigants of the proceedings. *In re Air Crash Disaster Near Chicago, Etc.*, 467 F.Supp. 445, 450-451 (J.P.M.L. 1979). Issues, as opposed to claims, cannot be transferred, *In re Resource Exploration, Inc. Securities Lit.*, 483 F.Supp. 817, 822 (J.P.M.L. 1980) and a subsection of the Class Action Fairness Act of 2005, 28 U.S.C. § 1332(d)(11)(c)(I), prohibits the Panel from transferring any class action that was removed from a state court.

With one exception, a transfer under § 1407 is for pretrial only. *In re Baldwin United Corp. Lit.*, 581 F. Supp. 739, 740 (J.P.M.L. 1984); *In re Penn Central Commercial Paper Lit*, 62 F.R.D. 341, 344 S.V.N.Y.1974) *aff'd without Op. Sub nom. Schulman v. Goldman Sachs & Co.*, 515 F.2d 505 (2d Cir. 1975). *Parens Patriae* actions brought under Section 4C of the Clayton Act, 15 U.S.C. §15a, are however transferable for pretrial and trial. *In re Pharmaceutical Industry Average Wholesale Price Lit.*, 237 F. Supp 2d 1377, 1379 (J.P.M.L. 2002) (Non Clayton Act *Parens Patriae* actions transferable for pretrial only).

Unresolved Jurisdictional Issues

Turning to the issues which remain unresolved, the Panel has not decided whether it may transfer bankruptcy reorganization proceedings. *In re Asbestos Products Liability Lit.* (No. VI), 771 F.Supp. 415, 421(n.6), Norgle, *"Bankruptcy's Impact on Multidistrict Litigation: Legislative Reform As An Alternative to Existing Mechanisms*," 31 Ga. L. Rev. 1093, 1105-1108 (1977).

In the *Royal Typewriter Co. (Royal Bond Copier) Litigation*, 435 F.Supp. 925, 926 (J.P.M.L. 1977), the Panel denied a motion for recovery of attorneys fees as a sanction for filing a frivolous motion. The Panel did not decide whether it had such authority, but the case may be read to imply that it does. In the *Western Electric Co., Inc. Semiconductor Patent Lit.*, 415 F.Supp. 378, 380 (J.P.M.L. 1976), the Panel declined to decide whether it had the power to transfer an action pending in the U.S. Court of Claims. Subsequently, in the *Peanut Crop Insurance Lit.*, 416 F.Supp. 2d 1349 (J.P.M.L. 2005), the Panel denied a motion to transfer an action in the U.S. Court of Federal Claims (successor to the U.S. Court of Claims) to a district where an MDL proceeding was pending. The Panel observed that the Court of Federal Claims was under an appellate mandate to transfer the claims of the plaintiffs to as many as fourteen districts where they should have brought their claims. Once that had been accomplished, the Panel stated that the newly created actions could then be transferred for inclusion in the MDL proceedings. The Panel did not therefore reach the issue of whether it could have transferred the case from the Court of Federal Claims in the first instance.

Alternatives to Transfer

Frequently, when the Panel denies a transfer, it will remind counsel of several available alternatives to simplify and streamline the litigation. These alternatives include: (1) informal cooperation between counsel and different courts, *In re Allen Compound Bow Patent Lit.*, 446 F.Supp. 248, 250-251 (J.P.M.L. 1978); (2) joint notices of depositions, *In re Oklahoma Ins. Holding Co. Act Litigation*, 464 F.Supp. 961-965-966 (J.P.M.L.

(Continued on page 12)

Arbitration Clause Enforceable by Contractor Against Subcontractee

In *Turtle Ridge Media Group, Inc. v. Pacific Bell Directory*, 140 Cal. App. 4th 828 (2006), Pacific Bell Directory d/b/a SBC Smart Yellow Pages et al. received a sales call from Turtle Ridge, which was interested in obtaining a contract to deliver SBC's phone books. SBC had previously declined to work with Turtle Ridge and suggested that Turtle Ridge contact Clientlogic, a larger company, who was bidding on the SBC delivery contract, about pooling their resources. Turtle Ridge and Clientlogic agreed to work together. SBC awarded the contract to Clientlogic and expressly authorized Clientlogic to subcontract to Turtle Ridge. The subcontract incorporated the contract between SBC and Clientlogic.

Pamela D. Deitchle

Turtle Ridge alleged that after entering into the subcontract, it discovered that many delivery addresses were invalid, that SBC exaggerated circulation numbers to inflate advertising rates, and that SBC committed fraud by calculating its contract price based on the inflated numbers. Turtle Ridge asked Clientlogic to discuss the exaggerated numbers with SBC. When Clientlogic did so, SBC terminated Clientlogic's contract. Clientlogic then terminated Turtle Ridge's subcontract.

After Turtle Ridge sued SBC for fraud and deceit, unlawful conduct by a public utility, unfair business practices, intentional and negligent interference with prospective economic advantage, and quantum meruit, SBC petitioned to compel arbitration based on an arbitration clause in the SBC/Clientlogic contract. Turtle Ridge opposed arbitration based on the lack of a direct contractual relationship between it and SBC. The trial court agreed and denied SBC's petition. SBC appealed.

The Court of Appeal, Second District reversed and ordered the trial court to grant SBC's petition to compel arbitration. The appellate court found that the equitable estoppel doctrine applied to the subcontract because Turtle Ridge's causes of action were intertwined with the SBC/Clientlogic contract and presupposed the existence of the contract and subcontract. The court noted that the SBC-Clientlogic contract was expressly incorporated by reference in the subcontract, that Turtle Ridge had no business relationship with SBC outside of the contracts, and that the arbitration clause was not one of the SBC/Clientlogic terms expressly excluded from the subcontract. The court found that either expressly or by incorporation, each agreement contained an arbitration provision. Turtle Ridge, therefore, was equitably estopped from avoiding arbitration of its claims against SBC.

Forum Selection Clause Prompts Anti-Suit Injunction of Foreign Action

In *E & J Gallo Winery v. Andina Licores S.A.*, 446 F.3d 984 (9th Cir. 2006), the Ninth Circuit determined that the forum selection and choice-of-law clauses in a commercial contract compelled the issuance of an anti-suit injunction precluding litigation of a contract action in foreign courts. Gallo, headquartered in California, and Andina, headquartered in Ecuador, entered into wine distribution agreements containing forum selection and choice-of-law clauses in favor of California.

After various disputes arose, Andina sued Gallo in Ecuador court alleging a violation of a dictatorial decree that had been repealed seven years earlier and provided for adjudication on drastically shortened time using very pro-Andina procedures.

Two months later, Gallo filed suit in California state court seeking declaratory relief, injunctive relief, damages, and punitive damages. After the action was removed, Andina filed a motion to dismiss for lack of personal jurisdiction. Gallo opposed the motion and filed a cross-motion for a preliminary injunction to restrain Andina from pursuing the Ecuadorian action and for the issuance of a letter rogatory.

The trial court denied both motions. Meanwhile, "a dizzying array of judgments, appeals, and procedural motions continued in Ecuador." Gallo appealed the denial of a preliminary injunction to enjoin Andina from litigating in Ecuador.

The Ninth Circuit held that the usual standard for the issuance of a preliminary injunction — likelihood of success on the merits — need not be met to obtain an anti-suit injunction. Instead, the court found that Gallo need only show that the "factors specific to the anti-suit injunction weigh in favor of granting the injunction." The court identified three factors instructive in the analysis: (1) whether the parties and the issues are the same and whether the first action is dispositive of the action to be enjoined; (2) whether foreign litigation would frustrate a policy of the forum issuing the injunction; and (3) whether the impact on comity would be tolerable.

Applying these factors, the court determined that the issues in the actions were the same. It also emphasized that forum selection and choice-of-law clauses are freely negotiated, enhanced certainty as to the regulation of the transactions and should be enforced absent strong reasons to set them aside. The court noted that an anti-suit injunction was the only way for Gallo to enforce the forum selection clause. Finally, the court found that comity was unaffected by enforcement and determination of contract rights in American courts given the choice-of-law clause and the ability of the American court to decide issues of Ecuadorian law, if any. Accordingly, the Ninth Circuit ordered that the district court enter a preliminary injunction barring Andina from litigation in Ecuador.

Arbitrator Loses Quasi-Judicial Immunity by Unjustified Nonperformance

In *Morgan Phillips, Inc. v. JAMS/Endispute*, 140 Cal. App. 4th 795 (2006), the Court of Appeal, Second District held that an arbitrator was not entitled to quasi-judicial immunity after withdrawing from an arbitration proceeding and refusing to render an arbitration award. Morgan Phillips sued its suppliers for failing to manufacture products as specified. The parties retained JAMS and an associated mediator, James Bates, to mediate the dispute. The parties reached a settlement that provided for disputes to be submitted to Bates.

After a dispute arose, Morgan Phillips invoked the dispute resolution clause of the settlement agreement and entered into a contract for a "binding arbitration" with JAMS and Bates. Bates held a four-hour hearing to accept evidence from Morgan Phillips, continued the hearing for approximately six weeks, informed the parties that he would render a binding arbitration decision if the parties were unable to settle the dispute before that time, instructed the suppliers to be prepared to rebut Morgan Phillips's evidence, and requested an updated damages study from Morgan Phillips's expert. Bates was also advised that Morgan Phillips was in significant economic distress and would be unable to continue in business unless the dispute was decided promptly.

At the next hearing, the parties complied with Bates's request, after which Bates determined that the hearing was concluded and ready for his arbitration decision. Over the next few hours, Bates met with the parties separately in an apparent attempt to

(Continued on page 11)

work out a settlement without having to render an arbitration award. At the end of the lunchtime break, Bates withdrew as arbitrator and offered to continue mediation efforts, but refused to issue any award.

Morgan Phillips sued JAMS and Bates for breach of contract and negligent breach of the duty to provide arbitration services. It also alleged a representative action for unfair competition and false advertising (Bus. & Prof. Code § 17200) against JAMS. Bates and JAMS demurred. The trial court granted the demurrer on the basis of arbitral immunity and dismissed the claims without leave to amend. Morgan Phillips appealed.

The court of appeal reversed, finding a narrow exception to the common law rule that protects arbitrators from civil liability for conduct in their quasi-judicial capacity in instances where the arbitrator fails to make any decision at all. In other words, arbitral immunity "cannot be used to immunize the unprincipled abandonment of the arbitration and refusal to make a decision." An arbitrator's withdrawal from a matter on ethical grounds, however, would preclude a later civil suit.

Accepting Morgan Phillips's allegations as true, the appellate court found that Bates's conduct amounted to breach of his contractual duty to conduct a binding arbitration. Absent a showing of any ethical reasons for his withdrawal and subsequent refusal to render an award, arbitral immunity does not shield Bates and JAMS from civil liability. The trial court, therefore, erred by sustaining the demurrer on the basis of arbitral immunity.

Res Judicata and Collateral Estoppel Bind Judgment Only on the Ground Addressed by Appellate Court

In *Founding Members of the Newport Beach Country Club v. Newport Beach Country Club, Inc.*, 109 Cal. App. 4th 944 (2003), Founding Members sued NBCC to enforce a right of first offer to purchase NBCC. The trial court granted summary judgment in favor of NBCC on two grounds: (1) Founding Members were not a member organization in existence as of the alleged event that triggered the right of first offer; and (2) that the alleged event did not trigger the right of first offer. The appellate court affirmed only the first ground and expressly declined to address the second ground.

Subsequently, Founding Members registered as an organization entitled to exercise the right of first offer. NBCC acknowledged that right, but contended that no event had triggered its exercise.

NBCC filed a declaratory relief action seeking a declaration that (1) the triggering event did not occur (ground two of the prior summary judgment order) and (2) that the order and judgment entered by the trial court in the prior action are binding in their entirety against Founding Members. The trial court granted summary judgment in favor of NBCC. Founding Members appealed.

The Court of Appeal, Fourth District reversed and remanded in *Newport Beach Country Club, Incorporated v. Founding Members of the Newport Beach Country Club*, 140 Cal. App. 4th 1120 (2006). The court rejected the "traditional rule" that an affirmance of a judgment on appeal is *res judicata* as to all the issues, claims, or controversies passed upon by the lower court even if the appellate court does not consider or decide upon all of them. Instead, the appellate court adopted the modern or Restatement Second of Judgments rule that a judgment is conclusive as to the determination upheld by the appellate court and not to other grounds on which the appellate court is silent. In other words, *res judicata* only applies to the grounds addressed by the appellate court.

The Court of Appeals noted that the traditional rule was supported by century-old California Supreme Court authority that had not been expressly overturned. The court, however, concluded that the California Supreme Court approval of the Restatement Second of Judgments, particularly sections on *res judicata* and collateral estoppel, warrant the adoption of the modern rule. In addition, the appellate court found that the traditional rule was inconsistent with the court's constitutional duty to set forth its decisions in writing "with reasons stated" undermines the credibility and accuracy of a decision when the appellate court declines to address every ground recited in a judgment.

Accordingly, the appellate court held that Founding Members was not collaterally estopped from resolving the issue related to the events triggering its right of first offer.

Lack of Diversity Is Waivable Defect in Removal Action

In *Lively v. Wild Oats Markets*, __ F.3d __, 2006 WL 2074734 (9th Cir. July 27, 2006), Lively filed a personal injury action against Wild Oats in California state court. Wild Oats filed a notice of removal pursuant to 28 U.S.C. § 1441(e) because it was a citizen of Delaware (its state of incorporation) with its principal place of business in Colorado, Lively was a New York citizen, and the amount in controversy exceeded $75,000. Lively did not object to the removal.

After discovery and after Wild Oats filed a motion for summary judgment, the district court issued an OSC as to why the case should not be remanded to state court for improper removal because Wild Oats appeared to be a forum defendant with its principal place of business in California. Wild Oats responded that even if it were a California citizen, that diversity jurisdiction still existed and that the 30-day time limit for Lively to move to for a remand to state court had expired.

The trial court determined that Wild Oats violated the forum defendant rule in 28 U.S.C. § 1441(b), which was a jurisdictional defect such that removal was "timely and proper" under 28 U.S.C. § 1447(c). Wild Oats appealed.

On appeal, Lively asserted that 28 U.S.C. § 1447(d) bars appellate review of remand orders issued pursuant to 28 U.S.C. § 1447(c). The Ninth Circuit agreed with Lively's statement of the law, but concluded that appellate review was barred only if the district had authority to remand under 28 U.S.C. § 1446(c). Accordingly, the court found that it must determine whether a remand for lack of diversity was jurisdictional (and could be raised at any time before judgment by a party or by the court *sua sponte*) or procedural (and could not be invoked by the court *sua sponte* and must be asserted within 10 days).

The Ninth Circuit held that the forum defendant rule was a waivable procedural defect, a holding that was consistent with eight of the nine circuits that had addressed it. Besides discussing cases from other circuits, the Ninth Circuit cited the 1996 amendment of 28 U.S.C. § 1447(c) that a motion to remand must be filed to remand a case "on the basis of any defect other than lack of subject matter jurisdiction" as encompassing substantive "defects" like citizenship of a party, while only those actions for which the court lacks subject matter jurisdiction shall be remanded at any time before final judgment.

The court noted that removal based on diversity jurisdiction was designed to protect out-of-state defendants from possible prejudices in state court. After a case has been removed, the forum defendant rule allows a plaintiff to "regain some control" over forum selection. If the defendant is a citizen of the forum (and removal was, therefore, improper), 28 U.S.C. § 1447(c) enables the plaintiff to move to remand the case within 30 days after the notice of removal was filed; alternatively, the plaintiff can do nothing and remain in federal court.

Because Lively's failure to object within the 30-day period operated as a procedural bar, the Ninth Circuit concluded that the trial court had no authority under 28 U.S.C. § 1447(c) to remand the action to state court based on lack of diversity.

— Pamela D. Deitchle

A Message from the President

Have you spoken to your colleagues lately in New York, Maryland, Texas, etc. about the quality of their state court judiciary? Do they bemoan the highly politicized judicial appointment processes in those states that have produced litigation "car wrecks"?

An independent, qualified state judiciary is vital. We must retain qualified judges. That responsibility falls on our shoulders.

On November 7th, various judicial offices will be on the ballot, including 18 appellate court justices from the 2nd DCA. Each of us has 3 responsibilities: (1) become informed; (2) vote; and, (3) educate those within our spheres of influence to vote. For more information, visit websites of LA County Bar or the Metropolitan News.

— Michael A. Sherman

Multidistrict Litigation

Continued from page 9

1979); and (3) stipulations between counsel that discovery relevant to more than one action may be used in all actions, *In re Insulin Mfg. Antitrust Lit.*, 487 F.Supp. 1359, 1361 (J.P.M.L. 1980); *Wilk v. American Medical Ass'n*, 635 F.2d 1295, 1297 (7th Cir. 1980). None of the foregoing alternatives will, however, prevent a transfer of MDL cases if the requirements for a transfer are satisfied. *In re General Tire & Rubber Co. Securities Lit.*, 429 F.Supp. 1032, 1034 (J.P.M.L. 1977).

— Randall A. Spencer

Contributors to this Issue

Pamela D. Deitchle is an associate attorney at Grace & Grace LLP.

Laurence Jackson is a partner with Christa & Jackson in Los Angeles.

Tyler G. Newby and *Jan J. Klobonatz* are attorneys with Taylor & Company Law Offices, Inc. in San Francisco.

Peter S. Selvin is a partner in the Los Angeles office of Loeb & Loeb.

Randall A. Spencer is a sole practitioner in Beverly Hills and practices Business Litigation in state and federal courts.

abtl REPORT

P.O. Box 351649
Los Angeles, California 90035
(323) 939-1999 • FAX: (323) 935-6622
e-mail: abtl@abtl.org • www.abtl.org

abtl REPORT

P.O. Box 351649
Los Angeles, California 90035

PRSRT STD
U.S. POSTAGE
PAID
LOS ANGELES, CA
PERMIT NO. 32623