

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

CIVIL MINUTES - GENERAL

Case No. ED CV 14-486-SJO (PJWx) Date July 9, 2014

Title *Black Hills Media LLC v. Sonos, Inc.*

Present: The Honorable PATRICK J. WALSH

Jacob P. Yerke

CS

7/9/2014

Deputy Clerk

Court Reporter / Recorder

Tape No.

Attorneys Present for Plaintiff:

Attorneys Present for Defendants:

Jonathan Deblois
Douglas Hahn
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George Lee
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Proceedings: **Order Re:** Defendant's Motion to Compel

Before the Court is a motion by Defendant Sonos, Inc. ("Sonos") to compel production of documents that Plaintiff Black Hills Media, LLC ("BHM") has withheld on the ground that they are subject to the attorney-client privilege. (Doc. No. 42.) For the following reasons, the motion is denied.

Messrs. Goldberg and Simon are inventors in the portable audio equipment and digital jewelry industries. In 2003, they started a company called Tribal Technologies along with a patent attorney they had worked with named Mike McIntosh. The purpose of the company was to exploit the patents owned by Goldberg and Simon. Tribal relied on McIntosh and a lawyer from his firm, Kelly de la Torre, to provide legal advice regarding the patents.

In 2007, Tribal sold its patent portfolio to BHM's parent company, Concert, for \$2,250,000 and future payments based on licensing agreements between Concert and third parties between 2007 and 2013. Though Tribal continued to exist after that date, it appears that its sole purpose was to collect and distribute the money it received from Concert/BHM. In 2011 and 2012, Tribal and Concert/BHM negotiated a "Buyout Amendment" under which Concert/BHM purchased Tribal's right to any remaining fees for \$200,000. (Stipulation at 9.) Tribal ceased operations in 2013. (Stipulation at 9-10.)

BHM is suing Sonos and others for allegedly infringing on the patents Concert obtained from Tribal. The parties are now enmeshed in discovery. Sonos propounded discovery requests seeking any and all documents relating to the patents. BHM has withheld certain documents based on the attorney-client privilege. Concert contends that there is no attorney-client privilege because Concert did not acquire Tribal, but simply its patent portfolio pursuant to an asset purchase agreement. (Stipulation at 9.) Sonos argues that, because Concert only purchased the assets and not control of the company, the attorney-client privilege did not pass with the sale. It points out that Tribal continued to exist after the 2007 purchase. (Stipulation at 9.)

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BHM disagrees. It argues that, because Tribal had no assets other than its patent portfolio when it sold that portfolio to Concert in 2007, Tribal also transferred the attorney-client privilege.¹ (Stipulation at 23-24.)

As a threshold issue, Sonos argues that there was no attorney-client privilege because McIntosh was not acting as a lawyer but, instead, a business partner when he provided advice about the patents. A fair reading of the record supports BHM's contention that McIntosh was providing legal advice in his role as a lawyer and not business advice. So, too, was de la Torre, a patent lawyer from McIntosh's firm with no connection to Tribal.

As to Sonos' argument that the attorney-client privilege did not transfer with the sale of the patent portfolio because Concert did not obtain control of Tribal, the Court sees it differently. Generally speaking, in order to transfer the attorney-client privilege from one company to another, there must also be a transfer of control over the company. *See City of Rialto v. U.S. Dept. of Defense*, 492 F. Supp. 2d 1193, 1201 (C.D. Cal 2007) ("Normally, the transfer of control over the corporation would also result in a transfer of the attorney-client privilege."). The transferring of assets from one company to another does not normally result in the transfer of the attorney-client privilege. *Id*; *see also SimpleAir, Inc. v. Microsoft Corp.*, No. 11-415-JRG, 2013 WL 4574594, at *2 (E.D. Tex. Aug. 27, 2013) ("Clearly, a 'mere transfer of some assets' does not also transfer the privilege."). The question before the Court then is whether Tribal's sale of its patent portfolio to Concert was merely the transfer of some assets or a transfer of control of the company.

BHM argues that when Concert took over prosecution and enforcement of all of Tribal's patents, Tribal effectively ceased to exist because "all activities for which Tribal had been created were transitioned to Concert." (Stipulation at 23-24.) According to BHM, since 2007, the only reason Tribal continued to exist was to receive and distribute royalty payments from BHM to Tribal's founders. (Stipulation at 23-24.) Sonos argues that, after the patent portfolio sale in 2007, Tribal continued to operate through 2013, as evidenced by the Tribal's own records and the testimony of its principals. (Stipulation at 9, citing Lee Decl. at Exh. K.)

The exhibits and testimony cited to by Sonos show nothing more than that Tribal remained intact in order to receive payments for the licenses Concert granted to third parties through June 2013. (Lee Decl. at Exh. K ("Since Tribal may receive payments from Concert over the next six years, Tribal will remain intact for at least that time frame."; "In addition to the initial cash payment received in 2007, such sale included a provision for additional payments to Tribal for each license to the patents that Concert granted to third parties through June 29, 2013.)) There is no evidence before the Court that Tribal did any business between 2007 and 2012 other than collect and distribute payments from BHM. In 2012, Tribal proposed to its investors that, because the market for licensing the patents it had sold to Concert was so poor, it should either offer the remaining rights in perpetuity for \$200,000 or ask Concert to assign the rights back to Tribal, who would then be responsible for the patents. (Lee Decl. at

¹ Concert is BHM's corporate parent and, apparently, transferred the patent rights to BHM after acquiring them from Tribal. Thought the parties have not submitted any evidence documenting the transfer, Sonos has not argued that BHM does not have standing to prosecute this action.

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Exh. K-86.) When Concert opted for the former (buying the rights in perpetuity), Tribal wrote to its investors that, as a result, “all remaining operations of Tribal will cease.” (Lee Decl. at Exh. K-88.)

Thus, while it appears clear that Tribal continued to be a separate entity, capable of negotiating and contracting with Concert, the 2007 deal amounted to a transfer of substantially all of Tribal’s assets – and control over those assets. Especially persuasive here is the fact that the 2007 sale of the initial patent portfolio was for \$2,250,000, while the 2012 sale of any remaining interest in the rights was for \$200,000. And once that remainder interest was sold, Tribal had nothing left and closed down. Although the circumstances in the case at bar are less clear cut than those in *City of Rialto*--where the original entity did not retain any assets---the Court nevertheless concludes that Concert acquired “substantially all” of Tribal’s assets in 2007. In the Court’s view, this triggered the transfer of the attorney-client privilege to Concert at that time. To rule otherwise would be to conclude that the attorney-client privilege simply evaporated into thin air with this transfer. That argument seems to make no sense.²

Sonos argues that BHM waived the privilege when it failed to timely provide a privilege log. BHM contends that there were extenuating circumstances causing the delay and that the Court should not take the drastic step of finding a waiver under these circumstances. The Court sides with BHM. Waiver is a harsh sanction to penalize BHM and its counsel for failing to produce a privilege log on time, especially where, as here, there were understandable reasons for the delay and BHM has produced one now.

For all these reasons, Sonos’ motion to compel is denied.

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² It is unclear to the Court and the parties what Concert bought from Tribal in 2012 for \$200,000. BHM argues that Concert did not obtain anything and the payment was a gift; Sonos contends that Concert obtained patent rights that Tribal retained in the 2007 deal. The Court’s best guess is that it was for any remaining payments that would have been due under the 2007 agreement, which BHM was obligated to pay if it had licensed the patent rights after the date of the agreement. Even assuming that Tribal had retained certain rights to the patents in the 2007 deal and held on to them until the 2012 deal, those rights would have amounted to less than 10% of the value the parties placed on the patents in 2007. Thus, the 2007 sale would have transferred more than 90% of Tribal’s business, which, in the Court’s view, in these circumstances, was enough to trigger the transfer of the attorney-client privilege as well.