Letter from the President

At the end of each trial, Rumpole of the Bailey would adjourn from the Old Bailey or his chambers at Number 3, Equity Court, to Pommeroy's to lift one (or more) glasses of claret (Chateau Fleet Street being a favored choice), while he regaled and harangued Phillida Trant Erskine-Brown, George Frobisher or anyone else who would listen to his stories of his recent exploits in front of Judge Bullingham. It was a chance for barristers to let down their wigs and experience the warm glow of fellowship and camaraderie (the warm glow helped along undoubtedly by the fruit of the vine) shared among professionals who have fought hard and enjoyed the good fight.

Rumpole, California Style

Not to be outdone, the ABTL has introduced the Wine Tasting Hour, an hour preceding our dinner meetings, where lawyers and judges, young and old, can regale and harangue each other with stories of their courtroom exploits. We tend toward California vintages rather than Rumpole's favorite plonk and claret, but the companionship and camaraderie are every bit as comfortable as at Pommeroy's. The Wine Tasting Hour is sponsored by a generous vendor or two (we appreciate our sponsors!) who recognize that it is more fun to promote one's wares to lawyers who are relaxing than lawyers who are tensely juggling phone calls in the office.

Efficient Practice or Malpractice: Limited Disclosures of Privileged Information

You've been worried since the phone call last week. Management was pressing the general counsel to do everything possible to head off a formal SEC investigation. The general counsel stated he wanted to send the SEC the report of your law firm's investigation of the company's conduct. You both knew that investigation was confidential work product written to provide a candid assessment and advice to the company. It wouldn't look good in front of a jury in the pending class action. How could the general counsel expect you to find a way to disclose a confidential document without waiving the privilege?

Your advice now to the general counsel is not what he wants to hear, but you feel you must advise him to preserve the privilege. After an uncomfortably long pause, the general counsel responds, "John, I'm disappointed in you. It seems to me we ought to at least consider what I heard Columbia/HCA's legal department had done. I understand their outside counsel got the SEC to agree that disclosure would not waive any privileges. Why can't you do that?"

You quickly need some answers: What are the pros and cons of limited disclosure of trade secrets while preserving confidentiality, such orders can also be applied to preserve the attorney client and work product privileges. Such limited disclosures of privileged information may be beneficial or even mandatory in cases involving coverage and indemnity issues, advice of counsel defenses, attorney fee disputes, and other conduct of attorneys, such as patent cases. Limited disclosure may also be beneficial in defending regulatory agency investigations and in some multi-jurisdictional disputes. In other cases, limited disclosure may be tactically advantageous or simply a cost-savings measure.

While courts commonly enter protective orders to allow limited disclosure of trade secrets while preserving confidentiality, such orders can also be applied to preserve the attorney client and work product privileges. Such limited disclosures of privileged information may be beneficial or even mandatory in cases involving coverage and indemnity issues, advice of counsel defenses, attorney fee disputes, and other conduct of attorneys, such as patent cases. Limited disclosure may also be beneficial in defending regulatory agency investigations and in some multi-jurisdictional disputes. In other cases, limited disclosure may be tactically advantageous or simply a cost-savings measure.

The Ninth Circuit has upheld the entry and presumably the legal effectiveness of a protective order preserving the attorney client communication privilege following a limited disclosure. Nonetheless, the brevity of the court's analysis and the unusual

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Efficient Practice or Malpractice

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procedural posture of the case indicates that caution should be exercised in relying on it. Presumably, its rationale would apply with equal or even greater acceptance to the work product privilege. Few other courts have addressed the issue. There does not appear to be any precedent from the California State courts.

In a few cases, limited disclosure, even in the absence of a protective order, has not been found to result in a complete waiver of privilege. In these cases, the disclosing party entered into a stipulation preserving privilege or unilaterally reserved privilege claims. However, the overwhelming majority view is that the procedural posture of the case indicates that caution should be evidenced into a stipulation preserving privilege or unilaterally reserved privilege claims. However, the overwhelming majority view is that the confidentiality of any documents would be irretrievably lost due to even a limited disclosure.

Why Disclose Confidential Attorney-Client Communications?

In a host of circumstances disclosure of privileged information may be beneficial, cost effective, or both. Some disclosure is likely to be beneficial or mandatory in matters in which the conduct of counsel has been placed in issue. For example, in coverage litigation, the insured may be required to establish the reasonableness of the insured's settlement of an underlying case. Insureds in such cases have been required to disclose work product and attorney client communications. See, Conoco, Inc. v. U. S. Boh Brothers Construction Co., 191 F.R.D. 107 (W.D. La. 1998). Even where limited disclosure is not mandatory, the insured may determine that it is beneficial to do so or appropriate to satisfy its duty of cooperation with its insurer. See, e.g., North River Ins. Co. v. Columbia Cas. Co., 1955 U. S. Dist. Lexis 53 (S.D.N.Y.) (Insured's limited disclosure to an apparently friendly carrier later held to have been a complete waiver allowing a hostile carrier access to the previously privileged matter; No protective order, stipulation or reservation employed.) Limited disclosure may also be mandatory or beneficial in cases involving legal malpractice issues, attorney fee issues and advice of counsel defenses. Various pre-litigation circumstances may lead to a decision that limited disclosure is beneficial to avert an SEC, Department of Labor, or other agency investigation. In multi-jurisdictional disputes, limited disclosure in one forum may be beneficial in averting a decision on privilege in that forum that could have adverse collateral estoppel effects on cases elsewhere. In all cases, there is the potential economy of avoiding the cost of privilege logging, of suspending depositions pending resolution of privilege issues, and of potential follow-on motion practice.

Could a Protective Order Effectively Preserve Privilege Claims?

Two cases within the Ninth Circuit have upheld the effectiveness of a protective order in preserving privilege while permitting limited, voluntary disclosure. The Ninth Circuit upheld the effectiveness of a protective order in McDowell v. Calderon, 197 F. 3d 1253, 1255-56 (9th Cir. 1999) cert. denied 68 U.S.L.W. 3656, 120 S. Ct. 1708 (2000). The Court held that the Federal Rules of Civil Procedure gave a District Court in a habeas corpus proceeding the authority to enter an order that attorney-client privileged
documents disclosed to the prosecution could be used only in the habeas proceeding and would continue to be privileged and confidential for other matters. In the District Court habeas proceeding, McDowell challenged his conviction claiming ineffective assistance of counsel in his underlying murder trial. Accordingly, he placed his own attorney-client communications in issue. The California Attorney General moved to vacate the protective order on the basis that "Federal law does not provide for partial waivers of attorney-client privilege." The District Court denied the motion to vacate and a subsequent motion for reconsideration; both orders were upheld by the Ninth Circuit at page 1255:

"It is debatable whether the district court can so limit the Attorney General's use of the documents from McDowell's trial counsel's file. The question being a debatable one, the District Court did not commit clear error when it limited access to the file pursuant to the terms of the protective order. District courts have very broad discretion in fashioning discovery orders under Fed. R. Civ. P 26(c), and the protective order did not fall clearly outside the bounds of the authority."

The unusual procedural posture of McDowell may limit its application but should not undermine its rationale. Even though the Federal Rules of Civil Procedure do not expressly apply in habeas proceedings, the federal courts are empowered to draw on them as examples in habeas cases. Harris v. Nelson, 394 U.S. 286, 89 S. Ct. 1082, 1091 (1969). In any event, the Ninth Circuit's ruling on the extent of the District Court's powers under Rule 26(c) should be binding precedent in civil cases. In addition, the District Court may have been particularly inclined to issue a protective order by the circumstances in McDowell — a death penalty defendant forced to disclose attorney-client communications if he is to be able to assert his ineffective assistance of counsel defense. In less compelling circumstances, a trial judge may be less willing to enter a McDowell type protective order. Nonetheless, should the trial judge be persuaded good cause exists for issuance of a protective order, it would appear to be enforceable within the Ninth Circuit.

Although the Ninth Circuit did not address work product privilege, the Court's rationale would certainly appear to extend to work product. If anything, a district court's ability to limit or regulate work product discovery is even less debatable than its ability to regulate attorney-client communication privilege. Other courts addressing limited disclosures have been less protective of the attorney-client privilege and more willing to find a waiver of it than of the work product privilege, provided the claimed work product is truly work product. See, e.g., Well v. Investment Indicators, Research & Management, 647 F. 2d 18, 23 (9th Cir. 1981) (attorney-client privilege "narrowly construed"); and Dunholl Pharms., Inc. v. Discus Dental, Inc., 594 F. Supp. 1202, 1206 (C.D. Cal. 1981) (finding scope of waiver of work product narrower than waiver of attorney-client communication privilege).

In a second recent case in the Ninth Circuit, the Southern District of California entered a protective order allowing limited disclosure without a general waiver of privilege. Playboy Enterprises, Inc. v. Welles, 80 F. Supp. 2d 1050, 1054-55 (S.D. Cal. 1999). The protective order provided that disclosure for discovery purposes of claimed privileged documents to an outside computer consultant, acting ostensibly as an officer of the court, would not constitute a waiver of applicable privileges.

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Bankruptcy Court for the Northern District of Oklahoma stated that selective waiver of the attorney-client and work product privileges could not be provided for in a protective order even though that court ordered that disclosure of certain privileged documents would not waive privilege as to any other documents. *In re Commercial Financial Services, 247 B. R. 828 (N.D. Okla. 2000).* This dicta raises a question yet to be decided: Will a court, such as the *Financial Services* court, enforce a *McDowell* type order based on *res judicata* principles, even though that court would be unwilling to enter such an order?

The few reported cases to date do not provide guidance on the effectiveness of blanket protective orders to preserve work product and attorney client communication privileges. In general, blanket protective orders have been permitted by the Ninth Circuit. *San Jose Mercury News, Inc. v. U.S. Dist Ct. — Northern Dist.*, 187 F. 3d 1086, 1103 (9th Cir. 1999). They may not be available under any circumstances in the California state courts, depending upon the trial court’s interpretation of *Stadish v. Superior Ct.*, 71 Cal. App. 4th 1130 (1999) (blanket protective order voided as an impermissible delegation of judicial powers in allowing parties to designate matters confidential without express provision for subsequent judicial review); see also Los Angeles Superior Court, Local Rule 7.19 (protective orders only to be entered on a “document-by-document” basis), cf. *Stadish v. Superior Ct.*, 71 Cal. App. 4th 1130 (1999) (Zebrowski, J. concurring) (blanket orders may be available even in Los Angeles Superior Court if appropriately drafted).

**Are Stipulations or Reservations Effective to Preserve Privilege?**

Neither the Ninth Circuit nor the California State courts have addressed the effectiveness of a stipulation to preserve privilege “allowing limited, voluntary disclosure in the absence of a protective order.

The Northern District of California has held such stipulations to be ineffective. In *Atari Corp. v. Sega of America*, 161 F.R.D. 417, 420 (N.D. Cal. 1994), it held that Sega waived the attorney client privilege when it provided Atari’s consultant with an otherwise privileged document as part of a settlement negotiation. Even though the parties expressly agreed that disclosure would not waive applicable privileges. Many courts outside the Ninth Circuit have held similarly, most recently in *In Re: Columbia/HCA Healthcare Corp. Billing Practices Litigation*, 192 F.R.D. 575 (M.D. Tenn. 2000). Columbia had produced privileged documents to the Department of Justice subject to an agreement with the government that production of documents did not and would not constitute a waiver of the attorney-client communication or work product privileges. Nonetheless, the court held that a determination of what constitutes a waiver of privilege is a legal question, one the parties cannot negate by agreement. The court held that “voluntary disclosure of privileged materials to the government constitutes a waiver of the attorney-client privilege to all other adversaries.”

A minority view contrary to these decisions was first stated in *dicta* but not applied in *Teachers Insurance & Annuity Association of America v. Shamrock Broadcasting Co.*, 521 F. Supp. 638 (S.D.N.Y. 1981). The minority view found application in *Jobin v. Bank of Boulder*, 161 B. R. 689, 695-6 (Colo. 1993), in which the court found that the Bank of Boulder had not waived applicable privileges despite limited disclosure. The bank had taken substantial steps to insure maintenance of confidentiality by those to whom it had made disclosure, includ-

**Supreme Court Addresses Trade Dress Design Issue**

A children’s clothing manufacturer designs a line of baby clothes featuring a combination of certain uniform design elements: seersucker fabric; large bold appliqués integrated into large collars and pockets on the garment; and full-cut bodies. The product line is also marked by the absence of printed images, alphanumeric characters, three-dimensional features or heavy ornamentation such as dibs or fringe — all features frequently found on children’s clothing. Can the manufacturer protect the design of this product line as “inherently distinctive” trade dress?

Courts have split on the issue of whether product design features — such as the shape, size, color, texture and material of a product — should be analyzed under the same distinctiveness framework employed in traditional trademark cases or by some alternative test. In *Wal-Mart Stores, Inc. v. Samara Brothers, Inc.*, the Supreme Court finally addressed this issue. Retail giant Wal-Mart argued that, unlike other types of trade dress and trademarks, product designs should never be considered “distinctive” without a showing of secondary meaning. Garment manufacturer Samara Brothers maintained that all unique trade dress, including unique product designs, should be considered inherently distinctive. The Supreme Court unanimously sided with Wal-Mart, holding that a product’s “design” is distinctive, and therefore protectible as trade dress, only upon a showing of acquired or “secondary” meaning. *Wal-Mart Stores, Inc. v. Samara Brothers, Inc.*, 120 S.Ct. 1339 (March 22, 2000).

The good news for retailers and manufacturers is that, by directly confronting the differences between the “distinctiveness” of product design and other types of trade dress, the *Wal-Mart* case promises a measure of certainty in the often unpredictable landscape of trademark law. The bad news, however, is that the same “bright line” that promises predictability for product design cases may simply shift litigation to other issues, like whether a particular trade dress constitutes design or packaging, or whether a particular product design has acquired distinctiveness or “secondary” meaning.

From a practical perspective, the most significant impact of the *Wal-Mart* decision may fall outside of the trademark context entirely. By raising the bar for trade dress claims, the decision likely will lead to an increased number of companies hedging their bets with other intellectual property law alternatives, like copyrights and design patents, to protect their most valuable product designs.

**Trade Dress Distinctiveness**

Traditional trademark disputes center on the use of words or logos to identify a product or service. “Trade dress” disputes, in contrast, arise when a producer or manufacturer seeks to protect the *appearance* or *design* of their products.

To prevail on either a trademark or trade dress claim, a plaintiff must demonstrate three basic elements: (1) distinctiveness, (2) nonfunctionality, and (3) likelihood of consumer confusion. *Kendall-Jackson Winery, Ltd. v. E & J Gallo Winery*, 150 F.3d (Continued on page 10)
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1042, 1046 (9th Cir. 1998). The first element — distinctiveness — can be established either by showing that a mark or dress is “inherently distinctive” or by demonstrating that the mark or dress has acquired distinctiveness (also referred to as “secondary meaning”) by use in the market.

Classic trademark cases are analyzed for distinctiveness using the framework articulated by Judge Friendly in Abercrombie & Fitch Co. v. Hunting World, 537 F.2d 4 (2d Cir. 1976), which categorized marks as (1) generic, (2) descriptive, (3) suggestive, or (4) arbitrary or fanciful. Words having a generic meaning receive no trademark protection. Descriptive terms, which describe the attributes of a product, receive protection only if they have acquired “secondary meaning” by use in the market. “Suggestive” terms are words that require imagination to reach a conclusion regarding the nature of the underlying product. Suggestive marks, as well as arbitrary and fanciful marks, are considered “inherently distinctive” and are entitled to protection without proof of secondary meaning.

Courts generally have had little difficulty applying this analysis to trade dress disputes that involve packaging — where the claimed “trade dress” is separate from the underlying product. For example, dog food packaging resembling a skyscraper would be considered arbitrary or fanciful — both because of the uniqueness of the packaging and the lack of nexus between the packaging and the product. In contrast, packaging frozen waffles in a box the shape and color of a waffle would be a descriptive trade dress, protectible only with proof of secondary meaning.

Transplanting the traditional distinctiveness analysis to product designs has proven much more difficult. Unlike packaging cases, in product design actions the claimed trade dress consists of features of the product itself. As a result, it is difficult to translate the framework articulated in Abercrombie. Asking whether the shape of a particular chair “describes” a chair, for example, seems nonsensical.

More importantly, the Abercrombie trademark categories do not necessarily serve to identify the types of design that deserve protection under traditional trademark policy. For example, although a blouse festooned with butterflies and brightly-colored flowers might be “fanciful” under a dictionary definition, the design alone may convey no source-identifying message to the consumer. In contrast, a very simple design (think Rolex watch) may trigger immediate brand recognition — albeit a recognition that generally reflects acquired (rather than inherent) distinctiveness.

The Impact of the Wal-Mart Decision

In Wal-Mart, the Supreme Court confronted the difference between the “distinctiveness” of product design and other types of trade dress, and resolved the difference by looking to the underlying policy of trademark law: consumer protection.

Consumers should not be deprived of the benefits of competition with regard to the utilitarian and esthetic purposes that product design ordinarily serves by a rule of law that facilitates plausible threats of suit against new entrants based upon alleged inherent distinctiveness.

120 S.Ct. at 1343. Following this reasoning, the Court established a bright line rule that product design (in contrast to product packaging) will be found distinctive, and thus protectible under the Lanham Act, only upon a showing of secondary meaning.

Although the bright line rule announced in Wal-Mart premises some measure of certainty in “true” product design cases, it may shift litigation to other potentially significant trade dress issues.

First, in cases falling at the margin, the Wal-Mart decision may spawn additional argument over whether the claimed trade dress actually constitutes “product packaging” capable of being inherently distinctive, or “product design” requiring a showing of secondary meaning. The decision erects a presumption to minimize skirmishes over this issue, instructing lower courts to “err on the side of caution and classify ambiguous trade dress as product design, thereby requiring secondary meaning.” Id. at 1345. Despite this presumption, however, by excepting trade dress “akin to packaging” from its announced holding, the Wal-Mart decision opens the door to certain important cases — the design of restaurants, web sites, and retail stores, for example — falling on the “product packaging” side of the trade dress line.

The second issue left unanswered by the decision in Wal-Mart may prove more difficult in the long run: What evidence establishes secondary meaning in the product design context?

Litigation over the issue of secondary meaning, traditionally a jury question, may well nullify any gains made by Wal-Mart’s bright line rule on inherent distinctiveness. Secondary meaning is difficult to prove because “no precise guidelines are applicable and...each case must, therefore, be decided on its facts.” American Footwear Corp. v. General Footwear Co., 669 F.2d 655, 663 (2d Cir. 1979). As such, issues formerly raised in the context of inherent distinctiveness may resurface under the guise of determining secondary meaning. For example, one test for inherent distinctiveness applied by a number of courts prior to Wal-Mart considered whether the claimed trade dress was a common basic shape or design, whether it was unique or unusual in a particular field, and whether it was a mere refinement of a commonly-adopted and well-known form of ornamentation for a particular class of goods viewed by the public as a dress or ornamentation for the goods.

Seabrook Foods, Inc. v. Bar-Well Foods, Ltd., 568 F.2d 1342 (Cl. Cir. 1977). Similar factors might be found relevant in determining whether a particular product design has acquired meaning in the eyes of consumers after only a short period of time in the market, for example, or despite use on only a single product in a line of goods.

Perhaps an even greater threat, however, is that Wal-Mart will make appellate courts more willing to modify the traditional evidentiary requirements for proving secondary meaning. Before Wal-Mart, courts generally held plaintiffs to a rigorous evidentiary standard so that secondary meaning in product configuration cases would "generally not be easy to establish." Duraco Products, Inc. v. Joy Plastic Enterprises, Ltd., 40 F.3d 1431, 1453 (3d Cir. 1994). In light of Wal-Mart, litigants likely will argue for modified measures of secondary meaning that are tailored more specifically to the product design context.

For product design, different secondary meaning considerations may be implicated depending on the industry and type of design. In the fashion industry, for example, a designer gown may gain secondary meaning based on a single wearing by a high-profile celebrity. In the furniture industry, in contrast, secondary meaning may be established by more traditional means, including years of consistent or repetitive design elements incorporated into an entire line of products, or advertising focusing on certain key product design features. Until appellate courts provide guidance on this issue, the uncertain contours of the secondary meaning inquiry may overshadow the predictability promised by Wal-Mart.

Conclusion

The Wal-Mart decision brings a much needed degree of certainty to a small (but important) corner of the trademark world. Manufacturers and retailers defending against "true" product design trade dress infringement suits can be assured that, following Wal-Mart, the owner of the product design must demonstrate secondary meaning. The decision stops short, however, of resolving those cases that will inevitably fall at the margins between product design and product packaging. Perhaps even more troubling, Wal-Mart fails to establish limits on secondary meaning.

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that will prevent frivolous or anticompetitive trade dress infringement claims from eluding summary judgment on the issue of distinctiveness.

The most significant effect of the Wal-Mart decision may be felt in intellectual property law areas other than trademark, however. By sharply curtailing the availability of trade dress protection, the Wal-Mart decision forces potential plaintiffs to pursue alternative avenues, such as copyrights and design patents, for protection of their product designs. As a result, the potential decrease in trade dress litigation stemming from the Wal-Mart decision may eventually be matched by a concomitant increase in copyright and patent infringement suits. In the wake of Wal-Mart, companies pursuing or defending against product design infringement claims should be prepared to litigate on multiple intellectual property law fronts.

— Stephanie Powers Skaff

Letter from the President
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Why have a Wine Tasting Hour? Because the Los Angeles business trial bar is not clustered around the Inns of Court, and we cannot easily walk to our nearest pub after trial to get to know each other. Because in the high pressure litigation world we inhabit, it helps to know your adversary personally, to have gained familiarity and respect for those we bump into in court, and to exchange views with judges in a setting where no one is making (or keeping) a record. Because it is fun to try some unfamiliar wines (we have mineral water too) while talking with old friends, making new friends, comparing notes on recent developments and rulings, and catching up on the latest law firm and judicial gossip. Because most of us are too old for mixers. Because the Wine Tasting Hour is a perfect warm-up act for the outstanding Dinner Program that follows, where leading litigators and judges bring to life the new developments in the law or debate the knotty problems of the practice.

Join us at our next Dinner Program, December 12, 2000 [I think I can get the topic name inserted here]. Mark your calendar to be sure to arrive by 6 p.m. in order to have enough time to meet, mingle, regale and harangue, while sampling the complimentary wine selections provided by our sponsors. Remember, never delay the end of a business meeting or the beginning of a wine tasting hour. See you there!

— Barbara Reeves

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Joint Defense Privileges:
Get it in Writing!

The joint defense privilege is intended to protect exchanges of information among parties who share common interests in defending against or attacking a common opponent but who are represented by separate lawyers. Oddly enough, there is no recognized statutory joint defense privilege in California. Moreover the few courts which have addressed the privilege reserve its application to situations in which shared privileged information is reasonably necessary to the conduct of the defense.

In permitting parties to avoid waiver of the privilege by disclosure of information to codefendants under appropriate circumstances California courts rely on the provisions of Evidence Code sections 912 and 952. However, case law on the joint defense privilege is scant both in California and in the Ninth Circuit.

A succinct description of the privilege is set forth in Separating the Joint-Defense Doctrine from the Attorney-Client Privilege, 68 Tex. L.Rev. 1273 (May, 1990):

The joint defense privilege protects exchanges of information among parties who share common interests in defending against or attacking a common opponent but who are represented by separate lawyers. Communications directly by one party to the lawyer for another party who shares common interests also fall within the privilege. The privilege generally allows parties to exclude from evidence the information that they divulged to other parties.


In California, as mentioned above, there is no statutory joint defense privilege, and the doctrine has been applied solely as an outgrowth or in reliance upon Evidence Code sections 912 and 952.

There is no joint defense privilege as such in California, but, as we have stated, the issue of waiver must be determined under the statute with respect to the attorney-client privilege, and depends on the necessity for the disclosure. Raytheon Co. v. Superior Court of Santa Clarita County, 208 Cal. App.3d 683, 689, 256 Cal.Rptr. 425 (1989).


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Joint Defense Privileges: Get it in Writing!

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interest doctrine have not been recognized statutorily in California, and case law discussion of them is sparse. California courts seem to resolve disputes that may implicate the joint defense or common interest doctrines by relying either generally on waiver analysis or specifically on interpretation of one concept that is common to both sections 912 and 952 of the California Evidence Code. See Raytheon, 208 Cal.App.3d at 687-689; Insurance Co. of North America v. Superior Court, 108 Cal. App.3d 758, 166 Cal.Rptr. 880 (1980).

Section 912(d) provides in relevant part:

A disclosure in confidence of a communication that is protected by a privilege provided by Section 954 (lawyer-client privilege) when such disclosure is reasonably necessary for the accomplishment of the purpose for which the lawyer was consulted, is not a waiver of the privilege.

Section 952 provides in relevant part:

As used in this article, 'confidential communication between client and lawyer' means information transmitted between a client and his or her lawyer in the course of that relationship and in confidence by a means which, so far as the client is aware, discloses the information to no third persons other than those who are present to further the interest of the client in the consultation or those to whom disclosure is reasonably necessary for the transmission of the information or the accomplishment of the purpose for which the lawyer is consulted, and includes a legal opinion formed and the advice given by the lawyer in the course of that relationship.

The common concept which permeates these two evidence code provisions is that the privilege can continue to attach to communications that are disclosed in confidence to third persons when that disclosure is reasonably necessary to achieve the ends for which the lawyer is being consulted. First. Pac. Networks, 163 F.R.D. at 581. See Raytheon, 208 Cal.App.3d at 688-689, 256 Cal.Rptr. at 428-429 (Extending a privilege to information that is exchanged in joint defense only when the disclosure is 'reasonably necessary to accomplish the client's purpose in consulting counsel').

In Raytheon, supra, Raytheon sought review of a discovery order requiring production of documents which Raytheon claimed were protected by the attorney-client and work product privileges. The documents consisted of correspondence, memorandum, reports and other documents over a five-year period prepared by Raytheon, its counsel and/or its consultants and circulated to two other companies, their counsel, and/or their consultants. The trial court had ruled that Raytheon had waived all claims of attorney-client or work product privilege with respect to the documents shown to codefendants or their counsel. The appellate court held that the trial court committed error in finding a waiver of the privilege.

The appellate court relied upon Evidence Code section 912 which provides that a disclosure in confidence of a privileged communication is not a waiver of the privilege "when such disclosure is reasonably necessary for the accomplishment of the purpose for which the lawyer... was consulted."

The Raytheon court noted that most cases involving the issue of waiver of the attorney-client privilege are federal cases, in which the issue of waiver turns on a determination of whether there is commonality of interest among the parties as to whom disclosure occurred. Raytheon also noted that most of the federal cases involve either joint defense of criminal cases, albeit by separate counsel, or related prosecutions of antitrust or similar lawsuits by plaintiffs with interests in common. In those factual contexts, the federal courts do not treat joint disclosure as waiver. E.g., Hurbydee v. United States, 355 F.2d 183 (9th Cir. 1965) (joint defense privilege).

With regard to the work product privilege, the Raytheon court noted that language in at least one California decision strongly suggests that privilege is not waived except by a disclosure wholly inconsistent with the purpose of the privilege, which is to safeguard the attorney's work product and trial preparation, citing Fellows v. Superior Court, 108 Cal.App.3d 55, 65-66, 166 Cal.Rptr. 274 (1980). Raytheon, 208 Cal.App.3d at 689.

Because the record in Raytheon was devoid of evidence showing whether the work product and attorney-client privileged matter disclosed was, under the circumstances, inconsistent with the privilege, the appellate court remanded the case to the trial court for a determination of whether the circulated documents were disclosed with an expectation of confidentiality.

Although there is no per se joint defense privilege in California, the courts have recognized the shared privilege of counsel aligned as nonadversaries who share confidential information. In Insurance Co. of North America v. Superior Court of Los Angeles, 108 Cal.App.3d 758, 166 Cal.Rptr. 880 (1980), where INA sought a writ of prohibition against the superior court to preserve the confidentiality of its attorney-client communications against discovery by GAF Corporation, the court held:

It may be seen that under section 952 (of the Evidence Code) communication of information by an attorney to a client in the presence of a third person does not destroy the confidentiality of the communication if the third person is present to further the interest of the client in the consultation. When the third person is present for that purpose, confidentiality of communication is maintained. 108 Cal.App.3d at 792.

The court further stated:

It is apparent to the authors of section 952 intended a comprehensive protection of the attorney-client privilege when they specified that neither (1) disclosures to third persons present to further the interest of the client, nor (2) disclosures to third persons which are reasonably necessary to transmit information or accomplish the purpose for which the attorney has been consulted, destroys confidentiality of communication. Id. at 785.

Federal Cases

The above discussion notwithstanding, within the Ninth Circuit, there is scant case on the joint defense privilege. In Walker v. Financial Corp. of America, 828 F.2d 579, 583-584 (9th Cir. 1987), the court held that communications to an attorney remained privileged when the attorney shared the information with codefendants in joint defense of the claims against them. The
Joint Defense Privileges: Get it in Writing!
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privilege has been applied when attorneys exchange information, and may encompass statements made by a party directly to the lawyer for another party with common interests. This type of communication has been protected even when the client of the lawyer with whom the other party is communicating is present. See, e.g., Hunydee v. United States, 355 F.2d 183, 185 (9th Cir. 1965).

In Continental Oil Co. v. United States, 330 F.2d 347 (9th Cir. 1964), subpoenas were issued in aid of a Federal Grand Jury proceeding. During the proceedings of the Grand Jury certain employees and executives of the appellant oil companies were summoned to testify before it. Before and after their appearance before the Grand Jury these witnesses were interviewed by their respective counsel, who in turn prepared memorandum concerning the information received from such witnesses and relating to the clients’ appearance before the Grand Jury. The memorandum was then exchanged between the counsel for the different oil companies in confidence in order to apprise each other as to the nature and scope of the inquiry proceeding before the Grand Jury. The government then issued subpoena duces tecum upon the oil companies and their attorneys calling for the production of the memoranda prepared by the lawyers. The oil companies moved to quash the subpoenas.

Government counsel contended that the attorney-client privilege was not applicable because the attorneys did not represent the witnesses from whom the statements were procured, and because if the communications were initially privileged, the privilege was waived when the statements received from the witnesses were exchanged by counsel representing the corporate clients. The court concluded that attorneys who took the statements not only represented the corporations referred to but represented the witnesses, and that they were called upon to advise and represent the persons from whom such statements were taken:

"Where an attorney furnishes a copy of a document entrusted to him by his client to an attorney who is engaged in maintaining substantially the same cause on behalf of other parties in the same litigation, without an express understanding that the recipient shall not communicate the contents thereof to others, the communication is made not for the purpose of allowing unlimited publication and use, but in confidence, for the limited and restricted purpose to assist in asserting their common claims. The copy is given and accepted under the privilege between the attorney furnishing it and his client. For the occasion, the recipient of the copy stands under the same restraints arising from the privileged character of the document as the counsel who furnished it, and consequently he has no right, and cannot be compelled, to produce or disclose its contents."

The Continental Oil court concluded that the attorney-client privilege existed so as to require a quashing of the subpoenas duces tecum. 330 F.2d at 350.

Conclusion

Although not one case indicated that the joint defense privilege, to the extent it is recognized in state or federal decisions in California (or for that matter, elsewhere), requires for its existence the execution of a written joint defense agreement, it is considered good practice to execute such an agreement where multiple parties and counsel are going to be sharing data and strategy. Some practitioners even suggest submitting a written joint defense agreement in the form of a stipulation to be approved by the Court in advance. If the Court approves the written stipulation, the risk of privilege waiver is obviously significantly reduced.

— Larry C. Russ

Copyright Protection on the Internet

The Internet has spawned a variety of novel legal issues. One issue that has received national attention is whether copyright protections apply to content on the Internet. Once digitized, content such as film, photographs, music, and even voice can easily be manipulated, and distributed worldwide, with the "click of the mouse." Three recent court decisions have outlined the boundaries of such conduct with differing results. In each case, the court applied the "fair use" doctrine to new technologies and business methods. Understanding the rationale for these decisions will enable lawyers in a wide variety of disciplines to advise their clients on the appropriate ways to make use of the Internet and avoid any claims of copyright infringement.

The MP3 Lawsuit: Digital Versions of Music CDs

MP3 technology enables fast and efficient conversion of compact disc recordings into compressed digital files that can be downloaded over the Internet without compromising sound quality. MP3 launched its website by copying tens of thousands of original CD recordings onto its computer servers, which enabled users to download and replay the recordings from any computer with an Internet connection. Users are not charged a fee, but must prove they own the CD version of the recording by inserting the disc in the CD-ROM drive for a few seconds or purchasing the CD from an online retailer.

The Recording Industry Association of America (RIAA), on behalf of various record companies, sued for copyright infringement in the Southern District of New York. (UMC Recordings, Inc., et al. v. MP3.Com, Inc., 92 F.Supp.2d 349 (S.D.N.Y. 2000). In April, the district court (Judge Rakoff) granted the plaintiffs' motion for partial summary judgment. The court first noted that a prima facie case of infringement had been shown. The court then analyzed whether the copying was protected under the "fair use" doctrine. See 17 U.S.C. §107. In determining fair use under the Copyright Act, the court must consider four factors:

1. the purpose and character of the use, including whether such use is of a commercial nature or for nonprofit educational purpose;
2. the nature of the copyrighted work;
3. the amount and substantiality of the portion used in relation to the work as a whole; and
4. the effect on the potential market for or value of the copyrighted work.

These factors are to be explored and weighed together in light of the purposes of the Copyright Act, which is to advance the arts and sciences. (Sony Corp. of America v. Universal City Studios, Inc., 464 U.S. 417, 448 (1984); Campbell v. Acuff-Rose Music, Inc., 510 U.S. 569, 579 (1994).)

The MP3 Format Is Not "Transformative"

The first factor ("purpose and character") involves not only a
Copyright Protection on the Internet
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consideration of whether the use is commercial but also whether the use is "transformative," that is, whether it serves to create a new form of expression, infusing the original work with new meaning or understanding. The court held that MP3 simply retransmitted unauthorized copies of the music in a different format and thus added no "new aesthetics, new insights and understandings" to the original music. Moreover, MP3 attracts revenue from advertising (e.g., banner ads) and other sources even though it does not charge users a fee; thus, MP3 engaged in commercial exploitation of protected works.

Strong Consumer Demand Does Not Negate Infringement Claims

The court rejected MP3's argument that it provides a useful service to consumers and thus should receive greater deference under the fair use analysis. The court bluntly disposed of this assertion: "Stripped to its essence, defendant's 'consumer protection' argument amounts to nothing more than a bald claim that defendant should be able to misappropriate plaintiffs' property simply because there is a consumer demand for it. This hardly appeals to the conscience of equity."

MP3 Engaged in "Willful Infringement" And Ordered To Pay Statutory Damages

Shortly after Judge Rakoff's ruling on liability, all but one of the record companies entered into settlement agreements with MP3 which provided for the payment of royalties. Universal Music decided to pursue the matter. On September 6, 2000, Judge Rakoff announced his decision on statutory damages. The court ruled that MP3 had willfully infringed plaintiffs' copyright and that the appropriate measure of damages is $25,000 per CD. A later hearing will determine the exact number of pirated CDs, but current estimates place the damage figure between $118,000,000 to $250,000,000.

One of the factors the court considered in awarding damages was the issue of general deterrence. In this regard, the court noted the potential for huge profits in the Internet world no doubt tempted MP3 to break the law, and will tempt others to do so if the level of statutory damages is too low. The court stated that evidence in the case "strongly suggests that some companies operating in the area of the Internet may have a misconception that, because their technology is somewhat novel, they are somehow immune from the ordinary applications of laws of the United States, including copyright law. They need to understand that the law's domain knows no such limits." Judge Rakoff's decision should be a warning, a wake-up call, to other Internet companies who similarly believe that copyright laws do not apply to their new technologies or business models.

The Napster Lawsuit: Music File Searching and Sharing


RIAA sued Napster in the Northern District of California for vicarious and contributory copyright infringement on the theory that Napster's search engine enables users to engage in massive copyright infringement. In August, 2000, the district court (Judge Patel) agreed, finding that virtually all Napsters unlawfully download or upload copyrighted music. More importantly, the Court held that Napster was not protected from liability under the "fair use" defense.

Music Searching and File-Sharing Are Not "Transformative" Uses

First, the file sharing technology did not change the copyrighted music into some new art form or create new insights or understandings to the original. The court relied on the same holding in UMG Recordings. Moreover, even though the service was free, users avoided buying CD's at the local record store and thus received some economic advantage from the service.

With regard to the second and third factors, it was obvious that file sharing involved copying entire files of original recorded music. The fourth factor also weighed against fair use since file sharing was shown to (1) reduce CD sales among college students and (2) raise barriers to the music companies entry into the market for digital downloading of music.

Based on these findings, the court issued a preliminary injunction requiring Napster to take down all infringing material. Within days after the court's ruling, Napster filed an emergency appeal. Napster's motions to stay enforcement of the preliminary injunction and to expedite the appeal were granted by the Ninth Circuit Court of Appeals. Absent a stay, Napster was in jeopardy of losing its entire business, the same fate that now faces other search engines.

The Arriba Soft Lawsuit: Thumbnails of Photographs

Images rather than music are at issue in another recent case testing the boundaries of the "fair use" doctrine as it applies to Websites and the Internet. Kelly v. Arriba Soft Corporation, 77 F.Supp.2d 1116 (C.D. Cal. 1999). In Kelly, the plaintiff is a photographer who uses his copyrighted works to promote package tours (www.showmethegold.com) and books (www.gold-drush1849.com and www.liwms.com). The defendant operates a free search engine which enables users to search the Web by viewing images rather than text (www.arribavista.com and www.ditto.com). For a time, the defendant also sold media management software called "Arriba Express" that contained a "web-vac" function which allowed users to import or vacuum multimedia files from other websites directly into Arriba Express.

Like MP3 and Napster, Arriba copied protected works onto its servers without permission and without paying compensation to the owners. In the initial version of the Website, when users typed in a search term, they received a page of thumbnail images which purportedly matched the search request. When users clicked on the thumbnail, a framed window displayed the full-size version of the image (from its originating Web site), its dimensions, and the originating address of the image file. However, in order to create the thumbnail, Arriba had to copy temporarily the entire original image onto its servers and, of course, Arriba stored the thumbnails on its database.

Image Searching and Use of Thumbnails Are Held "Transformative" Uses

In Kelly's suit for copyright infringement, the district court in the Central District of California (Judge Taylor) ruled that "fair use" protected the defendant's conduct, in part, "because of the established importance of search engines and the 'transformative' nature of using reduced versions of images to organize and provide access to them. The court was persuaded that defendant's service provided a better way to find images on the Internet. The court was impressed with the new technology of the search engine, broadly interpreting the concept of "transformative" use even though other factors weighed against fair use (e.g., the images were at the core of artistic expression, entire images were

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You Show Me Yours! I'll Show You Mine?
Trade Secret Litigation's Risky Little Secret

Judging from the number of my colleagues who appear surprised when the issue comes up, Code of Civil Procedure § 2019(d) seems to be trade secret misappropriation litigation's risky little secret.

It is a substantive requirement of California law, codified in CCP § 2019(d) that, before the plaintiff in a trade secret misappropriation action may initiate discovery regarding any aspect of the case, the plaintiff must first disclose with reasonable particularity each and every trade secret the plaintiff contends has been misappropriated by the defendant:

(d) In any action alleging the misappropriation of a trade secret under the Uniform Trade Secrets Act, ..., before commencing discovery relating to the trade secret, the party alleging the misappropriation shall identify the trade secret with reasonable particularity subject to any orders that may be appropriate under Section 3426.5 of the Civil Code.

The rule has found support in case law, and is believed to promote a number of judicial objectives:

The rule requiring a plaintiff to disclose its trade secrets at the outset of discovery serves four purposes. First, it promotes well-investigated claims and dissuades the filing of meritless trade secret complaints. Second, it prevents plaintiffs from using the discovery process as a means to obtain the defendant's trade secrets. Third, the rule assists the court in framing the appropriate scope of discovery and in determining whether plaintiff's discovery requests fall within that scope. Fourth, it enables defendants to form complete and well-reasoned defenses, ensuring that they need not wait until the eve of trial to effectively defend against charges of trade secret misappropriation. If plaintiff fails to disclose the trade secrets that it claims have been misappropriated by defendant, the court will seek an injunction from the District Court to prevent further discovery. It may be that Defendants will bring a motion seeking a judicial determination prior to trial that one or more of the claimed trade secrets is not entitled to protection. The Order of the court requires that by September 10, 1999, Plaintiff provide a list of its trade secrets with the same specificity it will be expected to provide in these contexts. Porous Media Corporation v. Midland Brake, Inc., 187 F.R.D. 598, 600 (D. Minn. 1999); see also, Struthers Scientific and Int'l Corp. v. General Foods Corp., 51 F.R.D. 149, 153 (D. Del. 1970). Accordingly, by providing that the disclosures are to be made subject to appropriate protective orders, the California Legislature appears to have intended that the plaintiff's burden under CCP § 2019(d) is to provide a specific and detailed disclosure of the trade secret or secrets at issue — the kind of disclosure not only sufficient to withstand a demurrer, but sufficient for all other purposes in the litigation, including trial.

The requirement thus is a potentially onerous and risky one for the plaintiff. It requires the placement into the record of a trade secret, and to permit the defendant to ascertain at least the boundaries within which the secret lies. If the subject matter of the claimed trade secret is a manufacturing process, the plaintiff must not only identify the end product manufactured, but also supply sufficient data concerning the process, without revealing the details of it, to give both the court and the defendant reasonable notice of the issues which must be met at the time of trial and to provide reasonable guidance in ascertaining the scope of appropriate discovery. See also, Leucadia, Inc. v. Applied Extrusion Techs., Inc. 755 F.Supp. 635, 637 (D. Del. 1991).
Enforcing Insider Trading
Laws in Silicon Valley

The SEC has complained to the Wall Street Journal that a recent local decision is a "blow to the government effort" to enforce the insider trading laws in Silicon Valley. See SEC v. Truong, 2000 U.S. Dist. LEXIS 6505 (N.D. Cal. April 12, 2000). Unfortunately, that analysis will become a self-fulfilling prophecy if the SEC does not learn the right lessons from the Truong decision. (In the interests of full disclosure, I should mention that my colleague Jahan Raissi was one of the successful defense lawyers.)

Suspicious Trading

The SEC had sued Hanh Truong, a software manager at Molecular Dynamics, Inc. ("MDI"), two of his brothers, and several friends for allegedly using material, nonpublic information to sell (and short-sell) MDI stock just before a negative quarterly announcement. According to the SEC, the volume, timing, and success of defendants' stock trading indicated that they had used inside information. Even though Truong was not a senior manager and all of the senior MDI managers who had known the bad news denied telling him, the SEC claimed that Truong had had access to inside information because of MDI's open cubicle environment.

Judge Spencer Williams granted partial summary judgment to defendants, finding no evidence that they had possessed, much less used, any particular inside information before certain trades. Judge Williams relied on the Ninth Circuit's holding in U.S. v. Smith, 155 F. 3d 1051 (9th Cir. 1998), that the government must prove that the defendant "used the inside information in formulating or consummating" the stock trades. Id. at 1070 n. 28 (emphasis added). See Friese and Chan, "The Evolving Insider Trading Debate," ABTL Report Northern California (March 1999).

Judge Williams rejected the central premise of the SEC's case: that suspicious trading, by itself, could warrant an inference that the defendant must have illegally used inside information. Truong at *31. Allowing a jury to draw such an inference from suspicious trading alone, the court reasoned, "would relieve the SEC of its burden to identify the [inside] information, prove its materiality and prove possession and use" by the defendants. Id. Nor could the SEC prove possession and use by showing "access" to inside information from "the mere open-cubicle environment" of MDI. Id. at *35. Otherwise, the court reasoned, "virtually everyone in Silicon Valley...who has merely normal professional relationships with senior management must be considered to have access to confidential information for insider trading purposes." Id.

Trading Your Own Company

It may seem fishy to sell all of your own company's stock, especially just before a drop in the market. Unlike Pete Rose betting against his own baseball team, however, an employee must be permitted, just like any other shareholder, to recognize that "what goes up may come down." The securities laws allow employees to bet for and against their own companies — as long as their bets are not based on material nonpublic information.

Employees do not necessarily have an unfair advantage when trading their own stock. A mid-level employee is not really any better informed about what will affect the stock price than analysts and other traders. To the contrary, market professionals usually have greater access to material financial information than all but the most senior management. Employees may have a "feel" for what is happening, but that "feel" may not be very helpful in guessing the market's next move. It should not make an employee's trading illegal.

The SEC wants to be allowed to prove that an employee was using illegal insider information by simply showing that the trading was suspicious, in hindsight, because of its volume, timing, and success. Such a rule, however, would shift the burden to the employee to defend his trading without any proof that he had any particular information that was both material and nonpublic.

Prosecutorial Discretion

The SEC has publicly defended its reliance on circumstantial evidence in the Truong case, but it should be reconsidering why the case was brought in the first place. The agency invested five years of effort on this matter, but never uncovered any evidence that defendants had any specific inside information. Unfortunately, institutional momentum apparently resulted in charges being brought even though there was no "smoking gun."

Despite the SEC's public comments, this case will not necessarily be a blow to its insider trading enforcement. The SEC must remember that no one wins when it accuses someone of fraud without enough evidence. Both the agency and the "vindicated" defendants lose time, money, and public stature. The agency will better serve the interests of justice and the investing public by electing not to prosecute marginal cases. Such discretion would strengthen, not weaken, the SEC's enforcement efforts as a whole.

— Charles R. Rice

Efficient Practice or Malpractice

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ing entering into an agreement that the limited disclosure would not constitute a waiver generally of applicable privileges.

The Ninth Circuit has held that parties may not effectively preserve the attorney client communication and work product privileges by making a limited disclosure and purporting, at the time of that disclosure, to reserve a right to assert applicable privileges in the future. Well v. Investment/Indicators, Research & Management, 647 F. 2d 18, 23 (9th Cir. 1981) (case fact statement does not specify clearly if disclosure was completely voluntary or with reservation of privilege claims). Only the Eighth Circuit Court of Appeals has expressed a somewhat different view in holding that production in a non-public SEC investigation could be done without causing a general waiver of applicable privileges, if done with a reservation of rights by the producing party. Diversified Industries, Inc. v. Meredith, 572 F. 2d 596 (8th Cir. 1977).

— Laurence Jackson and Adam D. H. Grant
Arbitration
In *Louise Gardens of Encino Homeowners Association, Inc. v. Truck Insurance Exchange*, 2000 Daily Journal D.A.R. 8209 (Court of Appeal July 25, 2000), 82 Cal. App. 4th 648 (2000), the Second Appellate District held that a party to an arbitration may not circumvent the 100-day time requirement in which to seek the vacation of an award by attempting to raise his or her objections to the award in an appeal from the judgment entered following an order of confirmation.

In *Groom v. Health Net*, 2000 Daily Journal D.A.R. 8797 (Court of Appeal August 9, 2000), 82 Cal. App. 4th 1189 (2000), the Second Appellate District held that a health maintenance organization did not waive its right to compel contractual arbitration by its one-year participation in litigation by way of successive demurrers to the complaint and its propounding of written discovery to the plaintiff, which was not answered. The Court of Appeal found that this activity was not litigation on the merits and that the plaintiff had not demonstrated any prejudice by the HMO’s conduct. The Court of Appeal held that prejudice in the context of waiver of the right to compel arbitration means some impairment of the other party’s ability to participate in arbitration.

Punitive Damages
In *Cruz v. Homebase*, 2000 Daily Journal D.A.R. 9303 (Court of Appeal August 21, 2000), 99 Cal. Rptr. 2d 435 (2000), the Second Appellate District held that a corporation is not liable for punitive damages when a store supervisor subordinate to the store manager in a single outlet of a multi-store chain, and not managing agent of the entire chain, has actual knowledge of employee’s malicious conduct.

Insurance
In *Michelson v. Mid-Century Ins. Co.*, 2000 Daily Journal D.A.R. 9649 (Court of Appeal August 29, 2000), the Second Appellate District affirmed summary judgment in favor of an insurer on the ground that the bad faith action brought by the insured against the insurer for damages arising out of the Northridge earthquake was barred by the one-year statute of limitations. The Court of Appeal held that the insured could not claim that there was an issue as to when she discovered all of the elements of the loss when the complaint alleged that her earthquake loss occurred on January 17, 1994 and she concurred with the insurer’s statement of undisputed facts that January 17, 1994 was the starting date for her loss.

In *Belmonte v. Employers Ins. Co.*, 2000 Daily Journal D.A.R. 9613 (Court of Appeal August 29, 2000), 99 Cal. Rptr. 2d 661 (2000), the Fourth Appellate District held that the insurer did not owe a duty to defend its insured under a commercial general liability insurance policy against the claim of a third party where there was no conceivable theory which would provide coverage under the policy.

Corporations
In *GAB Business Services, Inc. v. Lindsey & Newsom Claim Services, Inc.*, 2000 Daily Journal D.A.R. 9553 (Court of Appeal August 29, 2000), 99 Cal. Rptr. 2d 665 (2000), the Fourth Appellate District held that it was error for the trial court to treat the existence of a fiduciary duty of a corporate officer to the corporation as a question of fact, holding that a corporate officer who participates in management of the corporation, exercising some discretionary authority, is a fiduciary of the corporation as a matter of law.

In *McDermott, Will & Emery v. Superior Court*, 2000 Daily Journal D.A.R. 9599 (Court of Appeal August 28, 2000), 99 Cal. Rptr. 2d 622 (2000), the Second Appellate District held that a shareholder may not sue the corporation’s outside counsel in a derivative action for legal malpractice arising out of the counsel’s representation of the corporation because, in the absence of a waiver of the attorney-client privilege by the corporate client, the counsel is effectively foreclosed from mounting any meaningful defense to the shareholder derivative action.

Real Property
In *Lawler v. Jacobs*, 2000 Daily Journal D.A.R. 10059 (Court of Appeal September 11, 2000), the First Appellate District held that a buyer’s waiver of antideficiency protection and promise to remain personally liable on a purchase money note for the purchase of real property are void as contrary to Code of Civil Procedure §580b and public policy. The court further held that the lender could not sue the borrower for fraud for nonperformance of an invalid waiver of the antideficiency statutes.

Civil Procedure
In *People v. Kothari*, 2000 Daily Journal D.A.R. 9991 (Court of Appeal September 11, 2000), the Fourth Appellate District held that an injunction precluding landowners and their successors from engaging in certain criminal activities was not binding upon future owners of the land because an injunction is an *in personam* remedy and cannot be treated as an *in rem* remedy which runs with the land.

In *Rothschild v. Tyco International (US), Inc.*, 2000 Daily Journal D.A.R. 9697 (August 30, 2000), 99 Cal. Rptr. 2d 721 (2000), the Fourth Appellate District held that an action for unfair competition was not barred by the pendency of another action under the California False Claims Act (Gov. Code § 12650 et seq.) based on the same underlying factual allegations that provided the basis for the unfair competition action. The court of appeal held that the bar on "related actions" under Gov. Code § 12652(c)(10) applies only to subsequent *qui tam* actions filed under the False Claims Act. The Court of Appeal further held that the two actions did not violate the rule against splitting a cause of action because the plaintiff was acting on behalf of the government in asserting a violation of the False Claims Act and was seeking a remedy for a wholly separate and distinct injury to herself and other similarly situated individuals in pursuing a violation of the unfair competition laws.

In *Bancroft & Masters, Inc. v. Augusta National, Inc.*, 2000 Daily Journal D.A.R. 9197 (U.S. Court of Appeals August 18, 2000), the Ninth Circuit held that the district court can exercise specific jurisdiction over a trademark action because the complaint alleges that the defendant, a Georgia corporation, engaged in wrongful conduct that individually targeted the plaintiff in California. The plaintiff-appellant is a California corporation that registered the name “masters.com” with Network Solutions, Inc. Defendant-appellee is a Georgia corporation which sponsors the annual PGA Tour event known as the Masters Tournament. It sent a letter to Network Solutions, Inc. challenging Bancroft & Masters, Inc.’s use of “masters.com” which triggered Network Solution, Inc.’s then-applicable dispute resolution policy, thus forcing Bancroft & Masters, Inc. to file suit. The Ninth Circuit held that the defendant-appellee had acted intentionally when it sent its letter to Network Solutions, Inc. because it knew that the effects would be primarily felt in California.

— Denise M. Parga
Copyright Protection on the Internet
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copied in order to create the thumbnails, and the images were
used for a commercial purpose).

Contrast Judge Taylor’s liberal bent on “transformative” use
with the MP3/Napster decisions. In one case, the court found that
thumbnails (which are merely smaller versions of the original dig-
ital image) constituted a transformative use of the copyrighted
work in the context of a search/index service. In the other cases,
the court held that MP3 files (which are merely digital files of the
original CD recordings) did not constitute a transformative use in
connection with a site that performed a search/index function as
well.

The district court’s decision in Kelly stands alone in upholding
the fair use defense in this context and is currently on appeal to
the Ninth Circuit Court of Appeals.

Conclusion

Each of these cases has wide-ranging implications for the
Internet. On one side are those who believe the Internet was
meant to be a seamless web of information, free and open to all
users. On the other side are those who believe the Internet can
and should become a profitable extension of normal channels of
commerce. In order to flourish in this environment, the courts
must protect the intellectual property rights of those who pro-
vide the content on the Internet, whether that content consists of
music, video, photographs or film.

— Steven L. Krongold

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detailed revelation of all of the allegedly vital trade secrets it
seeks to protect from use by competitors, including the defen-
dant that allegedly has misappropriated them. Failure to include
any particular trade secret within the disclosure document will
remove it from further consideration in the lawsuit as a potential
basis for liability. An overly expansive disclosure, on the other
hand, creates additional risks. Even if the disclosure is made
under the terms of a protective order, the information neverthe-
less is in the record and subject to the risks of inadvertent disclo-
sure, of a motion by the opponent under the protective order to
remove the “confidential” and/or “attorneys eyes only” designa-
tions from the initial disclosure, or of some additional competitor
seeking to obtain the information under the Freedom of
Information Act or other means, proper or improper (a topic for
another article perhaps, but beyond the scope of this one).

Clearly, CCP § 2019(d) requires the would-be trade secret
misappropriation plaintiff to weigh carefully the benefits
of going forward with a trade secret misappropriation claim
against the risks attendant to such a disclosure, including the risk
that, win or lose, the defendant may ultimately come to know the
very information which the plaintiff seeks to protect from the
defendant in the first place. While the risks can be minimized by
a carefully crafted protective order and keeping the number of
trade secrets put at issue to the absolute minimum, CCP §
2019(d) nevertheless presents risks which the plaintiff should not
lightly undertake. Before pressing forward, the plaintiff should
consider carefully which trade secrets to include in the litigation
And, any decision to proceed should be made based upon credi-
ble evidence that an actual misappropriation of each of those
trade secrets has occurred, rather than upon mere suspicion or
for tactical or competitive objectives.

— Joel Mark