IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF TEXAS
MARSHALL DIVISION

ROCKSTAR CONSORTIUM US LP AND NETSTAR TECHNOLOGIES LLC, **Plaintiffs,** **v.** **GOOGLE INC.,** **Defendant.**	**Case No. 2:13-cv-00893-JRG-RSP** **JURY TRIAL DEMANDED**

PLAINTIFFS' SUPPLEMENTAL BRIEF REGARDING PRIVILEGE

At the October 9, 2014 hearing, Defendant Google Inc. ("Google") suggested, without any support, that Plaintiffs Rockstar Consortium US LP and NetStar Technologies LLC ("Rockstar") does not possess the right to assert privilege claims over certain documents it obtained from third-party entities Nortel Networks Inc., Nortel Networks Corporation, and Nortel Networks Limited (collectively "Nortel") following Nortel's bankruptcy and sale of its patent portfolio to a Rockstar affiliate (Rockstar Bidco, LP, which in turn assigned the patents-in-suit, among thousands of other Nortel patents, to Rockstar). In addition, Google suggested that Nortel's very act of providing the documents to Rockstar constitutes a waiver of any privilege that may have attended these documents. Google's suggestions are incorrect. Rockstar hereby submits its supplemental brief addressing these issues per the Court's October 16, 2014 Order. (Dkt. No. 206.)

I. Nortel's Privilege With Respect To The "Transferred Data" Survived Transfer And Is Now Properly Vested In Rockstar

The Court defined "transferred data" to mean any "data relevant to the assigned patents," including the patents-in-suit. (*Id.* at 3; *see* Declaration of Meng Xi in Support of Plaintiffs' Supplemental Brief Regarding Privilege ("Xi Decl."), submitted herewith, at Ex. A (10/9/2014 Hr'g Tr.) at 30:22-25.) Uncontroverted facts establish that (1) Nortel sold its patent portfolio to Rockstar and thus control of this portion of Nortel's business passed to Rockstar; (2) Rockstar continues to operate the portion of Nortel's business as it relates to the acquired patents; and (3) Rockstar inherits the continuity in corporate knowledge, management, experience, and interest in preserving the privilege claims from the twenty-six former Nortel employees who transitioned to Rockstar in connection with Rockstar's acquisition of the Nortel patent portfolio. Thus, any privilege or immunity associated with the patents and with any related "transferred data" previously held by Nortel now belongs to Rockstar.

A. Privilege Is Preserved If, Under The Totality Of Circumstances, Control Has Been Transferred And Business Continues To Operate

Whether the authority to assert or waive a predecessor entity's privileges and immunities transfers to a successor entity depends on whether the latter obtained control of the former. *See Commodity Futures Trade Comm'n v. Weintraub*, 471 U.S. 343, 349 (1985) ("[W]here control of a corporation passes to new management, authority to assert and waive the corporation's attorney-client privilege passes as well."). As a general matter, courts have found that a mere transfer of some assets, without more, does not transfer the attorney-client relationship or any corresponding privilege held by the predecessor entity. *See, e.g., Zenith Elecs. Corp. v. WH-TV Broadcasting Corp.*, 2003 U.S. Dist. LEXIS 13816, at *6 (N.D. Ill. 2003); *In re Yarn Processing Patent Validity Litig.*, 530 F.2d 83, 90 (5th Cir. 1976). However, this Court has rejected adoption of a bright-line rule in evaluating the issue of privilege waiver because of its failure to capture "the myriad ways control of a corporation or a portion of corporation can change hands." *Soverain Software LLC v. Gap, Inc.*, 340 F. Supp. 2d 760, 763 (E.D. Tex. 2004) (Gilstrap, J.); *see SimpleAir, Inc. v. Microsoft Corp.*, No. 2:11-cv-416-JRG 2013 U.S. LEXIS 121545, at *6-7 (E.D. Tex. Aug. 27, 2013) (Gilstrap, J.).

Instead, when determining whether privileges are transferred to a successor entity, this and other courts examine whether "the practical consequences of the transaction result in the transfer of control of the business and the continuation of the business under new management," and if they do, "the attorney-client privilege will follow as well." *Soverain*, 340 F. Supp. 2d at 763; s*ee also Parus Holdings, Inc. v. Banner & Witcoff, Ltd.*, 585 F. Supp. 2d 995, 1002 (N.D. Ill. 2008) (observing that *Soverain* applies "the better reasoned rule, and the one that appears to be followed by the majority of recent cases"); *Am. Int'l Specialty Lines Ins. Co. v. NWI-I, Inc.*, 240 F.R.D. 401, 407 (N.D. Ill. 2007) ("[B]ecause the practical consequences of the Asset Purchase Agreement resulted in the

transfer of control of [the predecessor's] business and the continuation of that business under new management, the authority to assert or waive the attorney-client privilege transferred to [the successor]."). Accordingly, "whether a transfer of assets preserves a claim of privilege is a question of fact that should be answered based upon the totality of the circumstances and examined on a case-by-case basis." *SimpleAir*, 2013 U.S. LEXIS 121545, at *6-7.

B. Rockstar May Assert Any Privilege Held By Nortel Because Of Its Acquisition Of Assets, Continuation Of The Business, And Continuity In Management

The privilege transfer inquiry depends on two factors: transfer of control of the business and continuation of the business. Transfer of control of a business is frequently tied to the ownership of its assets, such as a patent portfolio. *See, e.g.*, *id.* at *12. The facts in *SimpleAir* are remarkably similar to this case. In *SimpleAir*, the liquidation of bankrupt AirMedia's assets was divided into two parcels: the first included the two asserted patents in *SimpleAir* and twenty-five pending patent applications; the second included one pending patent application and a set of trademarks and domain names. *Id.* at *9. Instead of a cash purchase, plaintiff SimpleAir acquired the first parcel by giving up a "percentage of future monies recovered by SimpleAir through patent enforcement," which came to be valued at "several tens of millions of dollars" over the next decade. *Id.* The second parcel was sold for $15,000 in cash. *Id.* The court held that SimpleAir's acquisition of "substantially all of AirMedia's original patent portfolio" as well as the "now established value of SimpleAir's portion of AirMedia's assets [which] dwarfs the [other] portion" sufficiently render SimpleAir the "present successor-in-interest" of AirMedia, thereby entitling it to assert the same privileges AirMedia enjoyed. *Id.* at *9-10.

It is beyond dispute that a Rockstar affiliate, Rockstar Bidco, LP, made the winning $4.5 billion bid for Nortel's patent portfolio in June 2011 and that this transaction was an acquisition of

substantially all of bankrupt Nortel's patent assets.[1] According to public sources, the value of Nortel's other assets dwarfs in comparison to the value of the 6,000-plus patents acquired by Rockstar. (*See* Dkt No. 152 at 2.) Per the reasoning of the *SimpleAir* court, Rockstar is thus properly considered the successor-in-interest of Nortel where Nortel's patent portfolio comprised the majority of the assets it owned, because "[c]ontrol follows ownership." *See SimpleAir*, 2013 U.S. LEXIS 121545, at *12.

Courts tend to place more weight on the second part of the inquiry, continuation of the predecessor's business. In *Soverain*, the court held that a pre-existing privilege transfers along with the sale of even a small portion of the predecessor's assets if the purchaser of the assets continues to operate an ongoing business related to those assets. 340 F. Supp. 2d at 762-63. Specifically, the court found plaintiff Soverain to be a successor to the "Transact" business previously owned by dissolved corporate entities, Divine and Open Market, even though the Transact business (and three related patents asserted in Soverain's suit) was only a small part of the predecessors' business enterprise, constituting "merely . . . a small portion of [their] assets." *Id.*

The *SimpleAir* court further relaxed the "continuation of the business" requirement, holding that maintaining a "patent enforcement practice" as opposed to continuing the original business of a predecessor is sufficient. 2013 U.S. Dist. LEXIS 121545, at *11-12. In *SimpleAir*, predecessor AirMedia was in the business of software and communications systems development before it filed for bankruptcy. *Id.* at *11. In other words, patent enforcement was not part—or at most, a small

[1] The fact that Rockstar was assigned the patents-in-suit by Rockstar Bidco, LP does not disturb the transfer of privilege from Nortel to Rockstar. *See SimpleAir*, 2013 U.S. LEXIS 121545, at *5-6 (holding that, despite a complicated chain of title involving two intervening patent assignees preceding SimpleAir, the ultimate assignee of the patents inherited the privileges from the original assignee); *Soverain*, 340 F. Supp. 2d at 764 (disagreeing that any privilege had been "waived" because assets of predecessor entity's Transact business had been first transferred to a third party prior to being transferred to Soverain, the successor entity).

part—of the predecessor company's business. Like in this case, successor SimpleAir was engaged in asserting the patents it acquired from AirMedia against potential infringers in litigation. *Id.* In finding that "the disparate business models between the 'then' and 'now' owners of the Asserted Patents" did not constitute a "forfeiture of the privilege," the Court cautioned that buyers of valuable intellectual property assets of a failed business should not be "forced to choose between continuing the failed model of the bankrupt business or forfeiting claims of vital privileges [.]" *Id.* Indeed, the Court noted that "the pool of interested purchasers at a bankruptcy liquidation sale ordinarily do not want to continue practicing a failed business model," emphasizing that the "value is in the assets sold, particularly when those assets can be used in a new way that is not tainted by past business failures." *Id.*

Here, although Rockstar has not sought to continue Nortel's original telecommunications and data networking equipment manufacturing business—the "failed model of [a] bankrupt business"—Rockstar continues to try to license the patents formerly owned by Nortel. Under these circumstances, this Court should find, as the court did in *SimpleAir*, that such a continuation of the business by Rockstar, albeit based on a "disparate business model," does not destroy conveyance of the original privilege held by Nortel attendant to the patents-in-suit (i.e., any privilege attached to "transferred data").

A further fact supporting the transfer of privilege to Rockstar is that approximately twenty-six former Nortel employees and numerous Nortel computing equipment transitioned to Rockstar in connection with Rockstar's acquisition and assertion of Nortel's patent assets. (Dkt. No. 177-3 at 9.) This type of continuity—achieved when, e.g., the successor-in-interest employs former employees of the predecessor-in-interest and utilizes its equipment—has been significant to the privilege transfer inquiry. *SimpleAir*, 2013 U.S. Dist. LEXIS 121545, at *10 (noting that "a

significant degree of continuity in the areas of corporate knowledge, management, and experience between AirMedia and SimpleAir" plainly exists because two former AirMedia employees are now employed by SimpleAir and thus their "interest in preserving their privilege claims on behalf of SimpleAir is unchanged from their former interest in such privilege as representatives of AirMedia"); *M-I LLC v. Stelly*, No. 4:09-cv-1552, 2010 U.S. Dist. LEXIS 52736, at *9-12 (S.D. Tex. May 26, 2010) (noting that the successor entity "retained many of the employees" of the predecessor entity in finding a transfer of privilege); *see Soverain*, 340 F. Supp. 2d at 763-64 (noting that two of the inventors of the Transact patents are now consultants to Soverain and are assisting Soverain with the Transact business in finding no waiver of privilege).

Consistent with precedent, all the privileges and immunities attendant to any documents related to the Nortel patent portfolio acquired by Rockstar, including the entirety of the "transferred data," must flow to Rockstar upon the assignment of that portfolio and Rockstar's continuation of business related to those assets. Such a conclusion also comports with common sense. A rule necessitating the waiver of privilege merely because an asset changes hands would turn privilege on its head. A successor-in-interest who acquires an asset and continues the predecessor's business relating to that asset should also inherit the authority to assert the privileges held by the predecessor, now standing in its shoes.

II. "Non-Transferred Data" Is By Definition Not Relevant To This Case

The Court defined "non-transferred data" as data that would not "be of any relevance to Google in this litigation." (*See* Xi Decl., Ex. A (10/9/2014 Hr'g Tr.) at 19:7-8.) Rockstar submits that this Court need not reach the issue of whether privilege has been waived with

respect to the "non-transferred data." By the Court's definition,[2] such data is not relevant or "responsive" to Google's discovery requests, and therefore would not be withheld or logged for privilege. (*See* Xi Decl., Ex. A (10/9/2014 Hr'g Tr.) at 19:5-9 ("I'm a lot less concerned about the non-transferred items, because if that definition is properly applied, I don't think non-transferred items would be of any relevance to Google in this litigation. And so we should not have a problem with privilege on those . . . .").) Indeed, none of Google's discovery requests call for non-transferred data and the list of search terms devised by the parties further demonstrates its lack of relevance to this action. (*See* Dkt. No. 210-1.) Thus, even assuming that a waiver has occurred with respect to the non-transferred data—which it has not—because non-transferred data is not relevant to this case, any such waiver would not affect the materials being sought in discovery or this case.

Court suggested at the hearing that it would be premature to make a privilege waiver determination with respect to non-transferred data at this juncture. (*See* Xi Decl., Ex. A (10/9/2014 Hr'g Tr.) at 33:14-21 ("I'm more concerned at this point with the transferred materials because those are the [only] ones that will be on the privilege log."); 34:8-11 ("I am hoping to somewhat avoid [the] issue [of non-transferred documents] by defining "transferred" as relevant.").) Rockstar agrees that this issue need not be decided.

[2] Further, the TSA uses the term "non-transferred items" to refer to materials "not included in the Assets purchased under the ASA or licensed to the Purchaser." (Dkt. No. 178, Ex. N at 9.) The Asset Sale Agreement (ASA) between Nortel and Rockstar defines "Assets purchased under the ASA" to include a comprehensive collection of "Patent Related Documentation," including, but not limited to, patent prosecution files, litigation files, license agreements, infringement claim charts, the contents of an electronic "data room" made available to bidders during the auction of the Nortel patent portfolio, and assignment agreements. (Dkt. No. 186-1 at 4-7; *see* Dkt. No. 186 at 3.)

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Respectfully submitted,

By: /s/ Meng Xi

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CERTIFICATE OF SERVICE

I hereby certify that all counsel of record, who are deemed to have consented to electronic service are being served this 20th day of October, 2014 with a copy of this document via the Court's CM/ECF system per Local Rule CD-5(a)(3).

/s/ Meng Xi
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