IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF DELAWARE

LEADER TECHNOLOGIES, INC., a Delaware corporation, Plaintiff-Counterdefendant, v. FACEBOOK, INC., a Delaware corporation, Defendant-Counterclaimant.	Civil Action No. 08-862-JJF/LPS **PUBLIC VERSION**

DEFENDANT FACEBOOK, INC.'S ANSWERING BRIEF IN RESPONSE TO PLAINTIFF'S LEADER TECHNOLOGY, INC.'S ASSERTION OF PRIVILEGE

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Dated: March 8, 2010

Redacted copy filed: March 16, 2010

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I. STATEMENT OF NATURE AND STATE OF PROCEEDINGS

Plaintiff Leader Technologies, Inc. ("LTI") filed its Complaint against defendant Facebook, Inc. in this patent infringement action on November 19, 2008. Written fact discovery closed on November 20, 2009, and deposition fact discovery closed on March 1, 2010. Trial is set for June 28, 2010. D.I. 30, *Rule 16 Scheduling Order*.

II. SUMMARY OF ARGUMENT

LTI is attempting to have its cake and eat it too. Prior to the filing of this action, LTI disclosed a volume of documents to numerous third parties,

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After it filed this case, LTI attempted to conceal these documents by first claiming they were "irrelevant" (until questioned by the Court), then claiming that they were covered by a non-existent "common interest privilege."

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Those documents therefore should be produced.

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. There was no common interest of any kind, let alone the common *legal* interest required by Courts to extend the attorney-client privilege to these third party communications.

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III. RELEVANT BACKGROUND

A. LTI's Misleading Privilege Logs Prevented Facebook from Learning of The Third Party Communications Until a Full Year After This Case was Filed

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B. LTI Makes Repeated False Representations that the Third Party Documents Are Not Relevant

During the November 13, 2009 hearing on the issue of potential spoliation, LTI's counsel twice told the Court that these documents were not in any way relevant:

> Your Honor, the NDAs that counsel is referring to are not regarding this litigation, and they obviously are not the least bit relevant. The documents they're seeking, there is no way they will ever get admissible evidence for any of these documents.
>
> ***
>
> So I don't mind producing the NDA…I don't think this is remotely relevant to this case. There is no possible way this will get into evidence. But if it will make this issue go away, we'll produce it.

Norberg Decl. Ex. 5 at 10:12-16; 12:7-13. The Court then ordered LTI to produce all of its NDAs with third-party potential investors. *Id.* at 15:10-13.

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. Facebook asked LTI to explain and provide a representation that it had produced or logged all documents relating to the '761 patent, including those provided to third parties. *Id.* Ex. 8. LTI refused. *Id.*

C. The Court Issues a "Test" and LTI Fails

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. Facebook once again requested an explanation and that LTI identify and produce all patent related documents sent to third parties. LTI once again refused, and Facebook filed a motion to compel production of all patent-related material sent to third parties. *Id.* Ex. 8.

At the December 23 hearing on Facebook's motion, LTI once again represented to the Court that the third-party documents were not relevant to any issue in the litigation:

> I disagree a hundred percent that this is relevant information that should be discoverable. And there's absolutely no way this would ever be admitted at trial.

Norberg Decl. Ex. 10 at 27:16-20.

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On January 15, 2010 LTI failed the Court's test.

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LTI refused to explain this failure, which led Facebook to file the motion that resulted in the Court's *in camera* review followed by the Court's present request for briefing on the common interest issue. *Id.* Exs. 12-13.

D. Facebook Takes Discovery on LTI's "Common Interest" Claim

Since first learning of the common interest issue on October 30, 2009, Facebook has taken the deposition of seven third-party potential investors around the country:

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IV. ARGUMENT

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The three Judges in the Third Circuit that have previously addressed this issue – including Judge Farnan – have all concluded that communications for the purpose of seeking investment are commercial in nature and therefore the common interest doctrine does not apply.

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LTI has therefore waived any privilege associated with the disclosed documents.[4]

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A. Legal Standard

The general rule is that privilege is waived when privileged material is voluntarily disclosed to third parties. The common interest doctrine is a narrow exception to that rule. *Ronald A. Katz Technology Licensing, L.P. v. AT&T Corp.*, 191 F.R.D. 433, 438 (E.D. Pa. 2000) ("*Katz*") (*citing In re the Regents of the University of California*, 101 F.3d 1386 (Fed. Cir. 1996)). The doctrine allows parties with an identical legal interest to share information to further that legal interest without waiving the privilege associated with the shared information. *Regents*, 101 F.3d at 1389. For the doctrine to apply, the interests of the parties must be legal, not commercial, and the interests must be identical, not simply similar. *Katz*, 191 F.R.D. at 437-38.

The party asserting the common interest doctrine bears the burden of establishing three factors: (1) the communicated material is privileged; (2) the parties had an identical legal and not solely commercial interest; and (3) the communication was designed to further the shared legal interest. *Net2Phone, Inc. v. eBay Inc.*, Civil Action 06-2469 (KSH), 2008 U.S. Dist. Lexis 50451, at *24-25 (D.N.J. June 26, 2008). Failure on any of these factors renders the doctrine inapplicable, and the material subject to production.

Facebook cannot comment on the first factor (*i.e.*, whether the communicated material is privileged) because Facebook does not have access to the vast majority of the documents being withheld by LTI under the common interest doctrine.[5] Nonetheless, as shown below, the other two factors decisively resolve – in the negative – the question of whether the common interest doctrine applies to LTI's communications with potential investors.

1. Pre-Investment Communications with Litigation Finance Companies are not Subject to the Common Interest Doctrine

The issue of whether the common interest doctrine applies to communications designed to solicit investment has been addressed three times by District Courts in the Third Circuit, and all three Courts have held that the doctrine does not apply. In *Corning, Inc. v. SRU Biosystems,*

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[5] **REDACTED** Facebook will bring a separate motion to compel the production of any such documents following the determination on the common interest issue.

LLC, 223 F.R.D. 189 (D. Del. 2004), on facts nearly identical to those here, Judge Farnan held that the common interest doctrine did not apply when a company shared with a potential investor a privileged opinion of counsel regarding a patent. In so holding, Judge Farnan noted: "the Court views the negotiations between these two corporations to reveal that SRU's disclosures to BD were made not in an effort to formulate a joint defense but rather to persuade BD to invest in SRU." *Id.* at 190. Thus, the opinions were discoverable in subsequent litigation. *Id.*

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Regardless, though, Magistrate Judge Shwartz of New Jersey has applied the identical facts and found there to be no common interest.

In *Net2Phone, Inc.*, 2008 U.S. Dist. LEXIS 50451, at *24, the Court held that the common interest doctrine did not apply to communications between a patent owner and a company that was considering partnering with the patent owner for the purpose of enforcing the owner's patent portfolio. Judge Shwartz held:

> Here, it is undisputed that IDT [the patentee] and GE [the potential investor] had discussed an agreement where GE proposed to partner with IDT to enforce the patents through litigation or licensing. This proposed business arrangement was to be configured as a loan, in which GE would lend IDT money which would be re-paid with the proceeds from any fruitful litigation or licensing agreements. The interest here was commercial not legal. First, the arrangement between the parties was a proposed financing arrangement between independent entities. At the time of the negotiations, their interest was commercial and their communications during the negotiations were to further that interest and not a legal position.

Id. at *34. Judge Shwartz also found it significant that the disclosures had happened (as here) before any investment: "[h]ad the agreement come to pass, then communications to further the enforcement activity may have been protectable but the purpose of the communications during the negotiations were to entice a third-party to loan plaintiff money and not to further a then-shared legal interest." *Id.* at *35.

Similarly, in *Katz*, Judge Reed of the Eastern District of Pennsylvania held that discussions regarding the enforcement of patents against a common adversary were commercial in nature and therefore discoverable by the defendant in the subsequent litigation. *Katz*, 191 F.R.D. at 438. In *Katz*, a party disclosed information to its licensee as part of negotiations regarding enforcement of Katz's patents against a competitor. *Id.* In holding that the common interest doctrine did not apply, Judge Reed found it significant that the disclosures were made *before* any partnership agreement between the parties: "[a]t the outset of the negotiations in 1995, the interests of the parties were clearly adversarial and the negotiations over the terms of the licensing agreement were conducted at arm's length." *Id.* at 438 n.6.

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. Clearly, not legally aligned.

B.

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As discussed above, communications made for the purpose of seeking investment are not subject to

the common interest exception to the waiver doctrine. The communications here reinforce the arm's length nature of them.

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' Third Circuit law provides that when a witness provides an affidavit that directly contradicts earlier deposition testimony on the same subject, and the affidavit fails to explain the discrepancy, the District Court should disregard the affidavit for summary judgment purposes. *See Hackman v. Valley Fair*, 932 F.2d 239, 241 (3d Cir. 1991); *Martin v. Merrell Dow Pharm.*, 851 F.2d 703, 706 (3d Cir. 1988). This principle should apply here.

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C. LTI's "David vs. Goliath" Argument Lacks Legal Support

LTI's brief argues that small patent holders would be unable to enforce patents against larger companies if patentees could not disclose privileged information to the potential financiers. This is untrue.

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Patentees are clearly able to obtain investment funds to assist enforcement efforts without first disclosing its own privileged materials, if their case so warrants. Moreover, even though it may not benefit small parties, commentators to Third Circuit ethical rules have reiterated the risk of waiver in providing privileged documents to third-party litigation investors. *Id.* Ex. 30.

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The rule, though, does not consider the relative economic power of the disclosing party as a factor and there is no need for the Court to create such a new rule here.

D. LTI Should Produce all Communications with all other Third Parties not Specifically Identified in its Brief

LTI further bears the burden of establishing that the common interest exception applies to its communications with other third party potential investors by establishing, among other things, that the communications were made for the purpose of furthering a common and identical legal interest. The determination of whether a common legal interest exists "is a case specific determination to be made under the facts of the case." *Katz,* 191 F.R.D. at 438 n.4.

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See Rhone-Poulenc Rorer v. Home Indem. Co., 32 F.3d 851, 862 (3d Cir. 1994) (party asserting privilege must show, among other things, that privilege was not waived by client).

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It is LTI's burden to show that it has not waived privilege and it has had numerous opportunities to attempt to satisfy that burden.

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V. CONCLUSION

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