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United States District Court  
For the Northern District of California

UNITED STATES DISTRICT COURT  
NORTHERN DISTRICT OF CALIFORNIA

E-SMART TECHNOLOGIES, INC., et al.,  
Plaintiffs,  
v.  
WAYNE DRIZIN, et al.,  
Defendants.

No. C 06-05528 MHP

**MEMORANDUM & ORDER**

**Re: Defendants’ Motion for Partial  
Summary Judgment; Defense Counsel's  
Motion to Withdraw as Counsel**

On September 11, 2006, E-Smart Technologies, Inc., and IVI Smart Technologies, Inc., (collectively “plaintiffs”) filed suit against defendants Wayne Drizin, Michael Gardiner, Electronic Plastics Corporation, and A Card Company (collectively “defendants”), alleging violations of California trade secrets law, among several other causes of action. Defendants have now moved for partial summary judgment. Separately, the defendants’ attorneys have moved for permission to withdraw as counsel. Having considered the parties’ arguments and for the reasons stated below, the court enters the following memorandum and order.

**BACKGROUND**

I. **Facts Pertaining to Defendants’ Motion for Partial Summary Judgment**

Biometrics is the science of establishing human identity based on physical or behavioral traits, such as fingerprints, facial recognition, and iris recognition. Bavarian Dec. ¶ 1. Plaintiff E-Smart was formed in 2000 for the purpose of developing and marketing a biometric identification

1 verification system. First Amended Complaint (“FAC”) ¶ 2. A key component of E-Smart’s system  
2 is its proprietary “smart card.” Id. ¶ 22. Defendant Drizin helped develop E-Smart’s technology  
3 and, until about June 2006, was a consultant to E-Smart. See id. ¶ 3. By written assignment, Drizin  
4 and his co-inventors assigned all rights, title, and interest to E-Smart’s technology to plaintiffs. Id. ¶  
5 3. Defendant Gardiner owns defendants Electronics Plastics Corporation and A Card Company. Id.  
6 ¶ 4. Gardiner and one or more of his companies were at one time involved in the manufacture of E-  
7 Smart smart cards. Id.

8         There was a falling-out between E-Smart on the one hand, and Drizin and Gardiner on the  
9 other. Drizin announced his “resignation” from E-Smart in June 2006. See id. ¶ 40. Plaintiffs  
10 allege that Drizin and Gardiner then engaged in a course of conduct that involved stealing E-Smart’s  
11 valuable trade secrets, tangible property, and business opportunities, and using them to compete  
12 against E-Smart. Plaintiffs allege, for instance, that Drizin met with representatives of Bank DKI  
13 Indonesia and attempted to compete for a contract for which E-Smart had already negotiated for  
14 more than a year. See id. ¶ 42-50. At the time, Drizin was allegedly in possession of E-Smart smart  
15 cards and technology and offered to deliver E-Smart technology to the bank. Id. ¶ 46. Plaintiffs also  
16 allege that Gardiner and Drizin remained in possession of operational E-Smart cards and refused to  
17 surrender them. See id. ¶¶ 56-59.

18         Plaintiffs filed their initial complaint on September 11, 2006. On November 3, 2006,  
19 defendants filed their answer and counterclaim. Plaintiffs answered the counterclaim on November  
20 28, 2006. Plaintiffs filed their initial trade secret designation on November 13, 2006, and filed  
21 supplemental designations on December 11, 2006, and March 15, 2007. On May 1, 2007, the court  
22 appointed Dr. A. J. Nichols to serve as Special Master, to assist the parties in resolving their disputes  
23 regarding discovery and the designation of trade secrets. The Special Master issued an order  
24 concerning the identification of trade secrets on January 4, 2008. This order provided the final  
25 designation of plaintiffs’ trade secrets, describing nine separate trade secret designations.  
26 Defendants filed the instant motion for partial summary judgment on May 12, 2008.

1 II. Facts Pertaining to Plaintiffs' Opposition to Douglass's Motion to Withdraw

2 On October 21, 2008, counsel for defendants filed a motion for leave to withdraw as  
3 counsel.<sup>1</sup> Plaintiffs conditionally oppose the motion as to defendants' attorney Patricia D. Douglass.

4 At the start of this action, plaintiffs were represented by Maranda E. Fritz, of the Hinshaw &  
5 Culbertson LLP law firm. Defendants have until now been represented by Patricia D. Douglass and  
6 two lawyers from the Stoel Rives LLP law firm. In the spring of 2008, difficulties arose in the E-  
7 Smart-Hinshaw relationship. As noted, defendants filed their motion for partial summary judgment  
8 on May 12, 2008. Thereafter, Fritz asked defendants for multiple extensions of time to respond. See  
9 Douglass Dec. ¶¶ 4-9. On July 31, 2008, Donald J. Putterman of the Kasowitz, Benson, Torres &  
10 Friedman LLP law firm filed a substitution of counsel notice, substituting his firm's lawyers as  
11 counsel for E-Smart and IVI Smart. The court ordered the substitution on August 5, 2008. Docket  
12 Number 201.

13 In the meantime, Michael Gardiner and an entity not named in the instant action had filed a  
14 complaint in the Southern District of California seeking a declaratory judgment that their products  
15 did not infringe a patent owned by IVI Smart. IDSsmart LLC & Michael Gardiner v. IVI Smart  
16 Technologies, No. 07CIV1947 JLS (AJB) (S.D. Cal.) (hereinafter "the Southern District action");  
17 see also Landry Dec., Exh. D (Sept. 29, 2008, Order of Hon. Janis L. Sammartino) (hereinafter  
18 "Sammartino order") at 4. On August 18, 2008, Fritz asked Putterman by email whether Putterman  
19 was also preparing a motion for substitution of counsel in the Southern District action. Putterman  
20 Dec. ¶ 3. Putterman replied that his firm was *not* prepared to substitute into that case. Id. On  
21 August 29, 2008, Fritz filed a motion in the Southern District to withdraw as counsel for IVI Smart.  
22 Id. ¶ 4.

23 On September 11, 2008, Putterman "specially appeared" before Judge Sammartino for the  
24 purpose of filing a conditional opposition to Fritz's withdrawal motion. Id. In his pleading,  
25 Putterman petitioned the court to condition the Hinshaw firm's withdrawal on the delivery to IVI  
26 Smart of documents related to the proceeding, and on the continuation of Hinshaw as IVI Smart's  
27 counsel until October 15, 2008, or until other counsel had been found. Id., Exh. B (Putterman  
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1 motion) at 1. Putterman’s pleading asserted that such an order was “necessitated by the improper  
2 conduct in which the Hinshaw firm and its lead counsel herein, Maranda E. Fritz, Esq., already have  
3 engaged in a parallel proceeding pending in the Northern District of California.” Id. Putterman  
4 accused the Hinshaw firm of failing to turn over files and of doing no work on the opposition to  
5 defendants’ partial motion for summary judgment while time was allowed to run. See id.  
6 Putterman’s filing also asserted that Fritz had become “personally involved in a regulatory matter  
7 which implicated other work she had performed on behalf of e-Smart,” id. at 2, and that “Hinshaw’s  
8 conduct appears to be intentional and motivated by personal animus on the part of Ms. Fritz toward  
9 both new counsel and the client,” id. at 4. Putterman had included similar statements, including a  
10 statement that the attorney-client relationship between E-Smart and Fritz “began to deteriorate,” in a  
11 stipulated order to continue dates, ordered on August 12, 2008, in the instant case. See Docket  
12 Number 203.

13 On September 23, 2008, Fritz filed a declaration in the Southern District action (“Fritz  
14 Declaration”). Fritz declared that the record before the court was incomplete and misleading, and  
15 she recited allegations to defend herself against the charges being leveled at her and her firm by E-  
16 Smart through their new counsel. Douglass, who considered it part of her job to monitor the status  
17 of cases related to the instant action, accessed the PACER electronic case management system on  
18 the same day the Fritz Declaration was filed and downloaded the declaration. Douglass Dec. ¶¶ 15-  
19 17. At that point, the document was not under seal and was publicly available to anyone with a  
20 PACER account. Id. ¶ 17. Douglass forwarded copies of the declaration to the Enforcement  
21 Division of the Securities and Exchange Commission (SEC) on September 24 and to Larry  
22 Wechsler, who is private counsel to multiple E-Smart board members, on September 25. See  
23 Putterman Dec., Exh. M (Douglass email).

24 On September 25, 2008, Putterman filed an *ex parte* application requesting that the Fritz  
25 Declaration be stricken or, in the alternative, sealed, and further noted that if the court granted a  
26 long-pending motion to dismiss, the issue would become moot. Putterman Dec., Exh. J. The motion  
27 papers claimed that the Fritz Declaration contained privileged attorney-client communications. Id.  
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1 They asked Judge Sammartino for an order prohibiting any further dissemination of the declaration  
2 and prohibiting retention or use of the document by defendants or any person to whom it had been  
3 transmitted. Id. Four days later, the court dismissed the case, finding that there was no substantial  
4 controversy of sufficient immediacy to warrant declaratory judgment. Sammartino Order at 14. The  
5 court also wrote:

6 Because the dismissal for lack of subject matter jurisdiction **CONCLUDES** this  
7 litigation, the Court **DENIES AS MOOT** Hinshaw & Culberston, LLP’s motion to  
8 withdraw as counsel for the defendant.

9 Finding that each “Declaration of Maranda E. Fritz in Further Support of  
10 Motion to Withdraw as Counsel” contains confidential attorney-client  
11 communications, the Court finds good cause to seal these declarations in order to  
12 prevent defendant from being harmed or prejudiced by the disclosure of these  
13 communications. [Citation omitted.] Therefore, the Court **GRANTS** defendant’s  
14 motion to seal these declarations and **DIRECTS** the Clerk to seal Document  
15 Numbers 28 and 30. The Court **DECLINES** to order the additional relief requested  
16 by Kasowitz Benson (specially appearing on defendant’s behalf).

17 Id.

18 Now pending is the motion by defense counsel to withdraw from representing plaintiffs in  
19 the instant action. Current counsel for the plaintiff does not object to the unconditional withdrawal  
20 of the Stoel Rives attorneys but asks the court to “retain[] jurisdiction” over Douglass.

21 LEGAL STANDARD

22 I. Summary Judgment

23 Summary judgment is proper when the pleadings, discovery and affidavits show that there is  
24 “no genuine issue as to any material fact and that the moving party is entitled to judgment as a  
25 matter of law.” Fed. R. Civ. P. 56(c). Material facts are those which may affect the outcome of the  
26 proceedings. Anderson v. Liberty Lobby, Inc., 477 U.S. 242, 248 (1986). A dispute as to a material  
27 fact is genuine if there is sufficient evidence for a reasonable jury to return a verdict for the  
28 nonmoving party. Id. The party moving for summary judgment bears the burden of identifying  
those portions of the pleadings, discovery, and affidavits that demonstrate the absence of a genuine  
issue of material fact. Celotex Corp. v. Catrett, 477 U.S. 317, 323 (1986). On an issue for which the

1 opposing party will have the burden of proof at trial, the moving party need only point out “that  
2 there is an absence of evidence to support the nonmoving party's case.” Id.

3         Once the moving party meets its initial burden, the nonmoving party must go beyond the  
4 pleadings and, by its own affidavits or discovery, “set forth specific facts showing that there is a  
5 genuine issue for trial.” Fed. R. Civ. P. 56(e). Mere allegations or denials do not defeat a moving  
6 party’s allegations. Id.; see also Gasaway v. Northwestern Mut. Life Ins. Co., 26 F.3d 957, 960 (9th  
7 Cir. 1994). The court may not make credibility determinations, Anderson, 477 U.S. at 249, and  
8 inferences drawn from the facts must be viewed in the light most favorable to the party opposing the  
9 motion. Masson v. New Yorker Magazine, 501 U.S. 496, 520 (1991).

## 10 11 II. Withdrawal of Counsel

12         “Counsel may not withdraw from an action until relieved by order of the Court after written  
13 notice has been given reasonably in advance to the client and to all other parties who have appeared  
14 in the case.” Civil Local Rule 11-5(a). Certain conditions may be imposed on withdrawal. See id.,  
15 Rule 11-5(b).

## 16 17 DISCUSSION

18         Defendants move for partial summary judgment on plaintiffs’ second, fifth, and sixth causes  
19 of action. Defendants also petition the court to rule that injunctive relief is an inappropriate remedy  
20 for certain trade secret designations. Separately, defendants’ counsel have moved to withdraw.

### 21 22 I. California Uniform Trade Secrets Act (UTSA) (E-Smart's Second Claim)

23         Defendants contend that almost all of E-Smart’s alleged trade secrets are already available in  
24 the public domain. In support of their position, defendants point to a veritable encyclopedia of  
25 public domain evidence purportedly demonstrating that nine of the eleven trade secrets at issue in  
26 this case are no longer secret. According to defendants’ expert, Mr. Henry N. Dreifus, none of the  
27 nine designations contains technology that was not known or obvious to people in the industry at the  
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1 time of the alleged misappropriation. See Dreifus Dec. ¶¶ 14, 20, 22, 24, 26, 29, 32, 35 & 37.<sup>2</sup>  
2 Dreifus generally avers: "[T]he basic parameters, components, schematics, and designs for a  
3 biometric smart card have been and are readily known to those in the industry and available to  
4 anyone with Internet access. Thus, it is difficult to find a biometric smart card with a truly  
5 protectable iteration or without well-known technology." Id. ¶ 9. Through Dreifus's testimony and  
6 the documentary evidence presented, defendants meet their threshold burden of pointing to the  
7 absence of a genuine issue of material fact.

8 Plaintiffs argue, however, that important genuine issues of material fact remain for each of  
9 the nine challenged designations. Plaintiffs offer the testimony of Dr. Behnam Bavarian, along with  
10 their own library of exhibits, to show that Dreifus and defendants have it wrong. According to  
11 Bavarian, Dreifus's analysis suffers from no less than four major flaws. Bavarian argues that Dreifus  
12 "focuses on the general concepts of biometric smart cards, but fails to address the specifics of *how*  
13 eSmart has proposed to produce an actual biometric smart card." Bavarian Dec. ¶ 12. Second,  
14 Bavarian states that Dreifus confuses the question of knowing what components make up a  
15 biometric smart card with that of knowing how to integrate those components into a working  
16 product. Id. ¶ 13. Third, Bavarian claims that Dreifus misunderstands the fundamental differences  
17 between the different elements out of which a biometric smart card is made. Id. ¶ 14. Bavarian's  
18 final general criticism is that Dreifus trivializes the technical difficulty of creating a biometric smart  
19 card, a field of endeavor which Bavarian characterizes as being "on the leading edge of technology."  
20 Id. ¶ 15. After lodging his general objections to Dreifus's analysis, Bavarian proceeds to offer  
21 detailed technical explanations as to why the publicly accessible materials offered by defendants for  
22 each of the nine trade secret designations fail to demonstrate that the trade secrets had been revealed  
23 to the public at the time of the alleged misappropriation. Id. ¶¶ 16-110.

24 Rule 56 is not intended to enable trial by affidavit. See Anderson at 242-243 ("At the  
25 summary judgment stage, the trial judge's function is not himself to weigh the evidence and  
26 determine the truth of the matter but to determine whether there is a genuine issue for trial. . . . In  
27 essence, the inquiry is whether the evidence presents a sufficient disagreement to require submission  
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1 to a jury or whether it is so one-sided that one party must prevail as a matter of law."). Through the  
2 offer of Bavarian's detailed and reasoned testimony and the evidence upon which it relies, plaintiffs  
3 have succeeded in "set[ting] forth specific facts showing that there is a genuine issue for trial." See  
4 Fed. R. Civ. P. 56(e).

5 In their reply, defendants advance several creative arguments in an attempt to avoid denial of  
6 their motion. They contend that plaintiffs have somehow attempted to re-define their trade secrets  
7 by arguing that the sum of a trade secret is more than its parts—to use Bavarian's illustration, that a  
8 recipe for chicken soup involves proper timing, temperature, and quantities, not just a list of  
9 ingredients. See Bavarian Dec. ¶ 13. Defendants argue that combinations of parts cannot be part of  
10 the trade secrets because only one of the nine designations (designation I) even uses the word  
11 "combination." Reply at 5.

12 Whether the word "combination" was or was not used is irrelevant. The special master  
13 incorporated patent applications and exhibits by reference into the trade secret designations. See  
14 Order of the Special Master Concerning Identification of Trade Secrets, Jan. 4, 2008, at 6-8. These  
15 applications and exhibits do not list rosters of spare parts; rather, they describe inventions and  
16 processes. The Bavarian declaration at the least raises genuine issues of material fact as to whether  
17 the documents cited by Dreifus reveal that the trade secrets themselves, rather than some  
18 insignificant components, have been publicly exposed.

19 Defendants cite cases to support the proposition that plaintiffs have not adequately defined  
20 their trade secrets in terms of how specific elements are combined. These cases do not help  
21 defendants. Unlike the plaintiffs in Pixon v. Placeware, 421 F. Supp. 2d 1233 (N.D. Cal. 2005)  
22 (Illston, J.), E-Smart, with help from the Special Master, has written disclosures that reflect both a  
23 functionality and a "how to" for creating that functionality, primarily through the incorporation of  
24 the appropriate documents by reference. See id. at 1242. The case of VFD Consulting v. 21st  
25 Services, 425 F. Supp. 2d 1037 (N.D. Cal. 2006) (Armstrong, J.), is likewise inapposite. In that  
26 case, the plaintiff asserted that it, through an individual named Dolan, had made contributions to a  
27 life expectancy prediction system developed by the defendants, but the court found there to be no  
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1 evidence of any such contribution. Id. at 1049. Dolan had admitted that the information she  
2 provided for the project was publicly available, but the plaintiffs argued that the information was a  
3 trade secret because it was selected using Dolan's "unique experience." Id. The court held that the  
4 plaintiffs had to describe this sort of alleged trade secret, which was based solely on a novel  
5 arrangement of publicly available information, with greater particularity than the plaintiff had done.  
6 Id. In the instant case, plaintiffs have not admitted—indeed, have fiercely disputed—that the  
7 underlying information defendants allegedly misappropriated was publicly available. Unlike VFD  
8 Consulting, there remain genuine issues of material fact as to whether individual components  
9 themselves are publicly available. The case of Litton v. Sunstrand, 750 F.2d 952 (Fed. Cir. 1984),  
10 does not help defendants either. In that case, the court affirmed the district court's decision not to  
11 issue a preliminary injunction, finding that the plaintiff's "Achilles Heel" on that record was that it  
12 had insisted on postponing the identification or description of thousands of unidentified trade secrets  
13 so as to require an extraordinarily sweeping injunction. Id. at 956. That is nothing like this case.

14 Defendants also reply that any and every combination of elements present in the designations  
15 would be "obvious" to individuals working in the field at the time of the alleged appropriation.  
16 Indeed, a trade secret requires "some degree of novelty or 'unknownness.'" Strategic Directions  
17 Group v. Bristol-Myers Squibb, 293 F.3d 1062, 1065 (8th Cir. 2002). However, this question of  
18 novelty must be based upon factual determinations, and plaintiffs have raised genuine issues of  
19 material fact.

20 Defendants' Motion for partial summary judgment on plaintiff's second cause of action,  
21 violation of the California trade secret law, is DENIED.

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### 23 II. Injunctive Relief

24 In their motion for partial summary judgment, defendants also argue that even if plaintiffs  
25 should prevail on their trade secret claims, they are not entitled to injunctive relief protecting alleged  
26 secrets that are currently in the public domain. Defendants state that the sole support for  
27 designations VII, VIII, and XIVa is patent application 60/709,981, which was published in February  
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1 2007. Plaintiffs counter that the disclosure of the trade secrets at issue does not foreclose injunctive  
2 relief. See Cal. Civ. Code § 3426.2(a) ("Upon application to the court, an injunction shall be  
3 terminated when the trade secret has ceased to exist, but the injunction may be continued for an  
4 additional period of time in order to eliminate commercial advantage that otherwise would be  
5 derived from the misappropriation.").

6 It is premature at this time to foreclose any particular remedy. There has been no  
7 determination whether defendants misappropriated plaintiffs' trade secrets. As defendants note, the  
8 court has already ordered defendants, per stipulation, not to use any E-Smart proprietary technology  
9 or trade secrets. See Docket Number 42 (joint stipulation and order). This fact does not provide a  
10 basis for the court to foreclose a particular remedy before the merits of the litigation have even been  
11 fully adjudicated.

12 Defendant's motion is DENIED insofar as it seeks a ruling on the appropriateness of  
13 injunctive relief.

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15 III. Unfair Competition and Misappropriation/Conversion (E-Smart's Fifth and Sixth Claims)

16 Defendants also move for summary judgment on plaintiffs' fifth and sixth claims, see  
17 Complaint ¶¶ 95-109, to the extent that they are based upon trade secret misappropriation. In a rare  
18 feat of consensus, the parties basically agree on the scope of the California UTSA's preemption of  
19 common law torts. Both parties cite Digital Envoy v. Google, 370 F. Supp. 2d 1025 (N.D. 2005)  
20 (Seeborg, Mag. J.), although defendants misquote the test applied in that case. In Digital Envoy, the  
21 plaintiffs brought claims of unfair competition and unjust enrichment along with their UTSA claims.  
22 Id. at 1029. The court ruled that the UTSA preempted the common law claims and granted the  
23 defendant's motion for partial summary judgment. Id. at 1035. In that case, however, the plaintiff's  
24 claims for relief were "based on *identical* facts alleged in its claim for misappropriation of trade  
25 secrets." Id. (emphasis added). In the instant case, plaintiffs have alleged facts relating not only to  
26 defendants' alleged misappropriation of their intellectual property, but also to misappropriation of  
27 business opportunities, see, e.g., Complaint ¶¶ 42-50, and conversion of tangible items, see, e.g.,

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1 Complaint ¶¶ 56-59. To the extent that the unfair competition and conversion claims rely upon  
2 allegations of something other than misappropriation of trade secrets, those claims cannot be  
3 preempted by the UTSA.

4 Defendants' motion for summary judgment on the common law unfair competition and  
5 misappropriation/conversion claims is GRANTED to the extent that those claims rely upon  
6 allegations of trade secret misappropriation and DENIED to the extent that they do not.

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8 IV. Withdrawal of Defense Counsel

9 Plaintiffs argue that defense counsel had been on notice of a deterioration of the attorney-  
10 client relationship between E-Smart and Fritz since August 2008. As such, contend plaintiffs,  
11 Douglass should have known that Fritz's declaration, publicly filed in the Southern District,  
12 contained privileged attorney-client information. Plaintiffs assert that Douglass had a duty to refrain  
13 from reading or distributing the filing.

14 Douglass counters that the declaration in question was filed and publicly available. She  
15 claims that the Fritz Declaration did not appear to reveal any communication for the purpose of  
16 obtaining legal advice, the substance of any legal advice imparted to E-Smart, or any discussion of  
17 legal strategy. Douglass further contends that she disseminated the Fritz declaration for legitimate  
18 reasons, namely (1) to inform the E-Smart board of directors about alleged misrepresentations of  
19 settlement discussions which she felt an exhibit to the Fritz Declaration brought to light, and (2) to  
20 inform the SEC of the public release of information about its ongoing non-public investigation of E-  
21 Smart. Douglass avers that she has made no use whatsoever of the Fritz Declaration since Judge  
22 Sammartino's order to seal was filed, other than to retain a copy for use "in the event of additional  
23 delaying motions" or to defend herself against the allegations made by plaintiffs in the context of  
24 this motion. Douglass Dec. ¶ 27.

25 Plaintiffs request that the court "retain jurisdiction" over Douglass to determine (1) whether  
26 she engaged in misconduct through her publication of the Fritz Declaration; (2) whether Fritz and  
27 Douglas somehow conspired to publish and use the communications; and (3) what use has been  
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1 made of the publication, if any, by defendants. There is no evidence before this court of a  
2 conspiracy or of any improper use of the Fritz Declaration by Douglass or defendants after the entry  
3 of the sealing order. If any party has violated the sealing order or violates it in the future, that is an  
4 issue to be taken up before Judge Sammartino. The only question properly before this court is  
5 whether Douglass engaged in misconduct relating to her publication of the Fritz Declaration prior to  
6 the entry of the sealing order.

7 Plaintiffs rely on Rico v. Mitsubishi Motors Corp., 42 Cal.4th 807 (2007), which reaffirmed  
8 the California standard for the protection of privileged information articulated in State Comp. Ins.  
9 Fund v. WPS, Inc., 70 Cal. App. 4th 644 (1999), for the proposition that Douglass had a duty not to  
10 read or distribute the Fritz declaration. Even assuming that it is appropriate to look to state law in  
11 this case,<sup>3</sup> Rico is (wildly) inapposite. In that case, one of the plaintiffs’ attorneys inadvertently  
12 came into possession of notes of a discussion between opposing counsel and their expert witness.  
13 See Rico at 811-812. Although the document was not labeled as attorney work product, it was  
14 “absolutely privileged” by the attorney work product rule, as would be apparent at first glance. See  
15 id. at 813. Upon finding the document, the plaintiff’s attorney not only failed to notify defense  
16 counsel, but gave copies of the document to co-counsel and the plaintiffs’ expert witnesses, and used  
17 the document in deposing the defendant’s expert. Id. at 812. The court found that the plaintiffs’  
18 attorney acted unethically by failing to notify defendants and instead “surreptitiously using it to gain  
19 maximum adversarial value from it.” Id. at 813.

20 In this case, Douglass obtained the Fritz Declaration through perfectly legitimate means: by  
21 reading a public filing. It would be an odd result, indeed, if the court began to place restrictions on  
22 the ability of attorneys to read documents publicly filed in related cases. Moreover, unlike the  
23 attorney in Rico, Douglass did not use the disclosure to gain an advantage in litigation. Sending the  
24 document to counsel for E-Smart’s own board members certainly cannot constitute a disclosure of  
25 E-Smart’s privileged communications. Disclosure to the SEC, while undoubtedly calculated to  
26 encourage SEC scrutiny of E-Smart, is hardly equivalent to the uses to which the privileged material  
27 in Rico was put. In any event, Douglass disclosed the declaration to the SEC on September 24,  
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1 2008, before the declaration was sealed or plaintiffs had even filed their motion to strike or seal.  
2 Putterman admits that he did *not*, on or before September 24, contact Douglass to request that she  
3 not disseminate the document. Putterman Dec. ¶ 13. Rico is also distinguishable insofar that it  
4 applied the standard of California Code of Civil Procedure section 128.5, which has been superceded  
5 and applies only to cases filed before 1995. See Olmstead v. Arthur J. Gallagher & Co., 32 Cal.4th  
6 804, 812 (2004).<sup>4</sup>

7 Plaintiffs selectively quote the State Fund/Rico standard to support their broad assertion that  
8 an attorney who “receives materials that obviously appear to be . . . confidential and privileged”  
9 must refrain from examining those materials any more than necessary to ascertain privilege. Opp. at  
10 8. They fail to note that the very same sentence describes “materials [that] were provided through  
11 inadvertence.” Rico at 817. The Rico court continues, “[T]he lawyer receiving such materials  
12 should refrain from examining the materials any more than is essential to ascertain if the materials  
13 are privileged, and shall immediately notify the sender that he or she possesses material that appears  
14 to be privileged.” Id. The Fritz Declaration was not an errant fax or email; at the time Douglass  
15 downloaded and forwarded it, it was available to the world at large. It would make no sense for  
16 Douglass to call Fritz and warn her that she, Douglass, possessed material that appeared to be  
17 privileged. Fritz had knowingly placed the material in a publicly available location.<sup>5</sup>

18 To the extent that defense counsel have gained any unfair advantage over plaintiffs by  
19 coming into possession of the information in the Fritz Declaration, such advantage is more than  
20 adequately remedied by the imminent withdrawal of defense counsel. The defendants need some  
21 time to obtain other counsel and/or decide how to move forward from here. Therefore, the motion to  
22 withdraw will be deferred until March 1, 2009, at which time the court anticipates the motion will be  
23 granted.

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1 CONCLUSION

2 Defendants' motion for summary judgment of no violation of the California UTSA is  
3 DENIED in its entirety. Defendants' motion for summary judgment on the common law unfair  
4 competition and misappropriation/conversion claims is GRANTED in part and DENIED in part.  
5 Defendants' motion relating to the appropriateness of injunctive relief is DENIED as premature.  
6 Defense counsel's motion to withdraw is deferred until March 1, 2009. Douglass's motion for costs  
7 is DENIED.

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9 IT IS SO ORDERED.

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11 Dated: January 5, 2009



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MARILYN HALL PATEL  
United States District Court Judge  
Northern District of California

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ENDNOTES

1. An amended motion was filed the following day.
2. Dr. Dreifus does mention one exception: the method of mapping four points in a square around the fingerprint nucleus described under Designation X (Matching Algorithm). Dreifus Dec. ¶ 26. Defendants stated via attorney argument that they are not practicing this method. Mot. at 18.
3. Plaintiffs cite no federal court cases, instead stating that state law governs the applicability and scope of attorney-client privilege in federal cases grounded in diversity jurisdiction. Plaintiffs rely upon In re Ford Motor Co., 110 F.3d 954, 965 (3d Cir. 1997), to support this proposition. The Ford court read Federal Rule of Evidence 501 to mean that state law governed whether information was privileged for the purpose of determining whether it must be produced to an opposing party. The issue in this case is not so simple, because the question is not whether the information in the Fritz Declaration should have been turned over to an opposing party, but rather whether Douglass violated some duty by disseminating the information after it had been filed. Plaintiff has cited no authority suggesting that, in such a case, a federal court would not apply federal law in its decisions regarding the discipline of attorneys appearing before it.
4. Plaintiffs filed a statement of recent decision attaching the slip opinion from Wallis v. PHL Assocs., Inc., No. C056200 (Cal. App. Nov. 25, 2008). Wallis likewise applied section 128.5. Wallis is also distinguishable in that a protective order was in place covering the information in question at the time of its dissemination. Id. at 5.
5. The court does not opine one way or the other on whether *Fritz's* actions comported with her professional responsibilities, as that issue is not before the court. The court in the Southern District action has already reviewed the contents of the Fritz declaration and would undoubtedly have disciplined Fritz had the court determined that discipline was appropriate.