

ESTTA Tracking number: **ESTTA683165**

Filing date: **07/13/2015**

IN THE UNITED STATES PATENT AND TRADEMARK OFFICE
BEFORE THE TRADEMARK TRIAL AND APPEAL BOARD

Proceeding	91221955
Party	Defendant Intimidator, inc.
Correspondence Address	JAMES E SHLESINGER SHLESINGER ARKWRIGHT & GARVEY LLP 5845 RICHMOND HIGHWAY, SUITE 415 ALEXANDRIA, VA 22303 UNITED STATES jim@sagllp.com, nitasantiago@sagllp.com
Submission	Other Motions/Papers
Filer's Name	James E. Shlesinger
Filer's e-mail	jim@sagllp.com, danearle@sagllp.com, nitasantiago@sagllp.com
Signature	/jes/
Date	07/13/2015
Attachments	Applicant's Response Brief 07132015.pdf(465990 bytes) Responsibilities of Practitioners.pdf(254292 bytes) Celgard v. LG Chem.pdf(293279 bytes) In re Atoptech.pdf(240403 bytes) Apeldyn v. Samsung.pdf(953968 bytes) Thorner v Sony.pdf(763910 bytes) Armor Screen v. Storm Catcher.pdf(1513150 bytes) Merck Eprova v. ProThera.pdf(1365680 bytes) Sunbeam v. Hamilton Beach.pdf(712155 bytes) Advanced Messaging v. EasyLink.pdf(1380353 bytes) GSI Commerce v. BabyCenter.pdf(493384 bytes) Concat v. Unilever.pdf(2696062 bytes) Chang's Imports v. Srader.pdf(1047776 bytes)

IN THE UNITED STATES PATENT AND TRADEMARK OFFICE
BEFORE THE TRADEMARK TRIAL AND APPEAL BOARD

Bad Boy, Inc., :
Opposer, :
v. : Opposition No. 91221955
Intimidator, Inc., : (Serial No. 85632767)
Applicant. :

**APPLICANT, INTIMIDATOR, INC.'S REPLY TO OPPOSER'S ANSWER TO
PETITION TO DISQUALIFY TRENT C. KEISLING, AND THE LAW FIRM OF
KEISLING & PIEPER, PLC FROM REPRESENTING BAD BOY, INC.**

Applicant, Intimidator, Inc. submits this reply brief.

The pertinent U.S. Patent and Trademark Office Rule of Professional Conduct is 37

C.F.R. § 11.09, and states in part as follows:

- (a) A practitioner who has formerly represented a client in a matter shall not thereafter represent another person in the same or a substantially related matter in which that person's interests are materially adverse to the interests of the former client unless the former client gives informed consent, confirmed in writing.

In *Plus Products v. Con-Stan Industries*, 221 USPQ 1071, (Comm'r Pat. 1984), which Applicant has cited in its Petition to Disqualify, an attorney was disqualified from representing Con-Stan in a trademark opposition. The disqualification was premised upon Plus Products showing that (1) the attorney was its former attorney; (2) he now represented an adverse party; and (3) the subject matter embraced by the present representation was "substantially related" to the subject matter where the attorney previously represented Plus Products. The ruling stated that it was manifest that in the trademark opposition matter, the attorney and his firm were taking positions on behalf of Con-Stan that directly conflict with positions previously taken by the attorney on behalf of

Opposition No. 91221955

Plus Products. In addition, it was also reasonable to conclude that there were other actual conflicts, or there reasonably may be other potential conflicts, between prior positions taken by the attorney on behalf of Plus Products and positions being taken by the attorney's firm on behalf of Con-Stan. Factors (2) and (3) are self-evident and not in dispute, which leaves only (1), whether Mr. Keisling was Applicant's former attorney.

There can be no dispute that Mr. Keisling represented Applicant, Intimidator, Inc., notwithstanding Opposer's representation that "Keisling has only represented Bad Boy and its interests, and has not represented Applicant at any time." Mr. Keisling signed application papers and otherwise represented Applicant in prosecuting applications involving the mark, INTIMIDATOR, in the USPTO. Mr. Keisling sent letters to Applicant advising of Office Actions with recommendations and time estimates for responding to the office actions. Mr. Keisling had telephone discussions with Applicant's personnel, and Mr. Keisling provided recommendations to Applicant.¹

The USPTO recognizes Mr. Keisling's actions as the representative of Applicant. Under TMEP 604.01, and 37 CFR § 2.17 (b), the qualification of a practitioner as a representative of the Applicant in a trademark case is recognized by signing a document on behalf of an applicant. Mr. Keisling signed documents on behalf of Intimidator, Inc., as its Attorney of Record on multiple occasions as referenced in Applicant's Petition to Disqualify. Mr. Keisling identifies himself as the Attorney of Record for Applicant. A qualified practitioner who appears in person or signs a document on behalf of an applicant or registrant will be accepted as the representative of the

¹ There are letters from Mr. Keisling to Robert Foster of Intimidator, Inc. as well as telephone communications between Mr. Keisling and Applicant addressing issues during the prosecution of the relevant applications. Applicant reserves the right to waive the Attorney/Client privilege in the future of these communications; but, for now, preserves its privilege of non-disclosure.

Opposition No. 91221955

applicant or registrant. See TMEP §604.01 and 37 CFR § 2.17 (b). The USPTO will only communicate and conduct business with that practitioner or with another qualified practitioner from the same firm. And once the USPTO recognizes a qualified practitioner as the representative of Applicant, as it has with Mr. Keisling and the two INTIMIDATOR applications, a new qualified practitioner from a different firm is not permitted to represent the applicant until the Applicant revokes the previous power of attorney and submits a new power of attorney; or the previously recognized practitioner files a request to withdraw. TMEP § 604.03.

Mr. Keisling's communications with Bad Boy and alleged compensation by Bad Boy does not change the fact that Intimidator was Mr. Keisling's client. An arrangement for a practitioner to receive instructions from a trademark owner "through a foreign attorney or agent does not change the fact that the client is still the ...trademark owner rather than the ...agent." See, *Responsibilities of Practitioners Representing Clients in Proceedings Before the Patent and Trademark Office*, 1091 TMOG 26 (Asst. Commissioner of Patents and Trademarks 1988.) [Copy attached.]

Bad Boy believes the Petition to Disqualify should fail because such petitions should be disfavored and are a drastic remedy. But the present case calls for disqualification of Mr. Keisling and his firm and there is an abundance of case law in support.

In *Sunkist Growers, Inc. v. Benjamin Ansehl Co.*, 221 USPQ 1077 (Comm'r Pat. 1984), decided only several weeks after *Plus Products*, the opinion states in pertinent part as follows:

"Inasmuch as Hejlek was an attorney for Sunkist, is now an associate in the Senniger firm which represents a party adverse to Sunkist, and the subject matter of the Senniger firm's representation of the adverse party is "substantially related" to Hejlek's representation of Sunkist, it is manifest that Ansehl properly does not oppose disqualification of Hejlek."

Opposition No. 91221955

See *Celgard, LLC v. LG Chem., Ltd.*, 594 F. 669 (Fed. Cir. 2014) [case attached]. See, also, *In re Atoptech, Inc.*, 565 F. Appx 912 (Fed. Cir. 2014) [case attached] (district court had sound basis for disqualifying competitor's counsel in action for infringement of patent. There was substantial relationship between current and former representations because competitor's counsel had previously represented patent's former owner in patent infringement actions brought by plaintiff, and confidential material information was presumably transmitted to counsel during that previous representation);

See *Apeldyn Corp. v. Samsung Elec. Co.*, 693 F. Supp. 2d 399 (D. Del. 2010) [case attached] ("substantial relationship" existed between attorney's representation of former client in patent litigation and attorney's representation of present client in patent case so as to warrant disqualification of attorney). See, also, *Thorner v. Sony Computer Entm't Am., Inc.*, Civ. Act. No. 09-1894(GEB), 2009 WL 4041624 (D.N.J. Nov. 20, 2009) [case attached] (attorney and his firm were disqualified from representing a client in patent infringement litigation against attorney's former client. Attorney attended training courses on former client's products, spoke to engineers who designed the systems, and worked on patent matters related to the system for the former client. Attorney therefore had access to former client personnel, information, and documents closely related to the system and auxiliary products. The level of attorney's interaction with former client's property and personnel made it impossible to narrowly limit the type and scope of the information to which attorney may have been privy);

See, also, *Armor Screen Corp. v. Storm Catcher, Inc.*, 709 F. Supp. 2d 1309 (S.D. Fla. 2010) [case attached] (attorney who had discussed case as potential expert for competitors, but was never retained, would be disqualified from later serving as counsel for patent holder as opposing party in

Opposition No. 91221955

same infringement case, pursuant to Florida Bar rules; attorney had been privy to confidential information over course of his discussions with competitors, with expectation of continued confidentiality, and such information could have been unfairly used against competitors).

See also, *Merck Eprova AG v. ProThera, Inc.*, 670 F. Supp. 2d 201 (S.D.N.Y. 2009) [case attached] (law firm that represented drug manufacturer in patent application on behalf of inventor also represented inventor, who had joint attorney-client relationship with manufacturer, as required for application of per se disqualification rule in unfair competition action between inventor and another party represented by law firm, even though manufacturer dealt with firm, who had represented it in prior matters, where parties intended to file joint patent applications and parties reasonably believed they were joint clients; disqualification of law firm was warranted, where the uniqueness of trademark holder's patent was an important element of both representations).

In the same category as the above-cited cases is another such instructive case from Virginia which references communications between attorney and client which pertain to Mr. Keisling's representation of Applicant. In *Sunbeam Products, Inc. v. Hamilton Beach Brands, Inc.*, 727 F. Supp. 2d 469 (E.D. Va. 2010), [case attached] the court ruled that under Virginia law, an attorney's prior representation of an alleged infringer in litigation and patent applications involving the accused product disqualified his current law firm from representing a patentee in a patent infringement action, even though attorney did not perform any work in the current litigation and there was no evidence that he disclosed confidential information to firm members. The attorney had analyzed prior art for an application that he drafted for the accused product, had performed non-infringement analysis as part of the process, and had unrestricted access to the alleged infringer's files. Under Virginia law, once an attorney-client relationship has been established, an irrebuttable presumption

Opposition No. 91221955

arises that confidential information was conveyed to the attorney in the prior matter, and a party moving for disqualification of the attorney in a successive representation context does not have the evidentiary burden of showing actual disclosure of confidences. *Id.* at 472.

As the court observed in *Apeldyn Corp.*, an attorney may be disqualified for failing to avoid even the appearance of impropriety, and any doubt as to the propriety of the representation should be resolved in favor of disqualification. 693 F. Supp. 2d at 404.

It having been established that Keisling and his law firm have a disqualifying conflict of interest, he and the firm may only represent Bad Boy, Inc., in the subject proceedings if there is informed and written consent given by Intimidator, Inc., his former client. There has been no such consent.

Bad Boy suggests that the necessary consent can be found in Schedule 1, "services" paragraph 3, of the Transition Services Agreement between Bad Boy and Applicant. That provision states that one of the services to be provided by Bad Boy to Intimidator is "[l]egal advice and assistance as requested by Intimidator, and *of the nature previously and customarily provided by Bad Boy's general counsel.*" (Transition Servs. Agrmt. sched. 1 (emphasis added).)

The quoted provision is expressly confined to legal services like those provided by its corporate counsel, who is Scott Lancaster, and does not extend to services of outside counsel, such as Mr. Keisling. Thus, it cannot be said, on the basis of this provision or otherwise, that Intimidator gave informed written consent to Mr. Keisling's representation of Bad Boy, Inc., after he had previously represented Intimidator, Inc., in substantially related matters.

Relevant cases involving patent and trademark litigation support Applicant's position on this issue. For example, in *Advanced Messaging Technologies, Inc. v. EasyLink Services International*

Opposition No. 91221955

Corp., 913 F. Supp. 2d 900 (C.D. Cal. 2012) [case attached], patent infringement cases against a defendant whose "outside in-house counsel" on intellectual property matters had once represented the plaintiff were substantially related to the prior cases, and, thus, the court would presume that the attorney learned confidential information about the plaintiff that was relevant to the current cases, even though the patents were altered. Nothing required the court to extensively analyze the patents' modifications or do an in-depth comparison of the products, since a rational link between the subject matter of the two cases would suffice, and both the attorney's professional experience and the extent of his work for the plaintiff were significant. No remedy short of disqualification of the law firm would suffice, where a conflict waiver was not obtained from the plaintiff, no ethical wall was enacted around the attorney who worked for the plaintiff before engaging in work for the defendant, and the conflict was not collateral to the subject matter of the case. *Id.* at 912.

Similarly, an engagement agreement between a parent corporation and its counsel did not waive a corporate affiliate conflict, as required to prevent counsel's disqualification for simultaneous representation in a breach-of-contract action in which it represented the plaintiff against the parent corporation's subsidiary, even though the engagement agreement provided that counsel represented the parent only and not its affiliates or subsidiaries. *GSI Commerce Solutions, Inc. v. BabyCenter, L.L.C.*, 618 F.3d 204 (2d Cir. 2010), *aff'g in part* 644 F. Supp. 2d 333 (S.D.N.Y. 2009) [case attached]. The agreement did not waive any conflict, as it was strictly limited to matters involving patent litigation, did not waive the conflict at issue in the contract action, and the plain language of the agreement addressed corporate affiliate conflicts.

In another case, a client's general waiver of conflict of interest, applicable to "any" representation by a law firm of an adverse party in an unrelated dispute, was insufficient to cover a

Opposition No. 91221955

case in which an attorney undertook estate planning work for a client, and his firm later undertook to represent an adverse party in a patent dispute with the company in which the client had ownership interest; a second waiver specifically addressing the patent dispute was required. *Concat LP v. Unilever, PLC*, 350 F. Supp. 2d 796 (N.D. Cal. 2004)[case attached]. Under the same reasoning, the very general contract provision relied on by Keisling in this case, apart from being limited by its terms to services of a general counsel, does not at all address the specific proceedings at issue here. Thus, it cannot constitute an informed written consent as to these proceedings.

The instant case is in stark contrast with *Chang's Imports, Inc. v. Srader*, 216 F. Supp. 2d 325 (S.D.N.Y. 2002) [case attached]. There, by signing a waiver letter provided by an attorney, which disclosed that the attorney, who had previously represented a trademark licensor, would be acting as a neutral mediator with respect to settlement negotiations between the licensor and the licensee, the licensor and licensee explicitly waived any conflict issue under New York law. The signed letter constituting a waiver in *Chang's Imports* used unequivocal and specific language bearing no resemblance to the contract language relied on by Keisling in this case:

You have requested me to assist you in finding an amicable resolution to your differences relating to the trademark Margaret Jerrold and the business relating thereto.

As you can well understand this places me in a clear conflict of interest and I have advised you that you should be represented by different attorneys. However, you have represented to me that you are both aware of the conflict of interest issue and still desire me to assist you in finding a common resolution of your difficulty and structuring a settlement.

Please sign below to evidence your waiving any claim of conflict of interest, your request that I act for both of you and your consent to my doing so with regard to this matter.

Id. at 329.

Opposition No. 91221955

The client's informed and written consent must be unequivocal, as it most certainly is not in this case. *GSI Commerce Solutions*, 644 F. Supp. 2d 333 (engagement agreement between parent corporation and counsel did not provide unequivocal express waiver that would be necessary to prevent counsel's disqualification from representing petitioner in arbitration proceedings against parent corporation's subsidiary, based upon conflict of interest arising from counsel's simultaneous representation).

In the present case, there has been nothing remotely like the written informed consent, explaining all risks in detail, that was required of Mr. Keisling if he was to represent a party adverse to his former client. As a result, the conflict of interest was never consented to by Intimidator, Inc., and Mr. Keisling and his law firm should be disqualified.

For all of the above reasons and reasons set forth in the initial Petition, Mr. Keisling and his firm should be disqualified from representing Opposer, Bad Boy, in this proceeding. The disqualification should also apply to Opposition No. 91221304 in which Bad Boy is the Applicant and Intimidator is the Opposer, and for which consolidation with the present proceeding has been previously requested.

Respectfully submitted,

INTIMIDATOR, INC.

Date:

July 13, 2015

By:

James E. Shlesinger

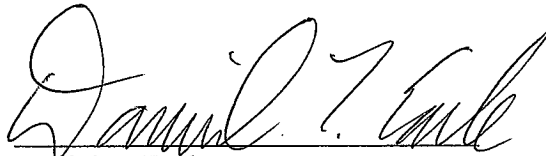
James E. Shlesinger
Daniel T. Earle
Attorneys for Applicant
SHLESINGER, ARK WRIGHT
& GARVEY, LLP
5845 Richmond Highway, Suite 415
Alexandria, Virginia 22303
(703) 684-5600

Opposition No. 91221955

Harry A. Light, Esq
Friday Eldredge & Clark
400 West Capitol Avenue, Ste 2000
Little Rock, Arkansas 72201-3552

CERTIFICATE OF SERVICE

It is hereby certified that this Applicant, Intimidator, Inc.'s Reply to Opposer's Answer to Petition to Disqualify Trent C. Keisling, and the Law Firm of Keisling & Pieper, PLC from Representing Bad Boy, Inc. has been served upon Opposer, by prepaid first class mail, to Council for Opposer, Trent C. Keisling, Keisling & Pieper PLC, PO Box 10379, Fayetteville, Arkansas, 72703, this 13th day of July, 2015.


Daniel T. Earle

(149) Responsibilities of Practitioners Representing
Clients in Proceedings Before
The Patent and Trademark Office

This notice is intended to remind practitioners of certain aspects of their responsibilities in representing clients in proceedings before the Office. The Notice is also intended to supplement the discussion set forth in the Official Gazette Notice published at 1086 Official Gazette 457 (Jan. 12, 1988) entitled "Practitioner's Responsibility to Avoid Prejudice to the Rights of a Client/Patent Applicant" and to amplify and supersede the Helpful Hint published at 1084 Official Gazette 34 (Nov. 24, 1987) titled "Correspondence Address and/or Fee Address of Maintenance Fees."

Part 10 of title 37, Code of Federal Regulations, sets forth the Patent and Trademark Office (PTO) Code of Professional Responsibility. Each attorney or agent who practices before the PTO is subject to the rules set forth in Part 10 and should carefully study the rules promulgation originally published at 50 Federal Register 5158 (Feb. 6, 1985) and at 1052 Official Gazette 4 (Mar. 5, 1985) and reproduced as item number 172 in the Consolidated Listing of Official Gazette Notices, published at 1086 Trademark Official Gazette 3 (Jan. 5, 1988).

Practitioner's Client

During the promulgation of Part 10, 37 CFR, several individuals suggested that "it may be difficult to determine the identity of the 'client'. . . , particularly in corporate patent departments." The response to that suggestion was that "[t]he PTO will presume that practitioners know the identities of their clients" 50 Federal Register 5163 (Feb. 6, 1985); 1086 Trademark Official Gazette 356 (Jan. 5, 1988). For example, in a patent application, practitioner's client is ordinarily the inventor who gives practitioner a power of attorney to prosecute the application (37 CFR 1.31). A practitioner may represent only the assignee of the entire interest in a patent application if the assignee has filed a power of attorney and the assignee is conducting the prosecution of the application to the exclusion of the inventor. (37 CFR 1.32).

In the promulgation of Part 10, 37 CFR, a commenter raised a question of who is the client when an application is filed on behalf of an individual, but the individual's assignee pays practitioner's bill. The question was answered in the following manner:

"Practitioners are expected to know the identities of their clients. If a practitioner is hired by a corporation and wishes to make that fact plain on the record of a patent application, the practitioner may file an assignment and a power of attorney signed by the assignee. If a dispute should then occur between the individual and the assignee, the record would be clear that the assignee is the client." 50 Federal Register 5164 (Feb. 6, 1985); 1086 Trademark Official Gazette 357 (Jan. 5, 1988).

In some instances, practitioners deal with a corporate liaison or foreign agent. Such arrangements do not automatically change the person whom practitioner represents, e.g., the inventor or trademark owner. The fact that a U.S. practitioner receives instructions from the inventor or trademark owner through a foreign attorney or agent does not change the fact that the client is still the inventor or trademark owner rather than the foreign attorney or agent. See *Strojirenstvi v. Toyoda*, 2 USPQ 2nd 1222 (Comm'r Pat. 1986), which at 1223 cited *Yetter Manufacturing Co. v. Hiniker Co.*, 213 USPQ 119, 120 (D. Minn. 1981) for the principle

that "when attorney served as local counsel for a law firm representing Hiniker Co., the attorney represented Hiniker and not the law firm" and also cited *Toulmin v. Becker*, 105 USPQ 511 (Ohio Ct. App. 1954) for the principle that "foreign patent agents or attorneys were not clients of U.S. patent attorney." The PTO expects practitioners to know the identities of their clients and to take reasonable steps to avoid foreseeable prejudice to the rights of their clients.

Obtaining Instructions Through Persons Other Than The Client

In practice, it is common for instructions relating to the application of an inventor or trademark owner, who is the client of the U.S. practitioner, to be passed to the U.S. practitioner through intermediaries, such as corporate liaisons or foreign agents. Clearly, a client may choose to use a corporate liaison or a foreign agent to convey instructions, etc., to a practitioner. In such an arrangement, the practitioner may rely upon instructions of, and accept compensation from, the corporate liaison or the foreign agent as to the action to be taken in a proceeding before the Office so long as the practitioner is aware that the client has consented to have instructions conveyed through the liaison or agent. See 37 CFR 10.68(a) and (b). An agreement between the client and the liaison or agent establishes an agency relationship between the liaison or agent and the client such that the U.S. practitioner can rely upon the liaison or agent as the representative of the client for the purpose of communicating the client's instructions about the proceeding to the U.S. practitioner. The PTO will assume that the client has an agreement with the liaison or agent to be represented by the liaison or agent. It is the responsibility of the client to notify the practitioner that the agency relationship between the client and the liaison or agent has ceased to exist and that instructions from the liaison or agent should no longer be accepted.

A practitioner could secure evidence that such an agreement exists by having a patent or trademark applicant sign a statement to that effect at the same time that the power of attorney is executed. For example, the following language could be inserted in an oath, declaration, or power of attorney form:

"The undersigned hereby authorizes the U.S. attorney or agent named herein to accept and follow instructions from as to any action to be taken in the Patent and Trademark Office regarding this application without direct communication between the U.S. attorney or agent and the undersigned. In the event of a change in the persons from whom instructions may be taken, the U.S. attorney or agent named herein will be so notified by the undersigned."

Without an agency relationship between the liaison or agent and the client, a practitioner would be bound by 37 CFR 10.68(b) to "not permit a person who recommends, employs, or pays the practitioner to render legal services for another, to direct or regulate the practitioner's professional judgment in rendering such legal services."

Practitioner's Responsibility to a Client After the Client's Patent Issues or Trademark is Registered

The Office has received inquiries from practitioners as to their responsibilities to a client (patent or trademark applicant) after the client's patent was issued or trademark has been registered. In response thereto, it is pointed out that a power of attorney given during prosecution of a patent or trademark application is considered to be

viable after the patent is issued or the trademark is registered. See 50 Federal Register 5164 (Feb. 6, 1985); 1086 Trademark Official Gazette 357 (Jan. 5, 1988). While the Office considers such a power of attorney to be viable for purposes of the practitioner taking actions in proceedings before the Office if practitioner and the client so desire, the existence of the power of attorney to file and/or prosecute the application through issuance of the patent or registration of the trademark does not establish whether practitioner has a responsibility, and a dutaffirmatively in a proceeding before the Office on behalf of the client after the patent issues or the trademark is registered.

Practitioner's responsibility to take affirmative action in a proceeding before the Office after the patent issues or the trademark is registered depends upon whether practitioner still has a practitioner-client relationship with the client which has continued after the patent issued or trademark is registered. The mere existence of the power of attorney to file and/or prosecute the application through issuance of the patent or registration of the trademark would not establish such a practitioner client relationship in the absence of other facts establishing such a relationship since the purpose for which the power of attorney was originally given has been accomplished.

Practitioner's Responsibility to a Former Client

While practitioner may no longer have a practitioner-client relationship with a client and therefore has no duty to represent the client in a proceeding before the Office, a practitioner nevertheless has certain obligations to a former client. These obligations are placed upon practitioner by the Office rules and are necessary for the proper conduct of proceedings before the Office. Under 37 CFR 10.23(c)(8), practitioners have a duty to inform a client or former client or timely notify the Office of an inability to notify a client or former client of certain correspondence received from the Office and also from the client's or former client's opponent in an inter partes proceeding before the Office. Practitioners have an obligation whether the client is a present client or a former client. Included among the items of correspondence of which practitioners have the obligation to inform clients or former clients are notices regarding maintenance fees, reexamination proceedings, and institution of inter partes patent and trademark proceedings.

Address to Which Correspondence is Sent Regarding Patent Maintenance Fees and Reexamination Proceedings

Under 37 CFR 1.33(d), a "correspondence address" or a change thereto may be filed with the Office during the enforceable life of a patent. This "correspondence address" will be used in any correspondence relating to maintenance fees unless a separate "fee address" has been specified solely for maintenance fee purposes as provided by 37 CFR 1.363. Practitioners who do not wish to receive correspondence relating to maintenance fees must change the correspondence address in the patented file or provide the PTO with a fee address to which the correspondence should be sent. It is not required that a practitioner file a request for permission to withdraw pursuant to 37 CFR 1.36 solely for the purpose of changing the correspondence address in a patent even though a withdrawal of a practitioner would change the correspondence address.

Since 37 CFR 1.33(c) specifies that all notices, official letters and other communications for the patent owner or owners in a reexamination proceeding will be directed to the attorney or agent of record in the

patent file, a request for permission to withdraw pursuant to 37 CFR 1.36 must be filed in the patent if the attorney or agent of record does not desire to receive correspondence relating to reexamination. For information on requests to withdraw, see the discussion in the Jan. 12, 1988 Official Gazette Notice cited above.

Contact Points For Information

If a practitioner has questions about the conduct of, or requirements relating to a particular proceeding before the Office, those questions should be directed to the particular area of the Office responsible for the proceeding. If practitioners have questions about their responsibilities to their clients, those questions should be directed to the Office of Enrollment and Discipline. The telephone number of that Office is (703) 557-2012.

May 25, 1988

DONALD J. QUIGG
Assistant Secretary and Commissioner
of Patents and Trademarks

[1091 TMOG 26]

594 Fed.Appx. 669

This case was not selected for publication in West's Federal Reporter. See Fed. Rule of Appellate Procedure 32.1 generally governing citation of judicial decisions issued on or after Jan. 1, 2007. See also U.S.Ct. of App. Fed. Cir. Rule 32.1. United States Court of Appeals, Federal Circuit.

CELGARD, LLC,
Plaintiff–Cross Appellant,
v.
LG CHEM, LTD. and LG Chem
America, Inc., Defendants–Appellants.

Nos. 2014–1675, 2014–1733,
2014–1806. | Dec. 10, 2014.

Synopsis

Background: Patentee commenced action against competitor and its affiliate companies, alleging infringement of patent on lithium battery components. The United States District Court for the Western District of North Carolina, Max O. Cogburn, Jr., J., entered preliminary injunction. Competitor appealed. Manufacturer of electronic devices, as former client of law firm that represented patentee, and competitor's customer, moved for leave to intervene for purposes of seeking to disqualify patentee's counsel.

Holding: The Court of Appeals, Dyk, Circuit Judge, held that counsel's representation of patentee was sufficiently adverse to manufacturer of electronic devices, as counsel's

former client and competitor's customer, to warrant disqualification.

Motion granted.

West Headnotes (2)

[1] Attorney and Client

⇐ Patent law

Law firm's representation of owner of patent on lithium battery components was sufficiently adverse to manufacturer of electronic devices, as firm's former client and competitor's customer, to warrant disqualification in patentee's infringement action against its competitor where patentee had obtained preliminary injunction; although manufacturer was not a defendant in the action and firm had attempted to limit nature of its representation of patentee, manufacturer faced not only possibility of finding new battery supplier, but also additional targeting by patentee in attempt to use injunction issue as leverage in negotiating business relationship, and firm and patentee clearly knew potential for conflict and yet elected to continue with representation. State Bar Rules, Ch. 2, Rule 1.7(a).

1 Cases that cite this headnote

[2] Patents

☞ In general; utility

US Patent 6,432,586. Cited.

Cases that cite this headnote

***670** Appeals from the United States District Court for the Western District of North Carolina in No. 3:14-cv-00043-MOC-DCK, Judge Max O. Cogburn, Jr.

Attorneys and Law Firms

Martin Richard Lueck, Esq., Andrew Douglas Hedden, Jamie R. Kurtz, Robins, Kaplan, Miller & Ciresi, LLP, Minneapolis, MN, Bryan Jason Vogel, Esq., Robins, Kaplan, Miller & Ciresi, LLP, New York, NY, for Plaintiff-Cross Appellant.

Michael J. Mckeeon, Esq., Kevin Wheeler, Fish & Richardson, P.C., Washington, DC, John A. Dragseth, Esq., Fish & Richardson, P.C., Minneapolis, MN, Leah A. Edelman, Fish & Richardson, P.C., New York, NY, for Defendants-Appellants.

Before NEWMAN, DYK, and HUGHES, Circuit Judges.

ON MOTION

ORDER

DYK, Circuit Judge.

Apple Inc. states that the Jones Day law firm's representation of Celgard LLC in this infringement suit against their lithium battery

supplier, LG Chem., Ltd., has made it more difficult for Jones Day to effectively represent Apple in unrelated ongoing legal matters. For that reason, Apple seeks to be heard and moves to disqualify Jones Day from this appeal. *

BACKGROUND

In the litigation underlying this case, Celgard, itself a manufacturer of lithium battery components, brought suit in the Western District of North Carolina against LG Chem. The complaint sought damages ***671** and injunctive relief as a result of LG Chem's alleged infringement of U.S. Patent No. 6,432,586 (the “#586 patent”) from the manufacture and sale of its lithium batteries. The complaint named only LG Chem and its affiliate companies, not its customers.

After filing its complaint, Celgard—at the time not represented by Jones Day—moved to preliminarily enjoin LG Chem from continuing to infringe the #586 patent either directly or by inducing others by continuing to sell its batteries to customers such as Apple. Soon after, Celgard sent Apple a copy of its motion and requested to work with Apple to find a mutually beneficial business arrangement to resolve the issues around infringement of Celgard's intellectual property.

The district court granted Celgard's request to preliminarily enjoin LG Chem and its affiliates on July 17, 2014, but stayed that injunction a few days later until disposition of this appeal. Jones Day then entered an appearance on behalf of Celgard to represent it in this matter before the district court and on appeal before this

court, although, according to Jones Day, it will not counsel Celgard in any matter adverse to Apple, including licensing negotiations.

After Jones Day rejected Apple's repeated requests to withdraw, Apple moved for leave to intervene in this matter for purposes of seeking to disqualify Jones Day. Apple asserts that the preliminary injunction covers the custom batteries LG Chem provides for Apple's products and that Jones Day currently represents Apple in several ongoing unrelated commercial litigation matters.

DISCUSSION

We agree with Apple that Jones Day's conflicting representation here requires disqualification under the applicable legal standard. We apply regional circuit law, in this case the Fourth Circuit, to disqualification matters. See *Atasi Corp. v. Seagate Tech.*, 847 F.2d 826, 829 (Fed.Cir.1988). The Fourth Circuit, in turn, applies the professional conduct rules of the forum state. See *Shaffer v. Farm Fresh, Inc.*, 966 F.2d 142, 145 (4th Cir.1992). The North Carolina Rules of Professional Conduct thus govern here.

Rule 1.7(a), which governs concurrent conflicts of interest, prohibits representation when such representation “will be directly adverse to another client[.]” N.C. Rule of Prof'l Conduct 1.7(a). Because Jones Day's representation here is “directly adverse” to the interests and legal obligations of Apple, and is not merely adverse in an “economic sense,” the duty of loyalty protects Apple from further representation of Celgard. *Id.*; see also 1.7 cmt. 6.

We addressed similar circumstances involving the same conflict rule, albeit from a different jurisdiction, in *Freedom Wireless, Inc. v. Boston Commc'ns Group, Inc.*, Nos.2006–1020 et al., 2006 WL 8071423 (Fed.Cir. Mar. 20, 2006). There, we agreed that counsel for plaintiff should be disqualified from seeking to enjoin a wireless service technology provider based on the firm's ongoing relationship with a customer of the provider because any “[a]dvocacy by counsel for [plaintiff in support of] ... the injunction will adversely affect [customer]'s interest in being free of the bar of the injunction.” *Id.* at *2. This court added:

Here, counsel has asserted a position that an injunction obtained on behalf of one client ... should limit the activity of another client.... In this situation, a clear and direct conflict of interest has arisen.

Id. at *3.

These grounds for disqualification apply equally here. As in *Freedom Wireless*, the *672 burden placed on the attorney-client relationship here extends well beyond the sort of unrelated representation of competing enterprises allowed under Rule 1.7(a). Apple faces not only the possibility of finding a new battery supplier, but also additional targeting by Celgard in an attempt to use the injunction issue as leverage in negotiating a business relationship. Thus, in every relevant sense, Jones Day's representation of Celgard is adverse to Apple's interests.

This conclusion is not altered by the fact that Apple is not named as a defendant in this action. The rules and cases such as *Freedom Wireless* interpreting them make clear it is the total context, and not whether a party is named in a lawsuit, that controls whether the adversity is sufficient to warrant disqualification. 2006 WL at *2; see also *Arrowpac Inc. v. Sea Star Line, LLC*, Nos. 3:12-cv-1180-J-32JBT et al., 2013 WL 5460027 at *10 (M.D.Fla. Apr. 30, 2013) (interpreting same rule as encompassing “any representation *directly* adverse to the interests of a current client.”).

Celgard contends that despite the conflict we should not grant disqualification because of the prejudice involved in impinging on Celgard's right to choose their counsel and secure new counsel. Celgard further suggests that if Rule 1.7(a) were to cover conflicting representations merely because the client is up or down the supply chain then “lawyers and clients would have no reliable way of determining whether conflicts of interest exist in deciding whether to commence engagements.” Opposition at 13, *Celgard, LLC v. LG Chem, Ltd.*, Appeal Nos. 20141675 et al. (Oct. 14, 2014).

That, however, is not our holding. Nor is it the facts of this case. As evidenced by Jones Day's attempts to limit the nature of

the representation, Jones Day and Celgard clearly knew the potential for conflict here yet elected to continue with the representation. See *id.* at 4 (“Jones Day explained that it could represent Celgard against LG Chem, but not against customers of LG Chem who were also Jones Day clients—such as Apple.”). Thus, the legal costs and delay in proceedings that may result from a disqualification are attributable in no small way to Celgard and Jones Day themselves.

Accordingly,

IT IS ORDERED THAT:

- (1) Apple's motions for leave to intervene and to disqualify Jones Day are granted.
- (2) New principal counsel for Celgard shall file an entry of appearance within 60 days from the date of filing of this order.
- (3) General Motor's separate motion to disqualify Jones Day is moot.

All Citations

594 Fed.Appx. 669

Footnotes

- * General Motors joins this motion and similarly moves to disqualify Jones Day from further representation in this case.

565 Fed.Appx. 912

This case was not selected for publication in West's Federal Reporter. See Fed. Rule of Appellate Procedure 32.1 generally governing citation of judicial decisions issued on or after Jan. 1, 2007. See also U.S.Ct. of App. Fed. Cir. Rule 32.1. United States Court of Appeals, Federal Circuit.

In re ATOPTECH, INC.

No. 2014-124. | May 29, 2014.

Synopsis

Background: Patentee brought action against competitor for infringement of patent for electronic design automation (EDA) software. Patentee moved to disqualify competitor's counsel. The United States District Court for the Northern District of California, Maxine M. Chesney, J., granted motion. Competitor petitioned for writ of mandamus to direct district court to vacate its disqualification order and to stay district court proceedings.

Holding: The Court of Appeals, Newman, Circuit Judge, held that mandamus was not warranted.

Petition denied.

West Headnotes (2)

[1] Attorney and Client

↔ Patent law

Mandamus

↔ Specific acts

District court had sound basis for disqualifying competitor's counsel in action for infringement of patent for electronic design automation (EDA) software, and thus mandamus directing district court to vacate disqualification order was not warranted; there was substantial relationship between current and former representations because competitor's counsel had previously represented patent's former owner in patent infringement actions brought by plaintiff, and confidential material information was presumably transmitted to counsel during that previous representation.

Cases that cite this headnote

[2] Patents

↔ In general; utility

US Patent 6,507,941. Cited.

Cases that cite this headnote

***912** On Petition for Writ of Mandamus to the United States District Court for the Northern District of California in No. 3:13-cv-02965-MMC, Judge Maxine M. Chesney.

Before RADER, Chief Judge, NEWMAN and HUGHES, Circuit Judges.

ON PETITION

ORDER

NEWMAN, Circuit Judge.

Atoptech, Inc. seeks a writ of mandamus to direct the United States District Court for the Northern District of California to vacate its order granting plaintiff Synopsys, Inc.'s motion to disqualify Atoptech's law firm, O'Melveny and Myers LLP (OMM). Synopsys opposes. Atoptech replies. Atoptech also moves to stay district court proceedings. Synopsys opposes.

The petition arises out of a suit brought by Synopsys alleging, among other things, that Atoptech infringes Synopsys's patents related to electronic design automation (EDA). EDA software simplifies the design process by mapping the layout of a chip with cells (placement), connecting those cells (routing), and testing the chip.

The primary issue related to this petition is Atoptech's alleged infringement of U.S. Patent No. 6,507,941 ("the '941 patent"). The '941 patent relates to methods for placement and routing. The '941 patent was originally issued to Magma Design Automation, Inc. (Magma) in 2003 and was acquired by Synopsys when Magma merged with Synopsys effective February 2012. Magma's major EDA product was known as Blast, and Synopsys continues to *913 sell the product under the name Talus. OMM represented Magma in the merger. OMM began to represent the alleged

infringer, Atoptech, in the present suit in 2013.

Previously in 2004, OMM had also represented Magma when it was sued by Synopsys in the United States District Court for the Northern District of California. Synopsys alleged that Magma's Blast product infringed three EDA patents issued to Magma but which Synopsys alleged it owned. Two of those patents featured claims directed to routing.

OMM also represented Magma when Magma was sued by Synopsys in the United States District Court for the District of Delaware in 2005. The suit involved claims that Magma's products infringed three of Synopsys's patents. Magma counterclaimed to assert five of its own EDA patents against Synopsys, but Magma did not assert the '941 patent.

In the instant case, Synopsys alleges that Atoptech infringes the '941 patent, U.S. Patent No. 6,237,127, and copyrights. Based on OMM's prior representation of Magma at a time when Magma owned the '941 patent and when Magma's products and other related patents were in litigation, Synopsys moved to disqualify OMM as counsel for Atoptech. Synopsys noted, inter alia, the relatedness of the previous representations of Magma in EDA infringement cases. Two of the OMM attorneys who entered appearances in the present action had also previously represented Magma. At that point, OMM announced it created a "screen" to prevent disclosure of confidential information and asserted that its attorneys had not shared any confidential information. After a hearing, the district court granted the motion to disqualify OMM. Atoptech petitions this

court for a writ of mandamus to overturn that ruling.

“The remedy of mandamus is a drastic one, to be invoked only in extraordinary situations.” *Kerr v. U.S. Dist. Court*, 426 U.S. 394, 402, 96 S.Ct. 2119, 48 L.Ed.2d 725 (1976). Accordingly, “three conditions must be satisfied before it may issue.” *Cheney v. U.S. Dist. Court*, 542 U.S. 367, 380, 124 S.Ct. 2576, 159 L.Ed.2d 459 (2004). The petitioner must show a “ ‘clear and indisputable’ ” right to relief. *Id.* at 381, 124 S.Ct. 2576 (quoting *Kerr*, 426 U.S. at 403, 96 S.Ct. 2119). The petitioner must “lack adequate alternative means to obtain the relief” it seeks. *Mallard v. U.S. Dist. Court*, 490 U.S. 296, 309, 109 S.Ct. 1814, 104 L.Ed.2d 318 (1989); see *Cheney*, 542 U.S. at 380, 124 S.Ct. 2576; *Kerr*, 426 U.S. at 403, 96 S.Ct. 2119. And “even if the first two prerequisites have been met, the issuing court, in the exercise of its discretion, must be satisfied that the writ is appropriate under the circumstances.” *Cheney*, 542 U.S. at 381, 124 S.Ct. 2576.

The United States Court of Appeals for the Ninth Circuit, whose law we apply here, has made clear that “the district court has the prime responsibility for controlling the conduct of lawyers practicing before it, and that an order disqualifying counsel will not be disturbed if the record reveals ‘any sound’ basis for the district court’s action.” *In re Coordinated Pretrial Proceedings in Petroleum Products Antitrust Litigation*, 658 F.2d 1355, 1358 (9th Cir.1981) (citing *Gas-A-Tron of Arizona v. Union Oil Co. of California*, 534 F.2d 1322, 1325 (9th Cir.1976)).

The district court stated that if a substantial relationship was shown between the current and former representations, a conclusive presumption arises that confidential material information was transmitted to the attorneys. ATopTech does not disagree with this statement of Ninth Circuit law, but instead disputes that Synopsys *914 made a showing of a substantial relationship. The district court found that Synopsys met this heavy burden because it made “a sufficient showing that the ‘941 patent was discussed or the probability of it having been discussed.” The district court also found that there was “a relevant overlap in the products that were at issue in the former case and now will be at issue again,” and stated that because of “the long relationship that [OMM] had with Magma and the thoroughness ... of [OMM’s] work, in general,” disqualification of OMM was appropriate. We determine that the district court had a sound basis for disqualifying OMM. Therefore, mandamus relief is not warranted.

Accordingly,

IT IS ORDERED THAT:

- (1) The petition for a writ of mandamus is denied.
- (2) The motion for a stay is denied.

All Citations

565 Fed.Appx. 912

End of Document

© 2015 Thomson Reuters. No claim to original U.S. Government Works.

693 F.Supp.2d 399
United States District Court,
D. Delaware.

APELDYN CORPORATION, Plaintiff,
v.
SAMSUNG ELECTRONICS
CO., LTD., et al., Defendants.

Civ. No. 08-568-
SLR. | March 12, 2010.

Synopsis

Background: Plaintiff moved for reconsideration of decision, 660 F.Supp.2d 557, disqualifying its counsel in patent infringement action due to his prior representation of former client whose interests were adverse to those of plaintiff.

Holdings: The District Court, Sue L. Robinson, J., held that:

[1] court may disqualify an attorney for failing to avoid even the appearance of impropriety;

[2] “substantial relationship” existed between attorney's representation of former client in patent litigation and attorney's representation of present client in patent case so as to warrant disqualification of attorney; and

[3] disqualification order would not be certified for immediate appeal.

Motion denied.

West Headnotes (10)

[1] Federal Civil Procedure

↔ Grounds and Factors

A motion for reconsideration is appropriately filed only if there is: (1) an intervening change in the controlling law; (2) the availability of new evidence that was not available when the court issued its order; or (3) the need to correct a clear error of law or fact or to prevent manifest injustice.

Cases that cite this headnote

[2] Attorney and Client

↔ Interests of former clients

Attorney and Client

↔ Disqualification proceedings; standing

Attorney conduct will fall within the ambit of Model Rules of Professional Conduct of the American Bar Association governing conflicts of interest if the present client's matter is the same as the matter the lawyer worked on for former client, or is a substantially related matter; a “substantial relationship” exists if the similarity between the two representations is enough to raise a common-sense inference that what the lawyer learned from his former client will prove useful in his representation of another client whose interests are adverse to those of the former client.

1 Cases that cite this headnote

[3] Federal Courts

↔ Multiple parties

Federal Courts

↔ Multiple claims

Factors which trial court should consider in deciding whether to certify as a final judgment a decision as to fewer than all of the claims or parties are: (1) judicial administrative interests, and (2) the equities of the parties involved; consideration of judicial administration counsels against piecemeal review that would force appellate courts to decide the same issues on subsequent appeal. Fed.Rules Civ.Proc.Rule 54(b), 28 U.S.C.App.(2006 Ed.)

Cases that cite this headnote

[4] Attorney and Client

↔ Disqualification in general

Attorney and Client

↔ Disqualification proceedings; standing

A court may disqualify an attorney for failing to avoid even the appearance of impropriety, and any doubt as to the propriety of the representation should be resolved in favor of disqualification.

2 Cases that cite this headnote

[5] Patents

↔ Functions, means, and results of invention

Construction of a patent claim's means-plus-function limitation requires the identification of the function of the limitation, followed by a determination of the structure disclosed in the patent that performs the claim limitation's function. 35 U.S.C.A. § 112.

Cases that cite this headnote

[6] Patents

↔ Function, means, operation, and result

Establishing the literal infringement of a patent claim's means-plus-function limitation requires that the relevant structure in the accused device perform the identical function recited in the claim and be identical or equivalent to the corresponding structure in the specification; patentee may show structural equivalence if the assertedly equivalent structure performs the claimed function in substantially the same way to achieve substantially the same result as the corresponding structure described in the specification. 35 U.S.C.A. § 112.

Cases that cite this headnote

[7] Attorney and Client

↔ Patent law

“Substantial relationship” existed between attorney’s representation of former client in patent litigation and attorney’s representation of present client in patent case so as to warrant disqualification of attorney; given that memory was an important component in the structures used to implement former client’s overdrive functionality, a proper means-plus-function infringement analysis would require that the structure of former client’s DRAMs (dynamic random access memory) would be at issue, and that, in order to prove infringement, current client would necessarily be using specimens and documentation that were of the same type, if not the same, as those collected and reviewed by attorney in representation of former client.

Cases that cite this headnote

[8] Federal Courts

↔ Counsel

Resolution of order disqualifying plaintiff’s counsel in patent infringement action would not “materially advance the ultimate termination of litigation” so as to warrant interlocutory appeal of disqualification order; additionally, conflict of interest issue underlying disqualification order was not a “controlling question of law” as to which there was substantial ground for difference of opinion. 28 U.S.C.A. § 1292(b).

1 Cases that cite this headnote

[9] Federal Courts

↔ In general; necessity

Federal Courts

↔ Multiple parties

Federal Courts

↔ Multiple claims

Rule allowing a district court to certify a final judgment in those cases in which there is “more than one claim for relief” or “when multiple parties are involved” does not displace the requirement that an appeal will only lie from a “final decision” of the district court. 28 U.S.C.A. § 1291; Fed.Rules Civ.Proc.Rule 54(b), 28 U.S.C.App. (2006 Ed.)

Cases that cite this headnote

[10] Federal Courts

↔ Counsel

Resolution of issue regarding disqualification of counsel was not a “final judgment” as to patent infringement claim so as to be subject to immediate appeal. 28 U.S.C.A. § 1291.

Cases that cite this headnote

Attorneys and Law Firms

*401 Richard D. Kirk, Esquire, and Stephen B. Brauerman, Esquire, Bayard, P.A., counsel for plaintiff Apeldyn Corporation. Of counsel: Gaspare J. Bono, Esquire, Matthew T. Bailey, Esquire, and Shari L. Klevens, Esquire, McKenna Long & Aldridge LLP.

Richard L. Horwitz, Esquire, David E. Moore, Esquire, and D. Fon Muttamara-Walker, Esquire, Potter Anderson & Corroon LLP, counsel for defendants Samsung Electronics Co., Ltd. and Samsung Electronics America, Inc. Of counsel: Neil P. Sirota, Esquire, Chang Sik Kim, Esquire, Michael J. Barta, Esquire, and William S. Foster, Jr., Esquire, Baker Botts, LLP.

MEMORANDUM OPINION

SUE L. ROBINSON, District Judge.

I. INTRODUCTION

In its September 30, 2009 opinion, the court granted a motion, filed by Samsung Electronics Co., Ltd. and Samsung Electronics America (collectively, “Samsung”), to disqualify R. Tyler Goodwyn, IV (“Goodwyn”) and McKenna Long & Aldridge L.L.P. (“MLA”) as counsel for plaintiff Apeldyn Corporation (“Apeldyn”). Plaintiff has moved for reconsideration of this decision or, in the alternative, certification under 28 U.S.C. § 1292(b) or for entry of judgment pursuant to Fed.R.Civ.P. 54(b). An oral argument was conducted on December 18, 2009. The court has jurisdiction over this matter pursuant to 28

U.S.C. § 1338. For the reasons that follow, the motion (D.I. 159) shall be denied.

II. BACKGROUND

The court's prior opinion (D.I. 155) details the factual backdrop of this dispute; for brevity's sake, this opinion will recount only those portions necessary to resolve plaintiffs' motion for reconsideration. Mr. Goodwyn joined MLA in April 2006. Prior to joining MLA, he was a partner at Morgan Lewis & Bockius (“Morgan Lewis”). In 2001, Morgan Lewis commenced representation of Samsung in a lawsuit captioned *Mosaid Technologies, Inc. v. Samsung Electronics Co., Ltd.*, Civ. No. 01-4340 (D.N.J.) (“the *Mosaid* litigation”). The *Mosaid* litigation involved nine patents directed to specific technologies in DRAM¹ chips, to wit, word line driver and voltage pump functionalities. Mr. Goodwyn was a member of the Morgan Lewis litigation team, billing more than 4,000 hours to the matter between September 13, 2001 and January 31, 2005. (D.I. 154 at 51) Over the course of his extensive *402 involvement in this matter, Mr. Goodwyn analyzed the patents at issue as well as the related Samsung products, contributing theories regarding claim construction and invalidity. (*Id.* at 43-44, 149) He was also “exposed to factors that Samsung considers important in settlement.” (*Id.* at 44)

MLA began talking to Mr. Goodwyn about employment in April 2005, within months of the resolution of the *Mosaid* litigation. At that time, MLA was actively pursuing a case against Samsung (“the CEA litigation”), which litigation related to liquid crystal display (“LCD”) technologies. MLA determined that

“there was no conflict between the work that Mr. Goodwyn had done previously for Samsung and [MLA's] continued and current representation of CEA in the LCD case.” (*Id.* at 86) In April 2006, when Mr. Goodwyn was hired, MLA imposed no ethical screen related to the CEA litigation or otherwise. (*Id.* at 141–43)

The September 2008 complaint naming Samsung and giving rise to the instant litigation identifies Mr. Goodwyn as counsel for plaintiff Apeldyn. (D.I. 1 at 16) Samsung's accused overdrive feature is implemented by two semiconductor components: the timing controller integrated circuit (T-CON) and DRAM. (*Id.* at 29–30) Prior to his involvement with the case at bar, Mr. Goodwyn raised questions about the propriety of the assignment in light of his work in the *Mosaid* litigation. The top managers of MLA's IP litigation practice compared the technologies of the *Mosaid* patents (focused on the design and architecture of a DRAM chip) and the '382 patent at issue (focused on liquid crystal materials and speeding up their response times through an overdrive functionality). They concluded that the patents were “not in any way related to each other.” (*Id.* at 93) Consequently, it was decided that there was no reason to exclude Mr. Goodwyn from working on the case at bar. (*Id.* at 94, 162)

In January 2009, Samsung raised a concern about Mr. Goodwyn's representation of Apeldyn in the instant litigation. While Mr. Goodwyn had not yet expended time on the case (due to the press of other work), his name appeared on the complaint and other papers and he was a listed recipient of documents

until February 10, 2009. (*Id.* at 124–29) Samsung subsequently moved to disqualify Mr. Goodwyn and MLA. In its memorandum opinion dated September 30, 2009, the court determined that Mr. Goodwyn's involvement in both the *Mosaid* litigation and the action at bar presented a conflict of interest and that MLA's failure to affirmatively segregate Mr. Goodwyn from the action at bar resulted in an unavoidable imputed conflict; accordingly, the court granted Samsung's motion. (D.I. 155 at 7)

III. STANDARD OF REVIEW

A. Reconsideration

[1] A motion for reconsideration is appropriately filed only if there is: (1) an intervening change in the controlling law; (2) the availability of new evidence that was not available when the court issued its order; or (3) the need to correct a clear error of law or fact or to prevent manifest injustice. *See generally Max's Seafood Cafe v. Quinteros*, 176 F.3d 669, 677 (3d Cir.1999). Plaintiff alleges multiple legal and factual errors.

B. Disqualification

[2] Model Rule 1.9(a) provides that:

A lawyer who has formerly represented a client in a matter shall not thereafter represent another person in the same or a substantially related matter in which that person's interests are materially adverse to the interests of the former
*403 client unless the

former client gives informed consent, confirmed in writing.

M.R.P.C., Rule 1.9(a). Attorney conduct will fall within the ambit of the Rule if, *inter alia*, “the present client's matter [is] the same as the matter the lawyer worked on for the first client, or [is] a ‘substantially related’ matter....”² *Nemours Foundation v. Gilbane, Aetna, Federal Ins. Co.*, 632 F.Supp. 418, 422 (D.Del.1986). A “substantial relationship” exists if the similarity between “the two representations is enough to raise a common-sense inference that what the lawyer learned from his former client will prove useful in his representation of another client whose interests are adverse to those of the former client.” *Madukwe v. Del. State Univ.*, 552 F.Supp.2d 452, 458 (D.Del.2008) (citations omitted).

C. Certification under 28 U.S.C. § 1292(b)

Pursuant to 28 U.S.C. § 1292(b), an interlocutory appeal may be had where the proposed appeal concerns “(1) a controlling question of law³ (2) as to which there is substantial ground for difference of opinion and (3) ... an immediate appeal ... may materially advance the ultimate termination of the litigation....” 28 U.S.C. § 1292(b).

D. Entry of Judgment Pursuant to Fed.R.Civ.P. 54(b)

[3] Rule 54(b) states, in pertinent part:

When more than one claim for relief is presented in an action, ... or when multiple parties are involved, the

court may direct the entry of a final judgment as to one or more but fewer than all of the claims or parties only upon an express determination that there is no just reason for delay and upon an express direction for the entry of judgment.

Fed. R. Civ. P. 54(b). Although the decision whether to certify as a final judgment rests in the discretion of the trial court, *see Sears, Roebuck & Co. v. Mackey*, 351 U.S. 427, 437, 76 S.Ct. 895, 100 L.Ed. 1297 (1956), the Supreme Court in *Curtiss–Wright Corp. v. General Electric Co.*, 446 U.S. 1, 100 S.Ct. 1460, 64 L.Ed.2d 1 (1980), suggested two relevant factors a trial court should consider in deciding whether there is just reason for delay: (1) judicial administrative interests; and (2) the equities of the parties involved. *See id.* at 8, 100 S.Ct. 1460. Consideration of judicial administration counsels against piecemeal review that would force appellate courts to decide the same issues on subsequent appeal. *See id.*

IV. DISCUSSION

A. Reconsideration

1. Appearance of impropriety

The primary thrust of Apeldyn's motion for reconsideration is that the court erred by exclusively relying upon an “appearance of impropriety” standard in disqualifying Mr. Goodwyn and MLA. This characterization is premised upon several flaws. First, the court

remains unconvinced that Apeldyn's assertion, taken as true, constitutes legal error. In support of its position, Apeldyn cites to a portion of *Nemours* dealing with **imputed conflicts** under Model Rule 1.10 which states that “the Third Circuit has followed other circuits in *404 beginning to discredit Canon 9 as an exclusive basis for disqualification, reflecting a more liberal treatment of this question.”⁴ 632 F.Supp. 418, 423 (D.Del.1986) (citing *In re Corn Derivatives Antitrust Litig.*, 748 F.2d 157 (3d Cir.1984)).⁵

[4] While characterizing as problematic the per se disqualification of a firm based solely upon an appearance of impropriety, the *Nemours* court held that “an appropriate screening mechanism, in the proper circumstances, may rebut the presumption of shared confidences that arises under Rule 1.10 in cases where the disqualified attorney's conflict of interest originated in private practice.” *Id.* at 428. Not only did MLA fail to institute such a screening measure; it affirmatively involved Mr. Goodwyn with this matter. Under these circumstances, the disqualification of Mr. Goodwyn and MLA comports with the settled case law of the Third Circuit, which holds that “[t]he maintenance of public confidence in the propriety of the conduct of those associated with the administration of justice is so important, a court may disqualify an attorney for failing to avoid even the appearance of impropriety.” *Madukwe*, 552 F.Supp.2d at 457 (quoting *Kabi Pharmacia AB v. Alcon Surgical, Inc.*, 803 F.Supp. 957, 960 (D.Del.1992)); see also *Conley v. Chaffinch*, 431 F.Supp.2d 494, 500 (D.Del.2006) (quoting *IBM v. Levin*, 579 F.2d 271, 283 (3d Cir.1978) for the same). Put

another way, “any doubt as to the propriety of the representation should be resolved in favor of disqualification.” *Thorner v. Sony Computer Entertainment America, Inc.* 2009 WL 4041624, at *6 (D.N.J.2009) (quoting *IBM*, 579 F.2d at 283).

Notwithstanding any marginal ambiguity that *Nemours* may inject into the standard for disqualification, the court's analysis does not, as Apeldyn alleges, begin and end with the apparent impropriety of Mr. Goodwyn's involvement in the instant litigation. The basis for the decision to disqualify Mr. Goodwyn and MLA rests also upon the court's determination that a substantial relationship exists between the subject matter of the *Mosaid* litigation and the matter at bar. Indeed, Apeldyn's recognition of the critical role played by this determination is implicit in its next argument that the court erred in finding a substantial relationship between the two matters.

2. Substantial relationship

[5] Apeldyn next contends that “[t]he court committed an error of law in stating that ‘a proper means-plus-function infringement analysis will require that the structure of Samsung's DRAMs will be at issue’....” (D.I. 160 at 13) A means-plus-function analysis begins with the identification of a specific claim limitation written in accordance with 35 U.S.C. § 112, ¶ 6. This limitation “shall be construed to cover the corresponding structure, material, or acts described in the specification and equivalents thereof.” 35 U.S.C. § 112, ¶ 6. Accordingly, construction of a means-plus-function limitation requires the identification

of the function of the limitation, followed by a determination of the structure *405 disclosed in the patent that performs the claim limitation's function. *See id.*

[6] Establishing the literal infringement of a means-plus-function limitation “requires that the relevant structure in the accused device perform the identical function recited in the claim and be identical or equivalent to the corresponding structure in the specification.” *Odetics, Inc. v. Storage Tech. Corp.*, 185 F.3d 1259, 1267 (Fed.Cir.1999). A patentee may show structural equivalence⁶ “if the assertedly equivalent structure performs the claimed function in substantially the same way to achieve substantially the same result as the corresponding structure described in the specification.” *Id.* The *Odetics* Court differentiated between the “similar analysis” of equivalents under the doctrine of equivalents and 35 U.S.C. § 112, ¶ 6, noting that a component by component analysis is not required to establish structural equivalence in the latter. *Id.* Indeed, such an analysis would be improper to the extent that

[t]he individual components, if any, of an overall structure that corresponds to the claimed function are not claim limitations. Rather, the claim limitation is the overall structure corresponding to the claimed function.... The appropriate degree of specificity is provided by the statute itself; the relevant structure is that which “corresponds” to the claimed function. Further deconstruction or parsing is incorrect.

Id. at 1268 (internal citations omitted). Conversely, the relevant structure does not include “structure ‘unrelated to the recited function’ disclosed in the patent...” *Id.* (citing *Chiuminatta Concrete Concepts, Inc. v. Cardinal Indus.*, 145 F.3d 1303, 1308 (Fed.Cir.1998)).

The scope of this analysis is greatly broadened by Apeldyn's generic assertion of the entire '382 patent, as well as its failure to proffer any infringement contentions. Nevertheless, in an effort to show that the structure of DRAM will not be at issue, Apeldyn isolates the “drive means” of claim 1 which includes a “first control means for changing said retardance from a first retardance to a second retardance” ('382 patent at 9:63–67) According to Apeldyn, the drive means corresponds to item 13 in Figure 2, which is the drive signal source. A block diagram of item 13 is presented in Figure 7, The '382 patent states that the drive signal source “comprises an ac signal source ... a waveshape control unit and an amplitude modulator.” (*Id.* at 6:66–7:2) The waveshape control unit may include “a circuit for determining what the target retardances should be....” (*Id.* at 7:18–20) (emphasis added) The parties do not dispute that the '382 patent makes no explicit reference to memory.⁷ And while it concedes that DRAM may be used as memory in the overdrive technology of the '382 patent, Apeldyn argues that “it does not matter what memory is used....” (D.I. 160 at 14)

Samsung's DRAM is not “unrelated to the recited function.” *Odetics*, 185 F.3d at 1267. The DRAM is a required⁸ element for the accused overdrive functionality. *406 Apeldyn vigorously disputes that, pursuant to its burden to demonstrate literal infringement,

it will necessarily have to examine the structure of Samsung's DRAM in a structural equivalency analysis. While Apeldyn generally argues what is relevant to a hypothetical structural equivalency analysis, it has not, in spite of defendants' prompting, supported this position with an infringement contention demonstrating that a structural analysis of DRAM is unnecessary to carrying its burden.

[7] Insofar as DRAM is not “unrelated to the recited function,” it cannot be, as Apeldyn argues, merely a structure-less “black box.” (D.I. 160 at 14) Indeed, without delving into some degree of structure, the court cannot fathom how Apeldyn will prove, or how Samsung will rebut, an allegation that the DRAM memory component meets the test of structural equivalency necessary to prove literal infringement. Accordingly, a “substantial relationship” arises from the “common-sense inference” that Apeldyn will necessarily be using specimens and documentation that are of the same type, if not the same, as those collected and reviewed by Mr. Goodwyn in the *Mosaid* litigation. See *Madukwe*, 552 F.Supp.2d at 458.

3. Miscellaneous alleged factual errors

Apeldyn draws the court's attention to its finding that MLA “cleared with Samsung” the conflict for the CEA case. The testimony of Matthew T. Bailey (“Bailey”), an attorney at MLA, appears on its face⁹ to suggest that Samsung was consulted; however, both Samsung and Apeldyn explain otherwise. While reaching out to Samsung in one instance to clear a questionable conflict—

and not in another—might better demonstrate both Mr. Goodwyn's and MLA's disregard for Samsung's confidences, the court's error here does not affect the underlying analysis. Neither does the court's error in finding that “[w]ithin months of being hired, Mr. Goodwyn was asked to work on the case at bar.”¹⁰ (D.I. 155 at 3) While both of these errors initially bolstered the court's finding of an appearance of impropriety, their relative weight pales in significance to the fact that, out of the numerous MLA attorneys qualified¹¹ to represent Apeldyn in this litigation, MLA chose to involve Mr. Goodwyn, an attorney with a recent history of representing Samsung.

Apeldyn's remaining allegations of factual error are without merit. Among these alleged errors, Apeldyn argues that the court, on several occasions, incorrectly characterized the conflicts-vetting procedures of MLA. In the first instance, Apeldyn takes exception with the court's finding that MLA's conflict review regarding the action at bar “was limited to what amounted to a word search (as opposed to a more thorough analysis of how MLA might prosecute and prove its infringement *407 case against Samsung).” (D.I. 155 at 7) However, none of the testimony cited by Apeldyn vitiates support for this finding; indeed, if a patent from a prior case did not explicitly mention the subject matter at issue in the subsequent case, MLA did not identify a conflict. (D.I. 154 at 83–84, 92–93, 163–65) As previously mentioned, the record is devoid of any analysis that MLA might use to demonstrate the infringement of the '382 patent by the accused Samsung products. Nor did MLA seemingly explore any defensive theories that Samsung might assert within this context.

In light of these deficiencies,¹² it follows, a fortiori, that “Mr. Goodwyn’s representation of Samsung in the Mosaid litigation was not thoroughly vetted at the time he began his employment at MLA.” (D.I. 155 at 7)

Next, Apeldyn argues that the court erred in finding that Mr. Goodwyn received “documents” until February 10, 2009. The genesis of this allegation is Apeldyn’s misconception that the court was referring to Samsung’s documents; however, the record plainly shows that Mr. Goodwyn received emails and orders related to the case until February 10, 2009. (D.I. 154 at 98–99, 114–15) The final alleged factual error concerns the court’s finding that “... Apeldyn has pursued discovery (e.g. document request 11) regarding the DRAM component circuitry of Samsung’s accused products.” (D.I. 155 at 4) This discovery request concerns all documents describing, among other things, **the circuitry** and the software used to implement the overdrive functionality. Insofar as DRAM is a circuit that may play a role in the overdrive functionality of Samsung’s accused products, the record substantially supports the court’s finding.

B. Certification under 28 U.S.C. § 1292(b)

Because no basis for reconsideration presents itself, the court considers Apeldyn’s alternative request to certify the issue for interlocutory appeal pursuant to 28 U.S.C. § 1292(b). While disqualification orders may properly be the subject matter of an interlocutory appeal, *see Richardson–Merrell, Inc. v. Koller*, 472 U.S. 424, 435, 105 S.Ct. 2757, 86 L.Ed.2d 340

(U.S.1985), Apeldyn has failed to establish any of the elements required for certification.

[8] First, resolution of the disqualification order will not “materially advance the ultimate termination of the litigation.” 28 U.S.C. § 1292(b). While it is not necessary that the interlocutory appeal have the potential to resolve the entire case, at least one of plaintiff’s substantive claims should stand to be affected. *See In re Hollis*, 2010 WL 336132, at *2 (D.N.J. Jan. 22, 2010). A reversal here (allowing MLA to proceed as counsel for Apeldyn) would leave the underlying substantive claims between the parties undisturbed.

Second, Apeldyn has not identified a “controlling question of law” as to which “there is substantial ground for difference of opinion.” 28 U.S.C. § 1292(b). With respect to this prong, Apeldyn submits that one controlling question is whether counsel may be disqualified using the “appearance of impropriety” standard. Insofar as the court did not rest its disqualification decision exclusively upon an appearance of impropriety, this argument does not support certification. Apeldyn *408 argues that an additional controlling question of law presents itself in the level of specificity required for the conflict inquiry in a patent case. Nor does this question entail a substantial ground for difference of opinion. Irrespective of the subject matter of this case, the Federal Circuit has explained that matters of disqualification are decided under the regional circuit law of the district where the case is pending. *See Panduit Corp. v. All States Plastic Mfg. Co.*, 744 F.2d 1564, 1576 (Fed.Cir.1984) (holding that disqualification motions are procedural matters “that are not

unique to patent issues...”). Consequently, as discussed *supra*, the appropriate level of specificity is governed by the Third Circuit's understanding as to when two matters are “substantially related.”

C. Entry of Judgment Pursuant to Fed.R.Civ.P. 54(b)

[9] [10] Rule 54(b) allows a district court to direct the entry of final judgment in those cases in which there is “more than one claim for relief” or “when multiple parties are involved.” Fed.R.Civ.P. 54(b), This Rule does not displace the requirement that an appeal will only lie from a “final decision” of the district court. 28 U.S.C. § 1291. According to the Supreme Court,

[a] district court must first determine that it is dealing with a “final Judgment.” It must be a “judgment” in the sense that it is a decision on a **cognizable claim for relief**, and it must be “final” in the sense that it is “an ultimate disposition of an individual claim entered in the course of a multiple claims action.”

Curtiss–Wright Corp. v. General Elec. Co., 446 U.S. 1, 7, 100 S.Ct. 1460, 64 L.Ed.2d 1 (1980) (quoting *Sears, Roebuck & Co. v. Mackey*, 351 U.S. 427, 436, 76 S.Ct. 895, 100 L.Ed. 1297 (1956)) (emphasis added). The Third Circuit has interpreted a “claim for relief” under Rule 54(b) as a legal right seeking one or more remedies. See *Sussex Drug Products v. Kanasco, Ltd.*, 920 F.2d 1150, 1154 (3d Cir.1990). The only “claim for relief” presently before the court is Apeldyn's allegation that Samsung's accused products infringe the '382 patent. The resolution of a collateral issue, such as the disqualification of counsel, cannot

properly be considered a “final judgment” with respect to an assertion of patent infringement. See *Richardson–Merrell*, 472 U.S. at 430, 105 S.Ct. 2757 (“An order disqualifying counsel in a civil case is not a final judgment on the merits of the litigation.”).

V. CONCLUSION

For the reasons discussed above, plaintiff's motion for reconsideration or, in the alternative, certification under 28 U.S.C. § 1292(b) or for entry of judgment pursuant to Fed.R.Civ.P. 54(b), is denied. An appropriate order shall issue.

ORDER

At Wilmington this 12th day of March, 2010, consistent with the memorandum opinion issued this same date;

IT IS ORDERED that the motion of Apeldyn Corporation (“Apeldyn”) (D.I. 159) for reconsideration of the court's prior decision to disqualify R. Tyler Goodwyn, IV and McKenna Long & Aldridge L.L.P. as counsel for Apeldyn so long as Samsung Electronics Co., Ltd. and Samsung Electronics America, Inc. (collectively, “Samsung”) remain in the case or, in the alternative, for certification under 28 U.S.C. § 1292(b) or for entry of judgment pursuant to Fed.R.Civ.P. 54(b), is denied.

IT IS FURTHER ORDERED that, on or before June 25, 2010, the case shall be dismissed without prejudice as to Samsung, *409 unless advised otherwise by counsel for Apeldyn.

All Citations

693 F.Supp.2d 399

Footnotes

- 1 "Dynamic random access memory."
- 2 The other requirements, undisputed here, are (1) "the lawyer must have had an attorney-client relationship with the former client;" (2) "the interests of the second client must be materially adverse to the interests of the former client;" and (3) "the former client must not have consented to the representation after consultation." *Id.*
- 3 A "controlling question of law" encompasses "at the very least every order which, if erroneous, would be reversible error on final appeal." *Katz v. Carte Blanche Corp.*, 496 F.2d 747, 755 (3d Cir.1974).
- 4 Canon 9 of the Delaware Code of Professional Responsibility (repealed) states: "A lawyer should avoid even the appearance of professional impropriety."
- 5 In *Corn Derivatives*, the Third Circuit noted that a "balancing test" **may be** appropriate to determine disqualification in some cases that have "countervailing considerations." See *id.* at 162. However, the Third Circuit went on to explain that "M.R.P.C. Rule 1.9 exists for the purpose of preventing 'even the potential that a former client's confidences and secrets may be used against him,' to maintain 'public confidence in the integrity of the bar,' and to fulfill a client's rightful expectation of 'the loyalty of his attorney in the matter for which he is retained.'" *Madukwe*, 552 F.Supp.2d at 458 (quoting *Corn Derivatives*, 748 F.2d at 162 (emphasis added)).
- 6 Samsung theorizes that Apeldyn will need to show structural equivalency because the '382 patent is directed to a single cell or a column of fused cells, while Samsung's products deals with millions of these cells. (D.I. 252 at 26)
- 7 However, Samsung points to a declaration made by inventor Scott H. Rumbaugh during reexamination of the '382 patent in which he stated that RAM was a definite requirement. (12/18/09 Tr. at 24)
- 8 Apeldyn argues that Samsung's overdrive function "could certainly operate without DRAM and instead use other types of memory or data storage." (D.I. 160 at 16) While Samsung could very well use other types of storage to accomplish its overdrive function, it has chosen to use DRAM. Hypothesizing about how Samsung could have alternatively made the alleged infringing products does not seem particularly helpful in (or even relevant to) negating the fact that Samsung's overdrive function, in reality, depends upon DRAM.
- 9 Question: "The firm imposed no ethical screen [upon Mr. Goodwyn with respect to the CEA litigation]?"
"Mr. Bailey; "No. We cleared the conflict with Samsung."
(D.I. 154 at 141) Apeldyn states that Mr. Bailey's testimony is properly interpreted to mean that MLA was satisfied with its internal conflicts analysis.
- 10 MLA hired Mr. Goodwyn in April 2006, but Mr. Goodwyn was not assigned to the case at bar until September 2008. (D.I. 154 at 162-63)
- 11 According to its NALP forms, MLA has 433 attorneys in 10 offices. Out of the 28 attorneys that MLA lists in its Global Patent Litigation group, at least 13 have backgrounds in the electrical arts.
- 12 The court does not doubt the seriousness with which MLA approaches matters of ethics and professional responsibility. Nor did the court easily (or lightly) make the determination that Mr. Goodwyn's involvement in the matter at bar presents a substantial relationship warranting his, as well as MLA's, disqualification. The closeness of this question is inherent in the substantial briefing and multiple hearings required for its resolution.

2009 WL 4041624
Only the Westlaw citation
is currently available.
United States District Court,
D. New Jersey.

Craig THORNER et al., Plaintiffs,
v.
SONY COMPUTER ENTERTAINMENT
AMERICA, INC. et al., Defendants.

Civil Action No. 09-1894
(GEB). | Nov. 20, 2009.

West KeySummary

1 Attorney and Client

← Patent Law

Attorney and Client

← Partners and Associates

Attorney and his firm were disqualified from representing a client in patent infringement litigation against attorney's former client. Attorney attended training courses on former client's products, spoke to engineers who designed the systems, and worked on patent matters related to the system for the former client. Attorney therefore had access to former client personnel, information, and documents closely related to the system and auxiliary products. The level of attorney's interaction with former client's property and personnel made it impossible to narrowly limit the type and scope of the information to

which attorney may have been privy.
RPC 1.9, 1.10(a).

Cases that cite this headnote

Attorneys and Law Firms

Matthew P. Hintz, Diehl Servilla LLC, Clark, NJ, for Plaintiffs.

Robert Alan White, Morgan, Lewis & Bockius, LLP, Princeton, NJ, Frederick Joseph Dennehy, Wilentz, Goldman & Spitzer, PC, Woodbridge, NJ, for Robert J. Schoenberg, Riker, Danzig, Scherer, Hyland & Perretti, LLP, Morristown, NJ, Marc J. Gross Greenbaum, Rowe, Smith & Davis, LLP, Roseland, NJ, for Defendants.

Willard C. Shih, Frederick Joseph Dennehy, Wilentz, Goldman & Spitzer, PC, Woodbridge, NJ, for Plaintiffs/Defendants.

MEMORANDUM OPINION

ARPERT, United States Magistrate Judge.

*1 This matter comes before the Court on Defendant Sony Computer Entertainment America, Inc.'s ("Sony") Motion to disqualify attorney Greg M. Diehl ("Diehl") and the law firm of Diehl Servilla, LLC ("Diehl Servilla") as counsel for Plaintiffs Craig Thorner ("Thorner") and Virtual Reality Feedback Corporation (collectively "Plaintiffs") [dkt. entry no. 33]. The Court has fully reviewed the parties' written submissions and conducted oral

argument on October 22, 2009. For the reasons set forth below, Sony's Motion is granted.

I. BACKGROUND

In this litigation Plaintiffs claim that Sony infringes Thorner's U.S. Patent Nos. 5,684,722 (the "722 patent") and 6,422,941 (the "941 patent") through the sale of vibrating headphones and handheld controllers used in conjunction with Sony's PlayStation® products. Plaintiffs' Amended Complaint also sets forth common law causes of action for, *inter alia*, attorney malpractice, fraud, and conspiracy arising from Defendants' allegedly collusive and deceitful efforts to induce Thorner to grant certain rights to his patents on unfair terms.

In September 2004, Immersion Corporation ("Immersion") obtained an \$82 million judgment against Sony for infringement of patents related to computer game sensation generators. Shortly thereafter, Immersion brought an action for infringement of the same patents against Electro Source LLC, now known as Performance Designed Products LLC ("PDP/Electro Source"). Plaintiffs claim that Sony and PDP/Electro Source knew Thorner's patents might invalidate Immersion's patents. Plaintiffs also claim that in May and June 2005, PDP/Electro Source's attorneys negotiated a license of Thorner's patents and at the same time granted Sony an option to become a party to the license. With respect to the license agreement, Thorner claims he was misled by Defendants PDP/Electro Source and Sony and their lawyers, including Sony's in-house counsel Defendant Riley Russell and Defendant Gregory Gewirtz, an attorney at the law firm of Lerner, David, Littenberg

Krumholz & Mentlik, LLP ("the Lerner David firm"), (1) when they explained that Sony could not enter a direct license agreement with Thorner while seeking a new trial in the *Immersion* case and (2) when they described the fairness of the license agreement.

On March 8, 2006, Sony's motion for a new trial in the *Immersion* case was denied and two weeks later Immersion sued Thorner for cooperating with Sony and PDP/Electro Source. Thorner then contacted Defendant Gewirtz based on his alleged promise of representation should Thorner be sued by Immersion. According to Thorner, Gewirtz refused to represent him. Thereafter, Thorner contacted Diehl, who agreed to defend him against Immersion's suit.

The instant Motion arises out of Diehl's employment with the Lerner David firm during the period 2001–2004 during which the firm represented Sony in a variety of patent prosecution and litigation matters. Diehl contends that his employment with Lerner David ended in June 2004 and that prior to his representation of Thorner in 2006 he had never heard of either Thorner or the *Immersion* case and possessed no knowledge of the video game vibration technology at issue in the instant litigation. Diehl also contends that he was unaware of Lerner David's communications with Thorner with respect to the PDP/Electro Source license agreement while at the same time the firm was representing Sony in the *Immersion* case. Nonetheless, Diehl acknowledges that he contributed to the prosecution of various Sony patent applications and to the defense of two litigated matters involving Sony products.

A. Sony's Motion to Disqualify

*2 Sony argues that Diehl should be disqualified because his representation of Plaintiffs violates the Rules of Professional Conduct (the "RPCs"). Specifically, Sony cites RPCs 1.9(a)-(c) and 1.10 and contends that while Diehl was associated with the Lerner David firm both he and other associates at the firm represented Sony in substantially related matters and his continued representation is likely to lead to the actual disclosure of Sony's confidential information to Sony's detriment. Sony further contends that because Diehl should be prohibited from representing Plaintiffs for reasons other than his own personal interest, the exception outlined in RPC 1.10(a) does not apply.

Sony asserts that it retained the Lerner David firm in 2003 to review U.S. Patent Nos. 5,674,127 and 5,947,825 (the "Lightstream Patents"). Sony claims that the subject matter of the Lightstream Patents is related to the patents presently asserted against it by Plaintiffs because both "are concerned with enhancing player experience by submersing the player into an environment of video, audio, and tactile sensations such as vibration feedback while playing a videogame." (Sony's Br. at 3.) Sony also retained the Lerner David firm in 2003 for representation in the *Okor v. Sega of Am. et al.*, Case Nos. 1:98-CV-12176-12177 (D.Mass.) litigation. In that litigation, Diehl spent time on Sony's behalf conducting research, drafting appellate briefs and preparing for settlement discussions. Sony also retained the Lerner David law firm for representation in the *Hoefler v. Sony Computer Entm't Am., Inc.*, No: 03-CV-9445-

RMB (S.D.N.Y. Nov. 26, 2003) litigation during which Diehl discussed Sony's litigation position with opposing counsel, conducted research and drafted a motion to transfer venue as well as reviewing Sony's accused product. Sony argues that as a result of Diehl's employment with the Lerner David firm including, but not limited to, his involvement in the *Okor* and *Hoefler* litigations, he had numerous conversations with Sony's in-house counsel concerning litigation strategy and had access to pertinent Sony files and technical information including materials pertaining to how the PlayStation® systems communicate with the controllers. Lastly, Sony argues while Diehl was employed by the Lerner David firm, other attorneys in the firm were representing Sony in *Immersion Corp. v. Sony Computer Entm't Am., Inc. et al.*, a case at the center of Plaintiffs' allegations in the instant matter. Consequently, Sony contends, Diehl had access (even informally) to additional information related to the instant action.

B. Plaintiffs' Opposition to Sony's Motion

Plaintiffs oppose Sony's Motion arguing, (1) disqualification under RPC 1.9(a) is unwarranted because the facts underlying the instant matter and Diehl's prior work for Sony are not related; (2) RPC 1.10(a) is inapplicable because Diehl never received any information on the subject of Sony's vibrating controllers or headphones during the course of his employment with the Lerner David firm; (3) RPC 1.9(b) is inapplicable because Diehl did not work for the Lerner David firm when it actually represented Sony in the *Immersion* case; and (4) the balance of hardship between Plaintiffs and Sony weigh against disqualification.

*3 Plaintiffs argue that the RPCs dictate disqualification only “where the issues between the former and current suits are *practically the same* or where there is a *patently clear relationship* between them.” *Home Care Indus. Inc. v. Murray*, 154 F.Supp.2d 861, 866 (D.N.J.2001) (quoting *Reardon v. Marlayne, Inc.*, 83 N.J. 460, 472, 416 A.2d 852 (1980)). Plaintiffs claim that Sony has not satisfied the heavy burden required by the substantial relationship test because “[t]here is simply no relationship between the facts and issues of this case and the patent prosecution and other matters identified by Sony that Diehl worked on more than five years ago.” (Pls.’ Opp’n Br. at 8.) In this regard, Plaintiffs argue that any information obtained during Diehl’s patent prosecution work and in the *Okor* and *Hoefler* litigations is not substantially related to the issue of whether Sony’s vibrating controllers and headphones infringe Thorner’s patents. Specifically, Plaintiffs argue that the Lightstream Patents on which Diehl worked for Sony were directed to the PlayStation® console which actually produces the video game, while the patents at issue in the instant matter are related to the structure and operation of Sony’s vibrating handheld controllers and headphones. Therefore, Plaintiffs argue, “[n]othing, in short, that Diehl might remember about the ‘the primary microprocessor, various subprocessors, and other hardware and software aspects’ (Sony Br. at 14) of the PlayStation® console has any bearing on this case.” *Id.* at 10.

Plaintiffs claim that “Sony’s quotation from the ‘825 patent ... [(a Lightstream patent)], namely, that the patent states at the outset that it

“ ‘relates to games that ‘are multisensory in that the entertainment system stimulates the players through the visual, auditory, *tactile*, kinesthetic senses’ “... clearly refer[s] to the prior art, and *not* the invention of the ‘825 patent.” *Id.* at 11. Plaintiffs also claim that, contrary to Sony’s contentions, “Diehl would not (and did not) need to know how Sony’s hand-held controllers or headphones generate lights, vibrations, or sound to analyze the claims of the Lightstream patents.” *Id.* at 12.

Additionally, Plaintiffs argue that Diehl never discussed litigation or settlement strategy with Defendant Russell in connection with the *Okor* or *Hoefler* matters and that Sony exaggerates Diehl’s participation in both matters. First, Plaintiffs explain that Diehl’s participation in the *Okor* case was “limited to writing *one* 14–page appeal brief in 2001, upholding summary judgment of noninfringement against a *pro se* plaintiff ... [and] there was nothing to settle and no strategy was involved in opposing a frivolous appeal.” *Id.* at 13. Next, Plaintiffs explain that “Diehl’s involvement with the *Hoefler* case was limited to working on a motion to transfer [and] [t]here was no ‘strategy’ to discuss.” *Id.*

*4 In addition, Plaintiffs argue that the fact Diehl was working at the Lerner David firm while other lawyers there were representing Sony in the *Immersion* case should not result in Diehl’s disqualification pursuant to RPC 1.9(b) because Diehl had no knowledge of the *Immersion* case while he was working at the firm and did not learn any details of the case until after he was retained by Plaintiff in March 2006. Plaintiffs also argue that Sony’s contention that Diehl’s

continued representation of Plaintiffs is likely to lead to an actual disclosure of Sony's information in violation of RPC 1.9(c) should not result in Diehl's disqualification because, Plaintiffs claim, Diehl does not recall receiving or reviewing any information concerning Sony's vibrating controllers or headphones in the course of his employment with the Lerner David firm and, therefore, he can not use any such information to Sony's disadvantage. Plaintiffs further claim that technical information as to the workings of Sony's controllers and headphones is generally known as the products are readily available and easily disassembled. *See id.* at 15.

Lastly, Plaintiffs argue that even if the Court determines that these matters are substantially related (which Plaintiffs argue is not the case) “disqualification should still be denied in view of the hardship [P]laintiffs would suffer, if Diehl was disqualified, and the absence of any real harm to Sony if he is not.” *Id.* (citations omitted). Plaintiffs contend that disqualification of Diehl would place an undue burden upon Plaintiffs because they are financially troubled and would have difficulty affording another lawyer to represent them in this matter. Plaintiffs also contend that it is unlikely that a new lawyer would readily grasp the facts and issues of this case in the manner which Diehl has over the course of his representation of Plaintiffs.

C. Sony's Reply

In reply, Sony argues that “[i]f there is any doubt as to the propriety of an attorney's representation of a client, such doubt must be resolved in favor of disqualification.” (Sony's Reply Br. at 1) (citations omitted). Sony also

argues that Plaintiffs' contention that matters must be identical to be “substantially related” is a narrow definition that does not comport with New Jersey law. Sony maintains that the matters on which Diehl previously worked are substantially related to the matters at issue in this case because they all relate to the PlayStation® controllers. For example, Sony notes that Diehl billed over 20 hours for work on U.S. Patent No. 6,514,143 (“the ‘143 Patent”) which “describes an invention which reduces ‘[t]he time required to perform communications between an *entertainment apparatus* and a *manual controller* having complex and sophisticated functions which is connected to the entertainment apparatus.” *Id.* at 4. Sony also notes that the type of controllers covered by the ‘143 Patent “are the very type of PlayStation® controllers that Plaintiffs allege Diehl ‘never received any information confidential or otherwise’ on, and that Plaintiffs assert infringe the ‘941 Patent.” *Id.* at 5. Sony argues that in connection with Diehl's work on the ‘143 Patent, among other Sony patents,

*5 Diehl was provided confidential Sony information, including detailed drawings about the PlayStation® hardware and software, detailed information about the circuitry and the chips in the PlayStation® systems, engineering documents, design layouts, developer support documents, and technical manuals which fully disclosed the technical

operation of all aspects of the PlayStation® systems.

Id. at 7. Further, Sony argues that information regarding the control circuit and signal processing aspects of the PlayStation® systems is substantially related to the instant matter because each independent claim of the '941 Patent requires a control circuit responsive to signals generated by the computer or the video game system. Likewise, Sony argues that Diehl's work on the Lightstream Patents is substantially related to the instant matter because a) it would have required an analysis of the Sony PlayStation® console and controllers and b) Diehl communicated with Sony's Director of Hardware Engineering and Product Service regarding PlayStation® technology, including that of the controllers.

Next, Sony argues that when matters are substantially related, there is an irrebutable presumption that confidential information was shared between the attorney and the former client, and disqualification is compelled. Therefore, Sony contends that "Plaintiffs' repeated protestations that Diehl 'recalls little, if any' of Sony's proprietary technical information and that he did not reveal such information are also irrelevant." *Id.* at 10.

Lastly, Sony disputes Plaintiffs' claim that Diehl left the Lerner David firm before it entered an appearance in the *Immersion* case and, thus, should not be disqualified pursuant to RPC 1.9(b). Sony argues that "the operative date is not when the Lerner David firm made an appearance in the *Immersion* case, but when the Lerner David firm began assisting Sony in that case. Sony notes that according to the docket the Lerner David firm's involvement in the

Immersion case dates back to 2001. Therefore, Diehl's employment at the Lerner David firm clearly overlaps with the time period when other attorneys at that firm were assisting Sony in the defense of the *Immersion* case.

II. DISCUSSION AND ANALYSIS

The New Jersey Rules of Professional Conduct govern the conduct of attorneys admitted to this Court. *Greig v. Macy's Northeast, Inc.*, 1 F.Supp.2d 397, 399–400 (D.N.J.1998). The New Jersey Rules of Professional Conduct are made applicable to attorneys admitted to this Court by Local Civil Rule 103.1, which provides in relevant part:

The Rules of Professional Conduct of the American Bar Association as revised by the New Jersey Supreme Court shall govern the conduct of the members of the bar admitted to practice in this Court, subject to such modifications as may be required or permitted by federal statute, regulation, court rule or decision of law.

L. CIV. R. 103.1(a).

*6 In determining whether to disqualify counsel, the Court must be satisfied that the movant has proved either that the New Jersey Rules of Professional Conduct are violated or that serious doubts exist as to the appropriateness of the representation. *Cordy v. Sherwin-Williams Co.*, 156 F.R.D. 575, 584 (D.N.J.1994); *Kaselaan & D'Angelo Associates, Inc. v. D'Angelo*, 144 F.R.D.

235, 238 (D.N.J.1992). “[T]he party seeking disqualification must carry a ‘heavy burden’ and must meet a ‘high standard of proof before a lawyer is disqualified.’ ” *Id.* (quoting *Evans v. Artek Systems Corp.*, 715 F.2d 788, 791 (2d Cir.1983)). Here, Sony is seeking disqualification and, therefore, the burden of proof rests with it.

The Court recognizes that disqualification of counsel is a “ ‘drastic measure which courts should hesitate to impose except when absolutely necessary.’ ” *Alexander v. Primerica Holdings, Inc.*, 822 F.Supp. 1099, 1114 (D.N.J.1993) (quoting *Schiessle v. Stephens*, 717 F.2d 417, 420 (7th Cir.1983)). Generally, motions to disqualify are disfavored because they “can have such drastic consequences.” *Rohm and Haas Co. v. American Cyanamid Co.*, 187 F.Supp.2d 221, 226 (D.N.J.2001). As a result, careful scrutiny of the facts of each case is required to prevent unjust results. *See Montgomery Acad. v. Kohn*, 50 F.Supp.2d 344, 349 (D.N.J.1999). In such cases, the Third Circuit Court of Appeals has emphasized the importance of avoiding both “the appearance as well as the actuality of professional impropriety.” *Akerly v. Red Barn Systems, Inc.*, 551 F.2d 539, 544 (3d Cir.1977). Therefore, any doubt as to the propriety of representation should be resolved in favor of disqualification. *International Business Machines, Corp. v. Levin*, 579 F.2d 271, 283 (3d Cir.1978); *Cordy*, 156 F.R.D. at 584.

This Court is particularly mindful that “[b]esides weighing these factors, [it] must also consider its ‘obligation to maintain high professional standards and to ensure that the

trial of the claims in the case will be free from taint.’ ” *Montgomery Academy v. Kohn*, 50 F.Supp.2d 344, 350 (D.N.J.1999) (quoting *Huntington v. Great Western Resources, Inc.*, 655 F.Supp. 565, 567 (S.D.N.Y.1987); *see also Steel v. General Motors Corp.*, 912 F.Supp. 724, 733 (D.N.J.1995) (“Resolution of a motion to disqualify requires the court to balance ‘the need to maintain the highest standards of the [legal] profession’ against ‘a client’s right to freely choose his counsel.’ ”), *aff’d sub nom, Cardona v. General Motors Corp.*, 942 F.Supp. 968 (D.N.J.1996); *Carlyle Towers Condominium Ass’n, Inc. v. Crossland Sav., FSB*, 944 F.Supp. 341, 345 (D.N.J.1996).

Sony has moved to disqualify Greg M. Diehl as well as the law firm of Diehl Servilla, LLC based on RPCs 1.9 and 1.10. RPC 1.9(a)-(b) states, in relevant part:

(a) A lawyer who has represented a client in a matter shall not thereafter represent another client in the same or a substantially related matter in which that client’s interests are materially adverse to the interests of the former client unless the former client gives informed consent confirmed in writing.

*7 (b) A lawyer shall not knowingly represent a person in the same or a substantially related matter in which a firm with which the lawyer formerly was associated had previously represented a client,

(1) whose interests are materially adverse to that person; and

(2) about whom the lawyer, while at the former firm, had personally acquired information protected by RPC 1.6 and RPC 1.9(c) that is material to the matter unless the former client gives informed consent, confirmed in writing.

The prohibitions in RPC 1.9 are made applicable to a conflicted attorney's entire firm through RPC 1.10(a) which states, in part that:

When lawyers are associated in a firm, none of them shall knowingly represent a client when any one of them practicing alone would be prohibited from doing so by ... RPC 1.9, unless the prohibition is based on a personal interest of the prohibited lawyer and does not present a significant risk of materially limiting the representation of the client by the remaining lawyers in the firm.

To determine whether a conflict exists under RPC 1.9, the Court employs a "substantial relationship test" under which each of the following prongs must be satisfied before the Court should disqualify an attorney: (1) the existence of a past attorney client relationship involving the attorney sought to be disqualified; (2) that the current representation involves the same or a matter substantially related to the former representation; and (3) that the interests of the attorney's current client are materially adverse to the interests of the former client. *Bagdan v. Beck*, 140 F.R.D. 660, 668

(D.N.J.1991); see *Home Care Indus., Inc. v. Murray*, 154 F.Supp.2d 861, 866 (D.N.J.2001); *Host Marriott Corp. v. Fast Food Operators, Inc.*, 891 F.Supp. 1002, 1007 (D.N.J.1995).

Here the parties do not dispute that an attorney client relationship existed between Sony and Diehl as a result of his employment at the Lerner David firm. Diehl's billing records reflect a total of approximately four-hundred hours spent on Sony related matters. Therefore, Sony qualifies as a former client and the first prong of RPC 1.9 is satisfied. No doubt Sony's and Plaintiffs' interests are presently adverse. Therefore, the third prong of RPC 1.9 is satisfied as well. The parties disagree, however, on whether Diehl's previous representation of Sony involved matters substantially similar to those involved in his present representation of Plaintiffs.

A "substantial relationship between matters exists where the 'adversity between the interests of the attorney's former and present clients has created a climate for disclosure of relevant confidential information.'" *Kaselaan & D'Angelo Assocs., Inc. v. D'Angelo*, 144 F.R.D. 235, 239 (D.N.J.1992) (quoting *Reardon v. Marlayne, Inc.*, 83 N.J. 460, 472, 416 A.2d 852 (N.J.1980)) (disqualifying attorney because the legal and factual relationship between the prior and present representations were "strikingly similar").

*8 Because the matters involved in Diehl's current representation of Plaintiffs are substantially related to those involved in his previous representation of Sony, he and his firm should be disqualified. In this case, Plaintiffs allege that Sony has infringed Thorner's '722

and 941 patents through the sale of vibrating headphones and handheld controllers which are used with Sony's PlayStation® products. Notwithstanding Plaintiffs' attempt to create the impression that the substance of Diehl's prior representation of Sony was entirely unrelated to the instant litigation, it is clear that those matters were more than tangentially related to Plaintiffs' present claims.

There is no question that Diehl was involved in the prosecution of patents involving technology that is related to Thorner's patents. In that capacity Diehl attended training courses on the workings of PlayStation® 2 and 3 and spoke to engineers who designed the technology of these game systems. Diehl's attempts to draw highly technical distinctions between the substance of the matters involved in his patent prosecution work and those involved in this litigation are not persuasive. Likewise, Diehl's attempts to minimize his involvement in Sony's litigated matters, by claiming that he was not exposed to any information related to the instant litigation. Diehl's arguments fail to acknowledge that as an attorney at the Lerner David firm he had access to Sony personnel, information and documents related to Sony's PlayStation®

systems and products. The fact that during Diehl's employment, the firm handled multiple matters for Sony, particularly defending the PlayStation® systems and its products from third party attacks, makes it impossible to narrowly limit the type and scope of the information to which Diehl may have been privy.

III. CONCLUSION

For the reasons stated above, the Court finds that Sony has met its burden in establishing that RPCs 1.9 and 1.10 require the disqualification Greg M. Diehl and the law firm of Diehl Servilla, LLC as counsel for Plaintiffs Craig Thorner and Virtual Reality Feedback Corporation [dkt. entry no. 33]. Therefore, Sony's Motion to disqualify counsel is GRANTED.

An appropriate Order follows accompanies this Memorandum Opinion.

All Citations

Not Reported in F.Supp.2d, 2009 WL 4041624

709 F.Supp.2d 1309
United States District Court,
S.D. Florida,
West Palm Beach Division.

ARMOR SCREEN CORP., a
Florida corporation, Plaintiff,
v.
STORM CATCHER, INC., a Florida
corporation, et al., Defendants.

Case No. 07-CV-
81091. | April 22, 2010.

Synopsis

Background: Holder of patent for hurricane protection screen brought action against competitors, alleging infringement and unfair trade practices. Competitors moved to disqualify plaintiff's counsel.

[Holding:] The District Court, Kenneth L. Ryskamp, J., adopted report and recommendation of Ann E. Vitunac, United States Magistrate Judge, which held that attorney who had discussed case as potential expert for competitors but was never retained would be disqualified from serving as counsel for holder.

Motion granted.

West Headnotes (6)

[1] Attorney and Client

↔ Disqualification proceedings;
standing

Party moving to disqualify counsel
bears burden of proving grounds for
disqualification.

4 Cases that cite this headnote

[2] Attorney and Client

↔ Disqualification in general

When ruling on motion to disqualify
counsel, court must be conscious
of its responsibility to preserve
reasonable balance between need
to ensure ethical conduct on part
of lawyers appearing before it and
other social interests, which include
litigant's right to freely chosen
counsel.

2 Cases that cite this headnote

[3] Attorney and Client

↔ Disqualification in general

Disqualification of one's chosen
counsel is drastic remedy that should
be resorted to sparingly.

3 Cases that cite this headnote

[4] Attorney and Client

↔ Disqualification in general

Because party is presumptively
entitled to counsel of his choice,
that right may be overridden only if
compelling reasons exist.

1 Cases that cite this headnote

[5] **Attorney and Client**

↔ Patent law

Attorney who had discussed case as potential expert for competitors, but was never retained, would be disqualified from later serving as counsel for patent holder as opposing party in same infringement case, pursuant to Florida bar rules; attorney had been privy to confidential information over course of his discussions with competitors, with expectation of continued confidentiality, and such information could have been unfairly used against competitors. West's F.S.A. Bar Rules 4-1.9, 4-1.10.

Cases that cite this headnote

[6] **Patents**

↔ In general; utility

US Patent 6,325,085. Cited.

Cases that cite this headnote

Attorneys and Law Firms

*1309 D. Culver Smith, III, Fox Rothschild LLP, Jerold Ira Schneider, Joseph Rodman Steele, Jr., Novak Druce & Quigg LLP, West Palm Beach, FL, for Plaintiff.

Andrew William Ransom, Benjamin Michael Hanrahan, John Fulton, Jr., David Andrew Gast, Oliver Alan Ruiz, *1310 Raquel Aurora Regalado-Herrera, Malloy & Malloy, Clifford

Lawrence Rostin, Kaplan Zeena, Lawrence D. Smith, Michael R. Jenks, Thomas Joseph Caldwell, Walton Lantaff, Miami, FL, for Defendants.

**ORDER ADOPTING REPORT
AND RECOMMENDATION**

KENNETH L. RYSKAMP, District Judge.

THIS CAUSE comes before the Court on the report and recommendation of United States Magistrate Judge Ann E. Vitunac [DE 420], entered on March 4, 2010. Pending before Judge Vitunac was defendants' motion to disqualify plaintiff's counsel [DE 394]. Plaintiff Armor Screen Corporation ("Armor Screen") filed objections to the report [DE 426] on April 1, 2010. Defendants Storm Catcher, Inc., Storm Smart Building Systems, Inc., Smart Tracks, Inc., Storm Smart Sales, Inc., Storm Smart Industries, Inc., and Brian Rist ("defendants") filed a response to Armor Screen's objections [DE 427] on April 15, 2010. Armor Screen filed a response in opposition [DE 400] and the defendants filed a reply [DE 401]. Judge Vitunac ordered supplemental briefing and the parties filed the required briefs [DE 403, 404]. Judge Vitunac held an evidentiary hearing on February 4, 2010 [DE 413]. This matter is ripe for adjudication.

I. Background

After considering the parties' positions and weighing the evidence, Judge Vitunac recommended that the Court grant the defendants' motion to disqualify [DE 394]. Judge Vitunac found that Rules 4-1.9 and 4-1.10 of the Rules Regulating the Florida

Bar require the disqualification of plaintiff's counsel, Mr. Jerold Schneider and his law firm of Novak, Druce and Quigg because Mr. Schneider learned confidential information during his June 18, 2008 meeting with Ms. Christina DeAngelis, then-counsel for the defendants. Judge Vitunac reasoned that Mr. Schneider's continued representation of Armor Screen would put the defendants at an unfair disadvantage. Armor Screen lodged three objections to Judge Vitunac's report.

II. Legal Standard

When a district judge refers a matter to a magistrate judge for hearing and a report and recommendation, the parties are permitted to submit specific and timely written objections to the report and recommendations as provided by the rules of court. *See* 28 U.S.C. § 636(b) (1). Once the time period for objections and responses has expired, the district judge is required to make a “*de novo* determination of those portions of the report or specified proposed findings or recommendations to which objection is made.” *Id.* The district judge may then “accept, reject, or modify, in whole or in part, the findings or recommendations made by the magistrate judge. The judge may also receive further evidence or recommit the matter to the magistrate judge with instructions.” *Id.*

The party moving to disqualify counsel bears the burden of proving the grounds for disqualification. *In re BellSouth Corp.*, 334 F.3d 941, 961 (11th Cir.2003). When ruling on a motion to disqualify, a court must “be conscious of its responsibility to preserve a reasonable balance between the need to ensure ethical conduct on the part of lawyers appearing before it and other social interests,

which include the litigant's right to freely choose counsel.” *Woods v. Covington County Bank*, 537 F.2d 804, 810 (5th Cir.1976). Disqualification of one's chosen counsel is a drastic remedy that should be resorted to sparingly. *Norton v. Tallahassee Mem'l Hosp.*, 689 F.2d 938, 941 n. 4 (11th Cir.1982). “Because a party is presumptively entitled to the counsel of his choice, that right may be overridden *1311 only if compelling reasons exist.” *In re BellSouth Corp.*, 334 F.3d at 961 (internal quotations omitted).

III. Analysis

Judge Vitunac was presented with the novel question of whether an attorney who discusses a case as a potential expert for a party, but who is never retained, should be disqualified from later becoming counsel for the opposing party in the same case. While recognizing that this is a close question and that there is no authority directly on point, the undersigned agrees with Judge Vitunac's recommendation that Mr. Schneider be disqualified from representing the other side in this action due to the resulting unfair disadvantage for the defendants as a result of Mr. Schneider's acquisition of confidential information during his meeting with Ms. DeAngelis. As noted, Armor Screen has lodged several objections to Judge Vitunac's report. After carefully considering the motion and conducting a *de novo* review of the report and pertinent portions of the record, the Court overrules Armor Screen's first objection and declines to address the second and third objections.

A. Objection # 1

First, Armor Screen asserts that Judge Vitunac erred in concluding that Mr. Schneider's representation of the plaintiff violates Rule 4-1.9 of the Rules Regulating the Florida Bar. Rule 4-1.9 provides, in pertinent part, that "[A] lawyer who has formerly represented a client in a matter shall not thereafter ... represent another person in the same or substantially related matter in which that person's interests are materially adverse to the interests of the former client unless the former client gives informed consent ... or reveal information relating to the representation." Armor Screen asserts that Judge Vitunac disregarded the plain language of that rule because Mr. Schneider did not represent the defendants in this case. Armor Screen further argues that Judge Vitunac inappropriately relied on *Tuazon v. Royal Caribbean Cruises, Ltd.*, 641 So.2d 417 (Fla. 3d DCA 1994) to extend Rule 4-1.9 to apply to a scenario where the attorney was never actually employed by the defendants prior to being retained by the other side in the case.

The Court finds that Judge Vitunac did not err in finding that Mr. Schneider acquired confidential information during his meeting with Ms. DeAngelis and that his continued representation of Armor Screen would put the defendants at an unfair disadvantage. Judge Vitunac conducted an extensive evidentiary hearing in this case and after weighing the evidence, Judge Vitunac determined that Mr. Schneider obtained confidential information during his meeting with Ms. DeAngelis. The record supports this factual finding. This finding, therefore, shall not be disturbed.

The Court also agrees with Judge Vitunac's conclusion that if Mr. Schneider were allowed

to represent Armor Screen in this action, the information he acquired during that meeting would put defendants at an unfair disadvantage. While it is true that Rule 4-1.9 does not address the precise factual scenario before the Court, the Court agrees with Judge Vitunac's conclusion that the rule is broad enough to prohibit the type of representation in this case. Armor Screen attacks Judge Vitunac's extension of the holding in the *Tuazon* case, arguing that that case is distinguishable from the instant case. While the Court agrees that the facts of *Tuazon* are distinguishable, the principle of *Tuazon* is instructive here and illustrates that Rule 4-1.9 may be extended beyond the specific factual scenario which it addresses. As Judge Vitunac recognized, *Tuazon* stands for the principle that when an attorney, although acting in a non-attorney *1312 capacity at the time, obtains confidential information from a party (information that puts that would put that party at an unfair disadvantage if the attorney were to represent the other side), that attorney may not later represent the other side in that same case. Armor Screen focuses on the fact that Mr. Schneider was never actually employed or retained by the defendants. However, the focus should be on what information was learned by Mr. Schneider during his meeting with the other side, and whether that confidential information would put the defendants at an unfair disadvantage if he were allowed to represent the plaintiff. The record shows that Mr. Schneider acquired confidential information about the current litigation and that the defendants would be put an unfair disadvantage if Mr. Schneider were allowed to represent them. This is enough to warrant disqualification under Rule 4-1.9.

In sum, the Court agrees with Judge Vitunac's proposed application of Rule 4–1.9 to the instant case. Further, the Court agrees with Judge Vitunac's logical and sensible extension of this rule to apply to the scenario before the Court. Using those principles, the Court agrees with Judge Vitunac's recommendation that Mr. Schneider and his firm be disqualified from continued representation of Armor Screen.

B. Objections # 2 and # 3

Armor Screen makes two additional arguments, not previously brought before Judge Vitunac, as to why Mr. Schneider and his firm should not be disqualified. Armor Screen asserts that Judge Vitunac erred in recommending disqualification where the information obtained by Mr. Schneider during his meeting with defendants' counsel was given to him in breach of Ms. DeAngelis's own duty of confidentiality under Rule 4–1.6. Armor Screen also argues that even if Rule 4–1.9 applies, the rule's prohibition on the use of information to the disadvantage of a former client has an exception for information that has become generally known and Judge Vitunac erred by not finding that the exception applies in the instant case.

Armor Screen's second and third objections are new arguments. While the Court has discretion to consider arguments not previously brought before the magistrate judge, the Court declines to do so here. *See Williams v. McNeil*, 557 F.3d 1287, 1292 (11th Cir.2009) (holding that a district may decline to consider new arguments not initially brought before the magistrate judge reasoning that requiring the district judge to consider such arguments would frustrate the

purpose of the magistrate judge system). The parties were afforded ample opportunity to make their arguments before Judge Vitunac. In addition to the initial briefing on this case, Judge Vitunac ordered supplemental briefing and held an evidentiary hearing on the motion. By failing to raise these arguments before Judge Vitunac, the Court deems these arguments waived and will not consider them here.

IV. Conclusion

The Court has carefully considered the applicable law and has conducted a *de novo* review of the report, the objections, the response to the objections, and pertinent portions of the record. For the foregoing reasons, it is hereby

ORDERED AND ADJUDGED that

- (1) The report of United States Magistrate Judge Ann E. Vitunac [DE 420] be, and the same hereby is **RATIFIED, AFFIRMED** and **APPROVED** in its entirety;
- (2) Defendants' motion to disqualify plaintiff's counsel [DE 394] is **GRANTED**;
- *1313 (3) Mr. Jerold Schneider and the law firm of Novak Druce and Quigg LLP are **DISQUALIFIED** from continued representation of the plaintiff in the present action; and
- (4) Plaintiff shall immediately retain new counsel as required by law.

REPORT AND RECOMMENDATION

ANN E. VITUNAC, United States Magistrate Judge.

THIS CAUSE is before the Court on Order of Reference (DE 64) from United States District Judge Kenneth L. Ryskamp “for all pretrial matters and to take all necessary and proper action as required by law, and/or to submit a Report and Recommendation to this Court.” Before the Court is Defendants' Motion to Disqualify Plaintiff's Counsel (DE 394). Plaintiff responded (DE 400), and Defendants replied (DE 401). The Court ordered supplemental briefing, and the parties complied (DE 403 & 404). The Court held an evidentiary hearing on February 4, 2010 (DE 413). This matter is ripe for review.

BACKGROUND

This case, initiated on November 16, 2007, involves parties that manufacture and sell hurricane protection screens in Florida. The Amended Complaint (DE 110) asserts causes of action for patent infringement, Lanham Act violations, deceptive and unfair trade practices, and tortious interference with business relationships. The case is currently stayed pending PTO reexamination proceedings involving the patents-in-suit (DE 385). On October 14, 2009, Novak Druce + Quigg LLP attorneys Joseph Steele, Jr. and Jerold Schneider appeared as Plaintiff's counsel (DE 390 & 391), after Plaintiff's former counsel withdrew.

PARTY CONTENTIONS

Defendants' Motion to Disqualify Plaintiff's Counsel

Defendants move to disqualify Plaintiff's new counsel due to an alleged appearance of impropriety resulting from attorney Schneider's role as a proposed expert for Defendants earlier in this case. Defendants' former attorney, Christina DeAngelis, attests that she contacted Schneider on May 30, 2008 “in the hopes of retaining him as a patent expert” in this case. On June 18, 2008, DeAngelis “gathered documents, such as copies of the patents-in-suit, the file histories of the patents-in-suit and several key pieces of prior art on which Defendants planned to rely for their invalidity defense for a meeting” with Schneider. The two met “for an hour regarding his role in [this] litigation ... [and] discussed the facts of the case, defenses, litigation strategy and finally the role that Schneider's testimony would play in the same.” By letter dated June 20, 2008, Schneider offered to be Defendants' patent expert and set forth potential topics of expert testimony, including claim construction, inventorship, and Patent #085's validity based on the inherent characteristics of prior art. The letter included a fee estimate and the material to be evaluated, including the patent file histories, the parties' claim construction submissions, and any expert reports.

Defendants later changed counsel and Schneider was never retained. Even so, Defendants argue, Plaintiff's counsel should be disqualified because (1) there is a reasonable

possibility that Schneider received confidences and trial strategy pertaining to Defendants, which constitutes a specifically identifiable impropriety, and (2) allowing Defendants' potential expert to become Plaintiff's counsel causes public suspicion that outweighs the social interest served by Novak Druce + Quigg LLP's *1314 representation. Defendants claim that Plaintiff would suffer minimal prejudice if its counsel were disqualified given the current litigation stay. On the other hand, allowing Schneider to represent Plaintiff would have a chilling effect on patent cases by forcing counsel to rule out qualified attorney-experts for fear that such experts may later become opposing counsel.

Plaintiffs Response

Plaintiff counters that Defendants offer insufficient justification for depriving it of its choice of counsel. By affidavit, Schneider admits to meeting with DeAngelis as a potential patent expert, but he denies ever discussing confidential information or trial strategy. Schneider notes that such discussion would have interfered with his independent opinion and would have been discoverable if he were retained as a testifying expert. Further, as a patent expert, unlike a technical or damages expert, his opinions would be based solely on public documents. Plaintiff finds it significant that no layperson was involved, only sophisticated attorneys who knew that if Schneider was retained as an expert, his conversations with defense counsel about potential expert testimony would not be privileged. Also significant to Plaintiff is that Schneider was never retained and

never gave an expert report or testimony on Defendants' behalf. Plaintiff argues that, contrary to DeAngelis' conclusory statements, the only contemporaneous documents—Schneider's June 20, 2008 letter and DeAngelis' time records—support Schneider's declaration that no confidences were disclosed. Lastly, Plaintiff argues that disqualifying its counsel would create an incentive for law firms to meet with several patent experts, engage none of them, and effectively block those experts from becoming opposing counsel.

Defendants' Reply

Defendants argue that the fact that DeAngelis and Schneider's statements conflict as to what transpired at the June 18, 2008 meeting is, itself, sufficient grounds for disqualification. Defendants assert that the issue is not limited to who was present when the impropriety occurred; the issue is the public suspicion arising from the improper conduct. Defendants maintain that if a potential testifying attorney-expert receives confidential information, an attorney-client relationship arises and the attorney-expert is bound by attorney rules of professional conduct. Here, the reasonable possibility that an attorney-client relationship arose between Defendants and Schneider based on an exchange of confidences is enough to trigger disqualification even though Schneider was never retained. Finally, any argument that disqualifying Plaintiffs counsel would result in attorneys interviewing potential experts to ensure that those experts would not later become opposing counsel is tenuous because it presumes that counsel would expend the time, effort, and resources to do so.

**COURT-ORDERED
SUPPLEMENTAL BRIEFING**

After conducting independent research, the Court had questions not addressed in the party filings. Three decisions raise questions about the continued validity of the appearance of impropriety standard; *Herrmann v. GutterGuard, Inc.*, 199 Fed.Appx. 745, 752 (11th Cir.2006); *Waters v. Kemp*, 845 F.2d 260, 266 nn. 12–13 (11th Cir.1988); *First Impressions Design & Mgmt., Inc. v. All That Style Interiors, Inc.*, 122 F.Supp.2d 1352, 1354 n. 1 (S.D.Fla.2000). Accordingly, the Court ordered Defendants to file a supplemental brief addressing (1) whether they rely on an ethical violation as grounds for disqualification, and, if so, to identify which specific Rules Regulating The Florida Bar apply, and (2) the effect of the above-cited *1315 decisions on the continued validity of the appearance of impropriety standard.

Defendants' Supplemental Brief

Defendants acknowledged that Eleventh Circuit authority seemingly conflicts with Florida Supreme Court authority regarding the continued vitality of the appearance of impropriety standard. Defendants contend that the Eleventh Circuit authority declining to apply the appearance of impropriety standard is based on Georgia law and does not affect the viability of that standard in Florida. Defendants maintain that Florida law retains the appearance of impropriety standard for attorney disqualification and, thus, applies

in this case involving a Florida attorney. Defendants also cite Rules 4–1.9 (Conflict Of Interest; Former Client), 4–1.10 (Imputation Of Conflicts Of Interest; General Rule), and 4–1.18 (Duties To Prospective Client) of the Rules Regulating the Florida Bar as grounds for disqualification. Defendants assert that Schneider's status as an attorney, as opposed to a typical non-attorney expert, places him in a higher position of trust with respect to fiduciary duties and, thus, his receipt of confidential information from Defendants prevents him from now taking on an adverse role.

Plaintiff's Supplemental Brief

Plaintiff conceded that the appearance of impropriety standard is a viable basis for disqualifying a Florida attorney. Plaintiff argues that the Court should not entertain Defendants' bare assertions that confidences and strategy were shared, which are unsupported by contemporaneous documents of record. Schneider's sworn belief that he never received any confidential information from Defendants is supported by the letter he sent two days after his meeting with DeAngelis. Plaintiff argues that the Rules Regulating the Florida Bar cited by Defendants do not apply to attorney experts and are, thus, inapplicable to Schneider's potential engagement with Defendants since he never represented any Defendant, either as an expert or an attorney,

FEBRUARY 4, 2010 HEARING

Counsel for all parties appeared at the evidentiary hearing. Two witnesses—

DeAngelis and Schneider—testified. In their opening remarks, Defendants asserted that DeAngelis' testimony would clearly show that she discussed with Schneider her theories of the case, what she viewed as strengths, and those issues she viewed as problems requiring expert testimony. Defendants argue that such a circumstance strikes at the heart of the attorney-client relationship and warrants disqualification.

Plaintiff opened by arguing against disqualification based on the absence of any attorney-client relationship or actual conflict of interest as Schneider was only a proposed testifying expert who was never hired by Defendants. Plaintiff changed positions from that asserted in its supplemental brief and argued that the appearance of impropriety standard is not a viable ground for disqualification in this case.

Christina DeAngelis

DeAngelis, an associate at the Feldman Gale law firm for the past four years, testified first. DeAngelis spent 90% of her time for several months working as Defendants' former counsel in this case. On May 30, 2008, she called Schneider, a well-respected patent attorney who previously worked as a PTO examiner, at the request of another attorney in her firm, Jeffrey Feldman. At the time, her firm wanted to hire an expert with knowledge of PTO patent claims procedure. When she met with Schneider, she did not view him either as a testifying or a consulting expert because that was not a decision for her to make. Her expectation was to “discuss the case” and “get ... a feel for [Schneider's] opinion.” (Hr'g Tr. 25:21–22, Feb. 4, 2010). According to

DeAngelis, the two *1316 discussed the file histories of the patents-in-suit, prior art, her tabbed notes, and parts of her analysis, including what she viewed as strengths in Defendants' case. For example, she disclosed a person who claimed prior inventorship. She expressed her concerns over conflicting opinions of different PTO examiners involving the patents. She also asked for Schneider's opinion on inherency in the patent. Further, she recalled discussing her knowledge of the “Parsons reference”—an FAA installation in the Caribbean, which her firm believed to be an installation of the claimed invention years before the patent was filed. (Hr'g Tr. 42:1–20). When she met Schneider, DeAngelis was confident in her clients' case and recalled “talking pretty freely with him because he was the only person we were thinking about retaining, and he's an attorney, I'm an attorney, I don't know. We just were talking freely about [the case].” (Hr'g Tr. 28:13–16). According to DeAngelis, the reason Schneider was not hired was because Defendants' insurance company found his rates were too high.

On cross-examination, DeAngelis stated that a patent expert's role is to review public records, like patent file histories and prior art, to determine whether the PTO should have granted a patent. Patent experts also opine on claim construction issues. DeAngelis agreed that a patent expert is an objective renderer of opinion. When she met with Schneider, her firm hadn't “really decide[d] whether or not we were going to use him as a testifying or a consulting expert at that point.” (Hr'g Tr. 33:17–18). While it was possible that he would become a testifying expert whose report could be discoverable by the opposing party,

it was equally possible that he could become a consulting expert. DeAngelis agreed that the June 20, 2008 letter from Schneider offering his expert services accurately depicts what he was being asked to do if hired as an expert, but on redirect, she described the letter as “vague” with “broad categories that we spoke about.” (Hr'g Tr. 40:7). Regarding Schneider's offer in his letter to provide an “oral opinion” to Defendants, DeAngelis stated that she has received oral opinions before written opinions from past experts. In such cases, determining the necessity for a written opinion would be based on the expert's oral opinion.

In response to the Court's inquiries, DeAngelis said the purpose of the meeting was to talk about the case, go over documents, and see if Schneider could give an expert opinion. She recalled thinking that Defendants' case hinged on the issue of inherency and she remembers discussing this issue with Schneider. She was tasked by her firm “to explain our position in the case, to go through what we knew about the case, to go through the things that we had found in our research,” (Hr'g Tr. 47:20–22), like prior art, the Parsons information, and the prior inventorship issue. With no protective order in place, DeAngelis stated that she gave Schneider only public documents, but she claims to have verbally told him her impressions of the strengths and weaknesses in Defendants' case. DeAngelis had no notes or emails from during or after the meeting.

Jerold Schneider

Schneider testified next. Schneider is a partner in Novak Druce + Quigg's West Palm Beach office. He has practiced intellectual property law since 1972. Schneider testified that, when

he met with DeAngelis, he was absolutely not informed or given any information that he was told was confidential. Schneider agreed that his letter of June 20, 2008 confirmed the points of the meeting. He explained that, if he were to have been hired as a patent expert, his opinions on claim construction, patent validity based on inherent characteristics, and inventorship would have all *1317 been derived from public records. Schneider confirmed that he was never hired by Defendants.

On cross-examination, Schneider stated that he was never previously hired by Feldman Gale as a patent law or advisory expert. He agreed that he primarily referred to his June 20, 2008 letter for purposes of recalling what happened at the meeting and creating his affidavit. His understanding by the end of the meeting was that Feldman Gale was going to recommend his selection as an expert subject to payment approval by Defendants' insurance company. He did not recall whether the documents given to him by DeAngelis had tabs to draw his attention to certain sections. He did not recall if the documents he received had DeAngelis' handwritten notes. He recalled her pointing to specific items of prior art, but “before hearing her testimony today, I had no recollection of which specific items they were.” (Hr'g Tr. 67:21–22). Further, he “think[s] she pointed to words in certain documents[,]” (Hr'g Tr. 68:1), but could not recall how she thought those words affected the merits of the case. He took notes during the meeting, but he threw those notes out after writing the June 20, 2008 letter.

Schneider indicated that litigators do not generally designate someone as a testifying expert before hearing the expert's opinion on

issues in the case. He agreed that before an expert is designated as a testifying expert, any opinion disclosed by that expert to the hiring attorney remains confidential. Schneider maintained that he did not offer any opinions to DeAngelis. He agreed that giving an oral opinion is the customary first stage of being an expert in order to limit the written record that could be revealed through later discovery. He admitted that the topic of inherency came up in the meeting, but he couldn't recall any specifics beyond what was in his letter. He remembered talking about prior art in general, but did not recall ever speaking about specific prior art in the context of construing certain patent claims. He did not recall the Parsons reference when he signed his affidavit, however, after hearing DeAngelis' testimony, he recalled "that there was something somewhere in the Caribbean with an FAA tower, and I said that doesn't qualify as public use if it wasn't in the United States." (Hr'g Tr. 76:13–15). Prior to offering his services, Schneider told DeAngelis the potential topics for his expert testimony, but offered no conclusions.

In response to the Court's inquiries, Schneider said his billing rate as an attorney and as a patent expert are the same—\$550 per hour—because doing one takes time away from the other. He never billed or received payment for his meeting with DeAngelis. Schneider could not find his notes or any emails from the meeting.

DISCUSSION

The Court must decide if an attorney who discusses a case as a potential expert for a

party, but who is never retained, should be disqualified from later becoming counsel for the opposing party in the same case. This issue is novel. There is limited authority on ethical conflicts stemming from the potential or actual engagement of an attorney as an expert. This authority offers only general guidance as the Court's analysis is necessarily very fact dependent.

I. Standard of Review

[1] [2] [3] [4] The party moving to disqualify bears the burden of proving the grounds for disqualification. *In re: BellSouth Corp.*, 334 F.3d 941, 961 (11th Cir.2003). When ruling on a motion to disqualify, a court must "be conscious of its responsibility to preserve a reasonable balance between *1318 the need to ensure ethical conduct on the part of lawyers appearing before it and other social interests, which include the litigant's right to freely chosen counsel." *Woods v. Covington County Bank*, 537 F.2d 804, 810 (5th Cir.1976). Disqualification of one's chosen counsel is a drastic remedy that should be resorted to sparingly. *Norton v. Tallahassee Mem'l Hosp.*, 689 F.2d 938, 941 n. 4 (11th Cir.1982). "Because a party is presumptively entitled to the counsel of his choice, that right may be overridden only if compelling reasons exist." *In re: BellSouth Corp.*, 334 F.3d at 961.

II. The Appearance of Impropriety Standard

Defendants argue that the Court should disqualify Plaintiffs counsel under the appearance of impropriety standard. While Plaintiff stated in its supplemental brief that this standard is a viable basis for disqualification, Plaintiff changed its position at the hearing

to argue that the appearance of impropriety standard does not apply in this case. This dispute centers on whether the appearance of impropriety standard survived Florida's adoption of the Model Rules and qualifies as an independent ground for disqualification. One case notes that, following Florida's adoption of the Model Rules, the appearance of impropriety is not a proper standard for attorney disqualification. *Ganobsek v. Performing Arts Ctr. Auth.*, 2000 WL 390106, *1 n. 5 (S.D.Fla.2000). Two other cases raise, but do not clearly resolve, the issue: (1) *First Impressions Design & Mgmt., Inc. v. All That Style Interiors, Inc.*, 122 F.Supp.2d 1352, 1354 n. 1 (S.D.Fla.2000); (2) *Patrick Power Corp. v. Chub Cay Club Assoc. Ltd.*, 2007 WL 2883179, at *3–4 (Bankr.S.D.Fla.2007). To resolve the issue, the Court reviews the chronology of pertinent Eleventh Circuit authority on attorney disqualification, starting with former Canon 9 and the *Norton* test.

Canon 9 of the former Model Code stated, “[a] lawyer should avoid even the appearance of professional impropriety.”¹ Based on this canon, the Eleventh Circuit adopted a two-prong test to determine if the appearance of impropriety warranted attorney disqualification: (1) “there must exist a reasonable possibility that some specifically identifiable impropriety did in fact occur;” and (2) “the likelihood of public suspicion or obloquy must outweigh the social interests that will be served by the attorney's continued participation in the case.” *Norton*, 689 F.2d at 941 (citing *United States v. Hobson*, 672 F.2d 825 (11th Cir.1982)). This became known as the *Norton* test.

In a later case applying Georgia law, the Eleventh Circuit observed that “the Model Code has been replaced by the Model Rules, and thus does not govern the professional conduct of attorneys in the Southern District of Georgia. Under the Model Rules, the appearance of impropriety is not a ground for disqualifying a lawyer from representing a party to a lawsuit.” *Waters v. Kemp*, 845 F.2d 260, 265 (11th Cir.1988). The “appearance of impropriety is simply too slender a reed on which to rest a disqualification order except in the rarest cases. This is particularly true where ... the appearance of impropriety is not very clear.” *Id.* at 265 n. 12 (quoting *Bd. of Educ. v. Nyquist*, 590 F.2d 1241, 1247 (2d Cir.1979)).

In 1997, the Eleventh Circuit reconciled two lines of intra-circuit cases involving attorney disqualification. One line of cases involved conduct disruptive of the *1319 proceedings or constituting a threat to the orderly administration of justice. *Schlumberger Tech., Inc. v. Wiley*, 113 F.3d 1553, 1560 (11th Cir.1997) (giving as examples in-court attorney misconduct and an attorney deliberately advising client to disobey a district court's protective order). Recognizing the need for sure and swift responses to such conduct, the Eleventh Circuit gives great deference to disqualification decisions falling within this first line of cases. *Id.* at 1558, 1561. In the second line of cases “where the district court's disqualification order is based on an allegation of ethical violation, the court may not simply rely on a general inherent power to admit and suspend attorneys, without any limit on such power. The court must clearly identify a specific Rule of Professional Conduct which

is applicable to the relevant jurisdiction and must conclude that the attorney violated that rule ... for its order to be upheld.” *Id.* at 1561. In these circumstances, the Eleventh Circuit “insist[s] that district courts rest their disqualification decisions on the violation of specific Rules of Professional Conduct, not on some ‘transcendental code of conduct ... that ... exist[s] only in the subjective opinion of the court.’ ” *Id.* (citation omitted).

Four years ago, the Eleventh Circuit again revisited the *Norton* test. Applying Georgia law, the Eleventh Circuit held that because Georgia's State Bar no longer expressly prohibited the appearance of impropriety, the “court was under no obligation to perform the *Norton* balancing test.” *Herrmann v. GutterGuard, Inc.*, 199 Fed.Appx. 745, 754 (11th Cir.2006). Thus, the district court “properly applied the conflict of interest standard and did not apply the outdated appearance of impropriety standard.” *Id.* at 755.

Despite the foregoing authority and Florida's adoption of the Model Rules, numerous federal district courts in Florida continue to apply the *Norton* test.² These decisions rely on *State Farm Mut. Auto. Ins. Co. v. K.A.W.*, 575 So.2d 630 (Fla.1991), and its progeny, for the proposition that while Florida's professional rules no longer prohibit the appearance of impropriety, Florida law retains the requirement.

In *State Farm*, the Florida Supreme Court reversed the lower courts' decisions and ordered the disqualification of a law firm representing passengers in a case arising out of a car crash, because the law firm had

previously represented the car's driver and passengers in a suit against third-party insurers and tortfeasors arising from the same car crash. The *State Farm* court concluded that actual proof of prejudice is not a prerequisite to disqualification, and that the attorney-client relationship between the driver and the law firm raised an irrefutable presumption that confidences were disclosed. *Id.* at 634. In reaching its decision, the Florida Supreme Court affirmed the continued applicability of a two-prong disqualification test in conflict-of-interest cases: (1) the existence of an attorney-client relationship, giving rise to an irrefutable presumption that confidences were disclosed during the relationship, and (2) that the matters in the pending suit are substantially related. *Id.* at 633. The irrefutable presumption in the first prong was upheld, notwithstanding Florida's adoption of new professional rules, because the “Rules of Professional *1320 Conduct requiring confidentiality serve the same purposes as the confidentiality requirements” of the former Code. *Id.* The Florida Supreme Court did “not believe that a different standard now applies because the specific admonition to avoid the appearance of impropriety does not appear in the Rules of Professional Conduct.” *Id.* at 633. The court further emphasized that “the need for the irrefutable presumption continues to exist, just as under the former code” and the presumption “acknowledges the difficulty of proving” disclosure of confidential information. *Id.* at 634.

Subsequent courts interpret the *State Farm* decision as establishing Florida's retention of the appearance of impropriety standard despite the change in rules. This interpretation,

however, does not follow. The *State Farm* reference to appearance of impropriety was made only in the context of affirming the same two-prong test, and particularly the irrefutable presumption, that was applied prior to Florida's adoption of the new rules. This Court does not read the decision as retaining the appearance of impropriety standard and respectfully disagrees with those courts that do.

Like the Georgia bar rules at issue in *Waters* and *Herrmann*, the current Rules Regulating the Florida Bar no longer prohibit the appearance of impropriety. With former Canon 9's language focusing on "even the appearance of impropriety" gone from the rules governing attorneys practicing in the Southern District of Florida, and no language that is similar, the test based on Canon 9 is improper. Consequently, the Court finds that the appearance of impropriety does not qualify as an independent ground for disqualification in this case. As in *Herrmann*, this Court is not obligated to apply the *Norton* test. Instead, because this case involves alleged ethical misconduct, this Court "must clearly identify a specific Rule of Professional Conduct which is applicable to the relevant jurisdiction"—here, the Rules Regulating the Florida Bar—and determine if Plaintiffs counsel violated that rule. *Schlumberger*, 113 F.3d at 1561.

III. Rules Regulating the Florida Bar

Attorneys in the Southern District of Florida are governed in their professional conduct by the Rules Regulating the Florida Bar. S.D. Fla. Local Rule 11.1(C). As an initial matter, the Court disagrees with Plaintiff's argument that these rules do not apply to Schneider's potential engagement as an expert. Plaintiff cites

non-binding authorities holding that attorney disciplinary rules do not apply to ordinary non-attorney experts, *see, Great Lakes Dredge & Dock Co. v. Harnischfeger Corp.*, 734 F.Supp. 334, 338–39 (N.D.Ill.1990); *EEOC v. Locals 14 & 15 Int'l Union of Operating Eng'rs*, 1981 WL 163, *3–4 (S.D.N.Y.1981), and argues that the same is true for attorney-experts like Schneider. Such argument asks the Court to ignore Schneider's status as an attorney then and now. This, the Court refuses to do. Where, as here, an attorney currently represents a client when that same attorney has previously received information from the opposing party in the same case, it is axiomatic that the rules governing attorney conduct apply. This is true regardless of the capacity in which the attorney previously received the information.

Rule 4–1.9 (Conflict of Interest; Former Client) prohibits attorneys from representing another person in the same or a substantially related matter in which that person's interests are materially adverse to a former client's interests, using information relating to the representation to the former client's disadvantage, or revealing information relating to the representation. Rule Reg. Fla. Bar. 4–1.9(a)–(c). The rule's comment states that, in applying the *1321 rule, it is necessary to determine if the attorney "was so involved in the matter that the subsequent representation can be justly regarded as a changing of sides in the matter in question." Rule Reg. Fla. Bar. 4–1.9(cmt.). The comment distinguishes an attorney who is "directly involved in a specific transaction" and an attorney who "recurrently handled a type of problem for a former client." *Id.* In the first circumstance, "subsequent representation of

other clients with materially adverse interests clearly is prohibited.” *Id.*

At first blush, it would appear that Rule 4–1.9, by its own terms, does not apply because Schneider never represented any Defendant. However, at least one Florida court has found an attorney-client relationship and disqualified an attorney under Rule 4–1.9, where the attorney gained confidential information in a role other than as an attorney. *Tuazon v. Royal Caribbean Cruises, Ltd.*, 641 So.2d 417 (Fla. 3d DCA 1994). In *Tuazon*, a plaintiff’s attorney was disqualified based on the attorney’s past employment as a claims adjuster for the defendant. *Tuazon*, 641 So.2d at 417–18. The attorney had “adjusted, evaluated, investigated and handled claims on behalf of the [d]efendant, some of which claims were of the type involved in this case.” *Id.* The attorney had been “privy to the confidential procedures and policies of the [d]efendant.” *Id.* The court described this information as “not generally known” and found the attorney subject to Rule 4–1.9. *Id.* The attorney’s receipt of confidential information “falls squarely within the proscription of* Rule 4–1.9” although he learned the information while working as a claims adjuster. *Id.* As the court held;

To suggest that because Plaintiff’s attorney was not functioning as a lawyer when the confidential information was learned, or that the confidential information does not relate directly to this case, begs the issue. The issue is, to paraphrase [Rule 4–1.9], does the information (not generally known) put

the Defendant at an unfair disadvantage?

Id.

[5] Here, the Court is confronted with a similar issue to that presented in *Tuazon*—whether Schneider learn confidential information during his meeting with DeAngelis that puts Defendants at an unfair disadvantage. The Court concludes that he did. The evidence shows that DeAngelis and Schneider discussed confidential information, and that DeAngelis expected her communications with Schneider to be confidential. She testified to having “talk[ed] pretty freely with [Schneider] because he was the only person we were thinking about retaining, and he’s an attorney, I’m an attorney, I don’t know. We just were talking freely about [the case].” (Hr’g Tr. 28:13–16.) DeAngelis was speaking to another attorney and it was reasonable for her to believe that her contact with Schneider took on a confidential character based on Schneider’s profession and proposed expert role.

During the meeting, DeAngelis advised Schneider about the Parsons reference and her firm’s belief that this was an installation of the claimed invention before the patent was filed. She discussed her concerns about the conflicting opinions of different PTO examiners involving the patents-in-suit. DeAngelis raised the issue of inherency from Defendants’ perspective and asked Schneider for his opinion on this issue. She disclosed the identity of possible co-inventor, Munn Reynolds Dodd. This information, discussed from Defendants’ perspective, was not “generally known” and, instead, constitutes confidential information.

Schneider admitted that while he did not recall the Parsons reference when signing his affidavit, his memory was refreshed by DeAngelis' testimony at the hearing regarding the same. (Hr'g *1322 Tr. 76:13–15). The Court is troubled by Schneider's inability to recollect the Parsons reference discussion until after DeAngelis testified at the hearing. Further, when asked at the hearing about other specific information the two discussed at the meeting, Schneider responded several times that he could not recall beyond what was in his written letter.

Plaintiff argues strenuously that Schneider's role as a testifying, as opposed to a consulting, expert was clear from the outset. The Court disagrees. Nowhere in his letter to DeAngelis did Schneider indicate that his proposed role would only be that of a testifying expert. As Schneider was never retained, it is unclear whether his role would have been that of a testifying or consulting expert. Plaintiff argues it would not have made sense for DeAngelis to have discussed confidential information with Schneider because any communications between them would have been discoverable if he had been retained as a testifying expert. While it may not have been a strategically sound decision for DeAngelis to discuss confidential information with an attorney who could have become a testifying expert subject to deposition by the other side, this does not mean that it did not happen. As discussed above, the evidence shows that the two did discuss confidential information.

Unlike *Tuazon*, where the attorney learned the confidential information while employed for the defendant, Schneider was never

hired or retained by Defendants. While the facts are different, the *Tuazon* principle remains the same, and the Court chooses to follow it. As in *Tuazon*, Schneider has been privy to confidential information pertaining to Defendants in this case. He met with DeAngelis to discuss his possible retention as an expert for Defendants. During the meeting, he learned considerable knowledge about the case from Defendants' perspective. DeAngelis testified to having spoken freely about her client's case and disclosing information, such as the Parsons reference, conflicting opinions of PTO examiners, and the issue of inherency, as this information related to the defense in this case. This information was confidential. Like the disqualified attorney in *Tuazon*, Schneider is subject to the restraints of Rule 4–1.9. This is true even though he learned the confidential information as a potential expert for Defendants, not as their attorney. The confidential information he learned relates directly to issues in this case. Thus, there is a real risk that Schneider has confidential information that could be unfairly used against Defendants. As such, allowing Schneider to switch sides and represent Plaintiff would place Defendants at an unfair disadvantage and, thus, presents a conflict of interest that warrants disqualification.

Rule 4.1–10 provides that if an attorney is prohibited from representing a client based on a conflict of interest arising under Rule 4–1.9, then the rest of that attorneys' firm is likewise prohibited from representing the client. Rule Reg. Fla. Bar 4–1.10. Having concluded that Schneider is prohibited from representing Plaintiff based on a conflict of interest arising under Rule 4–1.9, the Court

further concludes that Schneider's conflict of interest is imputed to the rest of his law firm, Novak, Druce + Quigg, LLP.

IV. Conclusion

Having carefully considered the parties' arguments, the evidence presented at the hearing, and all relevant case law and applicable rules, the Court concludes that disqualification is warranted in this case based on Rules 4-1.9 and 4-1.10. The Court does not make this decision lightly. In recommending disqualification, the Court recognizes its obligation to balance *1323 the need to ensure ethical conduct of attorneys with other social interests, including a party's right to freely chosen counsel. Here, the need to ensure ethical conduct by attorneys outweighs Plaintiffs interest in retaining counsel of its own choosing.

While the Court does not know every detail of what transpired at the June 18, 2008 meeting between DeAngelis and Schneider, the evidence establishes that DeAngelis disclosed confidential information to Schneider. The evidence shows that Schneider received confidential information, including defense strategy, from DeAngelis relating to this case. The Court would be entirely remiss in its obligation to assure ethical conduct by attorneys appearing before it by permitting Schneider to now switch sides and represent Plaintiff in the same case in which he previously received confidential information during a meeting with Defendants' prior counsel. This scenario constitutes compelling circumstances that counsel in favor of requiring disqualification to safeguard ethical

responsibility by attorneys and to preserve the integrity of this proceeding.

RECOMMENDATION TO THE DISTRICT COURT

Based on the foregoing, this Court respectfully RECOMMENDS that the District Court GRANT Defendants' Motion to Disqualify Plaintiffs Counsel (DE 394), DISQUALIFY the law firm of Novak Druce + Quigg LLP from continuing to represent Plaintiff in this cause of action, and ORDER Plaintiff to immediately retain new counsel as required by law. See *Palazzo v. Gulf Oil Corp.*, 764 F.2d 1381, 1385 (11th Cir.1985), cert. denied, 474 U.S. 1058, 106 S.Ct. 799, 88 L.Ed.2d 775 (1986) ("a corporation ... cannot appear pro se, and must be represented by counsel").

NOTICE OF RIGHT TO OBJECT

A party shall serve and file written objections, if any, to this Report and Recommendation with the Honorable United States District Judge Kenneth L. Ryskamp, within fourteen (14) days after being served with a copy. See 28 U.S.C. § 636(b)(1)(C), Failure to file timely objections may limit the scope of appellate review of factual findings contained herein. See *United States v. Warren*, 687 F.2d 347, 348 (11th Cir.1982), cert. denied, 460 U.S. 1087, 103 S.Ct. 1781, 76 L.Ed.2d 351 (1983).

DONE and SUBMITTED in Chambers at West Palm Beach in the Southern District of Florida, this 4th day of March, 2010.

All Citations

709 F.Supp.2d 1309

Footnotes

- 1 Florida replaced the Model Code with the Model Rules in January, 1987. The Model Rules do not contain this provision,
- 2 See, e.g., *Hollywood Mobile Estates Ltd. v. Seminole Tribe of Fla.*, 2008 WL 2959853 (S.D.Fla.2008), at *1; *Herrera-Shorthouse v. La Cubana Bail Bonds, Inc.*, 1999 WL 33266031, at *5 (S.D.Fla.1999); *Concerned Parents of Jordan Park v. Housing Auth. of the City of St. Petersburg*, 934 F.Supp. 406, 410 (M.D.Fla.1996); *McPartland v. ISI Inv. Servs., Inc.*, 890 F.Supp. 1029, 1030 (M.D.Fla.1995); *Rentclub, Inc. v. Transamerica Rental Finance Corp.*, 811 F.Supp. 651, 654 (M.D.Fla.1992), *aff'd*, 43 F.3d 1439 (11th Cir.1995).

End of Document

© 2015 Thomson Reuters. No claim to original U.S. Government Works.

670 F.Supp.2d 201
United States District Court,
S.D. New York.

MERCK EPROVA AG and
Merck KGaA, Plaintiffs,
v.
PROTHERA, INC., Defendant.

No. 08 Civ. 0035(RMB)
(JCF). | Sept. 17, 2009.

Synopsis

Background: In unfair competition action brought by trademark holder against former licensee, trademark holder moved to disqualify licensee's counsel based on simultaneous representation.

Holdings: The District Court, James C. Francis IV, United States Magistrate Judge, held that:

[1] trademark holder was joint client, as required for application of per se disqualification rule, and

[2] firm's representation of trademark holder and former licensee warranted disqualification.

Motion granted.

West Headnotes (17)

[1] **Attorney and Client**
↔ Disqualification in general

Attorney and Client

↔ Disqualification proceedings; standing

Motions to disqualify counsel are viewed with disfavor and subjected to a high standard of proof, in large part because they can be used as a litigation tactic.

6 Cases that cite this headnote

[2] **Attorney and Client**

↔ Disqualification in general

The authority to disqualify an attorney is a function of the court's inherent supervisory power.

4 Cases that cite this headnote

[3] **Attorney and Client**

↔ Disqualification in general

Not every violation of a disciplinary rule will necessarily lead to disqualification, and, conversely, disqualification may be justified even in the absence of a clear ethical breach where necessary to preserve the integrity of the adversary process.

1 Cases that cite this headnote

[4] **Attorney and Client**

↔ Disqualification in general

Disqualification is warranted where an attorney's conduct tends to taint the underlying proceedings.

3 Cases that cite this headnote

[5] Attorney and Client

↔ Representing Adverse Interests

Attorney and Client

↔ Disqualification proceedings;
standing

It is prima facie improper for an attorney to simultaneously represent a client and another party with interests directly adverse to that client, and an attorney doing so must be disqualified unless he can demonstrate, at the very least, that there will be no actual or apparent conflict in loyalties or diminution in the vigor of his representation.

5 Cases that cite this headnote

[6] Attorney and Client

↔ Interests of former clients

In a case of successive representation, an attorney may be disqualified where: (1) the moving party is a former client of the adverse party's counsel; (2) there is a substantial relationship between the subject matter of the counsel's prior representation of the moving party and the issues in the present lawsuit; and (3) the attorney whose disqualification is sought had access to, or was likely to have had access to, relevant privileged information in the course of his prior representation of the client.

2 Cases that cite this headnote

[7] Attorney and Client

↔ Disqualification proceedings;
standing

Where counsel have simultaneously represented clients with differing interests, the standard for concurrent representation applies even if the representation ceases prior to the filing of a disqualification motion.

5 Cases that cite this headnote

[8] Attorney and Client

↔ Disqualification proceedings;
standing

Concurrent representation standard applied to law firm's representation of trademark holder and licensee in different actions, even after trademark holder terminated firm's representation based on alleged conflict.

Cases that cite this headnote

[9] Attorney and Client

↔ Disqualification proceedings;
standing

A strict standard for analyzing attorney representation conflicts is properly imposed when a lawyer undertakes to represent two adverse parties, both of which are his clients in the traditional sense.

1 Cases that cite this headnote

[10] Attorney and Client

↔ What constitutes a retainer

The formation of an attorney-client relationship hinges upon the client's reasonable belief that he is consulting a lawyer in that capacity and his manifested intention to seek professional legal advice.

2 Cases that cite this headnote

[11] Attorney and Client

↔ What constitutes a retainer

Where two parties are jointly prosecuting a patent application, they are commonly considered to be joint clients.

2 Cases that cite this headnote

[12] Privileged Communications and Confidentiality

↔ Common interest doctrine; joint clients or joint defense

The common interest doctrine permits the disclosure of a privileged communication without waiver of the privilege provided the party claiming an exception to waiver demonstrates that the parties communicating: (1) have a common legal, rather than commercial, interest; and (2) the disclosures are made in the course of formulating a common legal strategy.

4 Cases that cite this headnote

[13] Attorney and Client

↔ Patent law

Attorney and Client

↔ What constitutes a retainer

Law firm, which represented drug manufacturer in patent application on behalf of inventor, also represented inventor, who had joint attorney-client relationship with manufacturer, as required for application of per se disqualification rule in unfair competition action between inventor and another party represented by law firm, even though manufacturer dealt with firm, who had represented it in prior matters, where parties intended to file joint patent applications, and parties reasonably believed they were joint clients.

5 Cases that cite this headnote

[14] Attorney and Client

↔ Particular Cases and Problems

Law firm's representation of trademark holder in patent application, and of former licensee in a separate unfair competition action brought by trademark holder, warranted disqualification of law firm, where the uniqueness of trademark holder's patent was an important element of both representations.

Cases that cite this headnote

[15] Attorney and Client

↔ Disqualification in general

In the absence of a direct conflict of interest, courts may exercise discretion in determining whether to disqualify counsel on the basis of a violation of ethical principles; however, where the per se rule applies, that discretion, if it exists at all, is narrowly confined.

Cases that cite this headnote

[16] Attorney and Client

↔ Disqualification proceedings; standing

Trademark holder's delay in moving to disqualify former licensee's counsel, in unfair competition action, based on simultaneous representation of adverse parties, was not indicative of sharp tactics, as would warrant denial of motion, where such delay occurred because trademark holder's counsel had no reason to know that firm representing former licensee was simultaneously representing trademark holder in separate patent proceedings until trademark holder's counsel discovered that firm had listed trademark holder as a client on its website.

Cases that cite this headnote

[17] Attorney and Client

↔ Particular Cases and Problems

While former licensee in unfair competition action would likely suffer some additional cost and delay

if its counsel was disqualified based on simultaneous representation of adverse parties, such considerations were insufficient to overcome factors favoring disqualification.

Cases that cite this headnote

Attorneys and Law Firms

***203** Robert Eliot Hanlon, Thomas Jude Parker, Natalie Christine Clayton, Rowan Elizabeth Morris, Victoria Elizabeth Spataro, Alston & Bird, LLP, New York, NY, for Plaintiffs.

Gregory F. Wilson, Wilson & Quint, LLP, Reno, NV, Joshua King, Graybeal Jackson Halye LLP, Bellevue, WA, Charles Joseph Raubicheck, Frommer, Lawrence & Haug, L.L.P., James Newell Blair, Snow Becker Krauss P.C., New York, NY, for Defendant.

MEMORANDUM AND ORDER

JAMES C. FRANCIS IV, United States Magistrate Judge.

Plaintiffs Merck KGaA and its Swiss affiliate, Merck Eprova (collectively, "Merck"), allege that defendant ProThera, Inc. ("ProThera") has mislabeled a nutritional supplement that it distributes. According to Merck, ProThera's conduct constitutes direct and contributory false advertising in violation of Section 43(a) (1)(B) of the Lanham Act, 15 U.S.C. § 1125(a) (1)(B); contributory trademark infringement in violation of Section 32(1) of the Lanham Act,

15 U.S.C. § 1114(1); trademark dilution in violation of Section 43(c) of the Trademark Dilution Revision Act of 2006 and the Federal Trademark Dilution Act of 1995, 15 U.S.C. § 1125(c); unfair competition in violation of Section 43(a)(1)(A) of the Lanham Act, 15 U.S.C. § 1125(a)(1)(A); unfair competition in violation of New York common law; trademark dilution in violation of Section 360-1 of the New York General Business Law; deceptive trade practice in violation of Section 349(h) of the New York General Business Law; and false advertising in violation of Sections 350 and 350-e(3) of the New York General Business Law. (Complaint (“Compl.”), ¶ 1).

Merck now moves to disqualify one of ProThera's counsel, the firm of Frommer Lawrence & Haug LLP (“FLH”), on the ground that this firm has been representing Merck in a related patent prosecution at the same time that it has been litigating against Merck here. Merck further contends that FLH must be disqualified because Dr. Howard Rosenberg, an in-house scientific advisor for FLH, previously worked for Merck and provided advice in connection with the same chemical compound that is at issue here. ProThera opposes the motion, arguing that Merck is not a client of FLH in the patent matter, that the patent prosecution is not substantially related to this case, that disqualification would prejudice ProThera, and that Dr. Rosenberg's relationship with Merck does not warrant disqualification. Furthermore, ProThera contends that because FLH is no longer representing any party in the patent matter, any basis for disqualification has evaporated.

For the reasons that follow, Merck's motion is granted.

Background

A. The Current Litigation

Merck markets a dietary supplement using trademarks that incorporate the term “Metafolin.” (Compl., ¶¶ 8–11). The Metafolin marks are used by Merck in connection with the dietary ingredient N-[4-[(2-amino-5,6,7,8-tetrahydro-4-hydroxy-²⁰⁴ 5-methyl(6S)-pteridinyl)methyl]amino]benzoyl]-L-glutamic acid, calcium salt. (Compl., ¶ 9). This chemical is otherwise identified as L-5-methyltetrahydrofolic acid, calcium salt (“L-5-MTHF”). (Compl., ¶ 9). L-5-MTHF is a pure diastereoisomeric form of the compound 5-methyltetrahydrofolic acid. (Compl., ¶ 9). L-5-MTHF is a source of folate, a vitamin of the B complex, and has been used in pregnancy vitamins, nutritional supplements, and special dietary and medical foods. (Compl., ¶¶ 10, 11).

The chemical 5-MTHF is a mixture of two diastereoisomers, the “L-form” and the “D-form.” (Compl., ¶ 20). The L-form is a naturally occurring form of folate found in food and in the human body and is biologically active, while the D-form is not present in nature and cannot be metabolized in the body. (Compl., ¶ 21). According to Merck, the presence of the D-form could reduce the effectiveness of a folate supplement by competing with the uptake and activity of the beneficial L-form. (Compl., ¶ 23).

Beginning in 2005, Merck supplied L-5-MTHF to ProThera and allowed ProThera to use the Metafolin trademarks pursuant to a

license agreement. (Compl., ¶ 36). However, Merck terminated the license in August 2006, allowing ProThera to deplete its inventory over the following month. (Compl., ¶¶ 37–39). Nevertheless, Merck determined that ProThera and some of its distributors were still using the Metabolin marks in 2007. (Compl., ¶ 40). Furthermore, Merck tested products manufactured or distributed by ProThera and discovered that although they were labeled or advertised as containing L-5-MTHF, in fact they contained the diastereoisomeric mixture 5-MTHF (i.e., they contained both the L-form and the D-form). (Compl., ¶ 40).

Merck commenced the instant litigation in January 2008. From the inception of the case, ProThera has been represented by Joshua King of Graybeal Jackson LLP and by local counsel, James N. Blair of Snow Becker Krauss P.C. In November 2008, Gregory Wilson of Wilson & Quint LLP joined as co-counsel. Then, on February 6, 2009, Charles Raubicheck of FLH filed his appearance as additional co-counsel.

B. The Patent Proceedings

On August 1, 2005, Merck Eprova entered into an exclusive license agreement (the “Agreement”) with Schering AG, which later became Bayer Schering Pharma AG (“Bayer”). (Declaration of Vera A. Katz dated June 5, 2009 (“Katz Decl.”), ¶ 3 & Exh. A). The purpose of the Agreement was to facilitate joint development of new pharmaceutical products that include L-5-MTHF. (Katz Decl., ¶ 4). In that connection, the Agreement made provision for prosecution of a joint patent:

[Bayer] shall direct and control the preparation, filing

and prosecution of the patent applications with respect to the Joint Patent (including any interferences and foreign oppositions) in the name of [Merck Eprova] and [Bayer].... [Merck Eprova] shall provide to [Bayer] appropriate powers of attorney to enable [Bayer] to act on behalf of [Merck Eprova] before the patent authorities with respect to the Joint Patent.... In the event that [Bayer] declines or fails to file any patent application with respect to the Joint Patent in the Territory, or intends to abandon all patent applications without filing a continuation of such patent applications, [Bayer] shall provide [Merck Eprova] a reasonable opportunity to file and/or to prosecute such patent application on [Merck Eprova's] behalf.

(Katz Decl., Exh. A at 17). The Agreement further provides that “[e]ach Party *205 shall keep the other Party informed with regard to the patent application and maintenance processes ... and shall promptly deliver to the other Party copies of all patent applications, amendments, related correspondence and other relevant materials.” (Katz Decl., Exh. A at 17).

Pursuant to the Agreement, Merck Eprova and Bayer filed two joint patent applications, U.S. Patent Application Nos. 11/435,198 and 11/938,688. (Declaration of Rudolf Moser

dated June 5, 2009 (“Moser Decl.”), ¶ 4 & Exh. A). The claimed inventions relate to pharmaceuticals that combine estrogens or progestogens with L-5-MTHF for use as an oral contraceptive. For purposes of prosecuting these pending patent applications, Bayer engaged Thomas J. Kowalski of FLH, which had long represented it in patent matters, including patents over which the current applications claim priority. (Declaration of Thomas J. Kowalski dated June 18, 2009 (“Kowalski Decl.”), ¶¶ 4-5, 8-9).

According to FLH, it represented Bayer exclusively in connection with the pending applications. FLH received compensation only from Bayer and not from Merck. (Kowalski Decl., ¶¶ 3, 30-31). It took direction only from Bayer and not from Merck. (Kowalski Decl., ¶ 40). And, it communicated only with Bayer and not with Merck. (Kowalski Decl., ¶¶ 3, 29, 31, 46).

Merck Eprova, on the other hand, always understood that FLH represented it as well as Bayer in connection with the pending applications. (Katz Decl., ¶ 10). Because of their joint interest, Merck communicates with Bayer regarding any patent applications arising from the Agreement, “discussing, for instance, communications they have received from patent attorneys in different countries where the applications have been filed.” (Katz Decl., ¶ 12). One of the inventors identified in the pending applications, Dr. Rudolf Moser, is a Merck employee from whom FLH obtained a power of attorney in connection with the applications. (Moser Decl., ¶¶ 1, 3, 8-9 & Exh. B). Dr. Moser also executed an assignment of

his rights in the invention to Merck and Bayer jointly. (Moser Decl., ¶ 10 & Exh. C).

Bayer, too, believed that FLH represented Merck. When Bayer became aware of the current dispute, it sent a letter to FLH that states in part:

As you know, Merck Eprova was co-assignee when we filed the ... patent applications and still is today.... We were surprised to hear that you do not consider Merck Eprova as your client. We are no experts in U.S. patent law, but in the European system, in such a case, the representative of one patent owner would automatically be the representative of all patent owners. When we communicated with you about these applications, it was on behalf of both us and Merck Eprova.

(Letter from Uwe Hartmann and Andreas Brösamle to Thomas Kowalski dated June 26, 2009 (“Hartmann Letter”), attached as Exh. A to Declaration of Andreas Furger dated June 26, 2009 (“Furger Decl.”), at 1).

Bayer expressed concern about the relationship between the patent applications and the instant litigation. It told FLH that “Merck Eprova informed us that the subject matter of their litigation against Prothera [sic] is not a pure trademark matter but the question of which substance can be labelled [sic] as L-5-

MTHF. Metafolin (L-5-MTHF) is an essential part of the inventions claimed in our patent applications.” (Hartmann Letter at 1). This anxiety led Bayer to terminate FLH as counsel on the patent applications:

We are concerned that subject matter discussed in the Prothera [sic] case is related to the ... patent applications and may be adverse to them. We are *206 not a party to this litigation and have no interest in being involved in it. Our sole interest here is to safeguard our IP rights. Therefore, we decided to transfer the ... patent applications to another law firm. Merck Eprova agreed to that transfer. Please stop working on these applications and wait for our transfer instruction which we will send to you soon.

(Hartmann Letter at 2).

C. The Role of Dr. Rosenberg

Dr. Rosenberg holds a Ph.D. degree in pharmacology. (Declaration of Howard E. Rosenberg dated June 11, 2009 (“Rosenberg Decl.”), ¶ 2). From 1986 through 2008, he was employed by Generics (UK) Ltd., a member of the Merck Generics Group, which in turn was a subsidiary of Merck KGaA. (Rosenberg Decl., ¶ 3). According to Dr. Rosenberg, his “work focused on research and development of generic pharmaceuticals, and

the intellectual property landscape surrounding generic products.” (Rosenberg Decl., ¶ 3). In that capacity, he “was involved in aspects of chemical synthesis, development, and patentability of active ingredients used in generic pharmaceutical products.” (Rosenberg Decl., ¶ 3). Dr. Rosenberg characterizes his involvement with L-5-MTHF as limited:

While at Merck Generics, I had a few occasional discussions with Dr. Martin Ulmann, an employee of Merck Eprova AG (another subsidiary of Merck KGaA) concerning the folate compound L-5-MTHF. Dr. Ulmann was directing a project seeking to develop this compound for commercial purposes.... At his request, I commented to Dr. Ulmann about the possibility of obtaining patents for L-5-MTHF. I did not draft any claims in an patent application for this compound. I was not an inventor named in any patent applications. I had no decision-making responsibility nor any role in filing patent applications for this compound.

(Rosenberg Decl., ¶¶ 4-5).

Merck views Dr. Rosenberg's role in connection with L-5-MTHF as more extensive:

During his tenure at Merck, Dr. Rosenberg assisted in the development of Merck's intellectual property strategies, including Merck Eprova's strategies for L-5-MTHF. In fact, as part of this strategic planning, Dr. Rosenberg visited Merck Eprova's L-5-MTHF plant in Switzerland and, on more than one occasion, consulted with Merck Eprova regarding the [intellectual property] protection strategy for L-5-MTHF in the United States and elsewhere. This involvement included Dr. Rosenberg's assisting in the drafting of claims for patent applications related to L-5-MTHF. Dr. Rosenberg also engaged in many conversations with Merck Eprova's managing director, Martin Ulmann, relating to possible protection strategies for Merck's L-5-MTHF product.

(Katz Decl., ¶ 17). In support of its characterization, Merck points to an e-mail that Dr. Rosenberg sent in response to a notice of a meeting that he attended concerning amendments to patent claims for L-5-MTHF. (Furger Decl., ¶ ¶ 7-9). In that e-mail, Dr. Rosenberg indicated that he had reviewed the patent application and had questions concerning the forms of the compound and

about whether Merck wished to claim each form separately. He stated that he would prefer to "talk it through" in the face-to-face meeting and discuss Merck's objective and what it intended to protect. (Furger Decl., Exh. B).

In January 2009, Dr. Rosenberg was hired as a scientific advisor for FLH. (Rosenberg Decl., ¶ 1). Since that time, he has had no substantive involvement with any matter concerning L-5-MTHF, including *207 the instant lawsuit. (Rosenberg Decl., ¶ 7). He has not communicated with FLH attorneys about the merits of the ProThera litigation; he has not reviewed any documents relating to it (with the exception of a redacted copy of the present disqualification motion); and he no longer possesses any documents concerning Merck's work with L-5-MTHF. (Rosenberg Decl., ¶¶ 8, 9, 11). Dr. Rosenberg represents that he will not participate in the ProThera lawsuit in any way. (Rosenberg Decl., ¶ 12).

Discussion

A. Principles of Disqualification

[1] Motions to disqualify counsel are viewed with disfavor and subjected to a high standard of proof, in large part because they can be used as a litigation tactic. *See Evans v. Artek Systems Corp.*, 715 F.2d 788, 791-92 (2d Cir.1983) (noting "high standard of proof" for disqualification motions because they are "often interposed for tactical reasons"); *Leslie Dick Worldwide, Ltd. v. Soros*, No. 08 Civ. 7900, 2009 WL 2190207, at *6 (S.D.N.Y. July 22, 2009); *Medical Diagnostic Imaging, PLLC v. CareCore National, LLC*, 542 F.Supp.2d 296, 306-07 (S.D.N.Y.2008); *Ello v. Singh*, No. 05 Civ. 9625, 2006 WL

2270871, at *2 (S.D.N.Y. Aug. 7, 2006); *In re Motion to Quash Deposition Subpoena to Lance Wagar*, No. 1:06-MC-127, 2006 WL 3699544, at *8, 10 (N.D.N.Y. Dec. 13, 2006). Indeed, even when brought in good faith, a motion to disqualify can delay litigation, impose additional expense, and interfere with the attorney-client relationship. *Ello*, 2006 WL 2270871, at *2 (citing cases). On the other hand, the Second Circuit has held that any doubt should be resolved in favor of disqualification. *Hull v. Celanese Corp.*, 513 F.2d 568, 571 (2d Cir.1975); *see also Bowens v. Atlantic Maintenance Corp.*, 546 F.Supp.2d 55, 86 (E.D.N.Y.2008); *Blue Planet Software, Inc. v. Games International, LLC*, 331 F.Supp.2d 273, 275 (S.D.N.Y.2004). The apparent tension between these principles arises from the need “to balance ‘a client’s right freely to choose his counsel’ against ‘the need to maintain the highest standards of the profession.’ ” *Hempstead Video, Inc. v. Incorporated Village of Valley Stream*, 409 F.3d 127, 132 (2d Cir.2005) (quoting *Government of India v. Cook Industries, Inc.*, 569 F.2d 737, 739 (2d Cir.1978)).

[2] [3] The authority to disqualify an attorney is a function of the court’s inherent supervisory power. *See id.*; *Medical Diagnostic Imaging*, 542 F.Supp.2d at 305–06; *Skidmore v. Warburg Dillon Read LLC*, No. 99 Civ. 10525, 2001 WL 504876, at *2 (S.D.N.Y. May 11, 2001). Consequently, although courts look to the American Bar Association Model Rules of Professional Conduct (the “Model Rules”) and to state disciplinary rules for guidance,¹ these rules are not binding. *See Hempstead Video*, 409 F.3d at 132; *208 *Medical Diagnostic Imaging*, 542 F.Supp.2d at

305–06; *Blue Planet Software*, 331 F.Supp.2d at 275; *Skidmore*, 2001 WL 504876, at *2. Accordingly, “not every violation of a disciplinary rule will necessarily lead to disqualification,” *Hempstead Video*, 409 F.3d at 132, and, conversely, disqualification may be justified even in the absence of a clear ethical breach “where necessary to preserve the integrity of the adversary process...” *Board of Education v. Nyquist*, 590 F.2d 1241, 1246 (2d Cir.1979).

[4] Disqualification is warranted where an attorney’s conduct tends to taint the underlying proceedings. *See Hempstead Video*, 409 F.3d at 132–33; *Nyquist*, 590 F.2d at 1246; *Leslie Dick*, 2009 WL 2190207, at *7; *In re MTBE Products Liability Litigation*, 438 F.Supp.2d 305, 307–09 (S.D.N.Y.2006). There are at least two ethical obligations which, if violated, would create a risk of taint. The first is the requirement that an attorney exercise independent judgment on behalf of a client. This obligation is now embodied in Rule 1.7 of the New York Rules of Professional Conduct, which states in pertinent part that

a lawyer shall not represent a client if a reasonable lawyer would conclude that either:

(1) the representation will involve the lawyer in representing differing interests; or

(2) there is a significant risk that the lawyer’s professional judgment on behalf of a client will be adversely affected by the lawyer’s own financial, business, property or other personal interests.

Rule 1.7(a).² The second relevant ethical requirement is that an attorney maintain client confidences. This obligation is contained in Rule 1.6, which states in part that “A lawyer shall not knowingly reveal confidential information ... or use such information to the disadvantage of a client or for the advantage of the lawyer or a third person[.]” Rule 1.6(a).³

[5] Where a conflict is alleged, “[t]he standard for disqualification varies depending on whether the representation is concurrent or successive.” *Hempstead Video*, 409 F.3d at 133. If the representation is concurrent, it is “ ‘prima facie improper’ for an attorney to simultaneously represent a client and another party with interests directly adverse to that client.” *Id.* (quoting *Cinema 5, Ltd. v. Cinerama, Inc.*, 528 F.2d 1384, 1387 (2d Cir.1976)). In such instances, the “per se” standard applies and the attorney must be disqualified unless he can demonstrate “ ‘at the very least, that there will be no actual or *apparent* conflict in loyalties or diminution in the vigor of his representation.’ ” *Id.* (quoting *Cinema 5*, 528 F.2d at 1387).

[6] In a case of successive representation, an attorney may be disqualified where:

- (1) the moving party is a former client of the adverse party's counsel;
- (2) there is a substantial relationship between the subject matter of the counsel's prior representation of the moving party and the issues in the present lawsuit; and
- (3) the attorney whose disqualification is sought had access to, or was likely to

have had access to, relevant privileged information in the course of his prior representation of the client.

Id. (quoting *Evans*, 715 F.2d at 791); *see also Blue Planet Software*, 331 F.Supp.2d at 275–78.

***209 B. Dual Representation**

1. Termination of Representation

As noted above, FLH's responsibility for the patent applications was terminated when Bayer transferred that assignment to other counsel on June 26, 2009. (Furger Decl., Exh. A). According to ProThera, this “makes it crystal clear that the basis for Merck's motion has vanished. Assuming solely for argument's sake that Merck had an attorney-client relationship with FLH, it has now gone with the transfer.” (ProThera's Sur-Reply Memorandum Opposing Merck's Motion to Disqualify Frommer Lawrence & Haug LLP as its Counsel (“ProThera Sur-Reply”) at 6). However, if there had been an attorney-client relationship between Merck and FLH, the termination of that relationship would not end the disqualification inquiry altogether. At the very least, the potential conflict would have to be analyzed under the standards for successive representation.

[7] And, indeed, where counsel have simultaneously represented clients with differing interests, the standard for concurrent representation applies even if the representation ceases prior to the filing of a disqualification motion. *Unified Sewerage*

Agency of Washington County, Oregon v. Jelco Inc., 646 F.2d 1339, 1345 n. 4 (9th Cir.1981); *Anderson v. Nassau County Department of Corrections*, 376 F.Supp.2d 294, 298–99 (E.D.N.Y.2005) (“[T]he status of the relationship is assessed at the time that the conflict arises.”); *Ehrich v. Binghamton City School District*, 210 F.R.D. 17, 25 (N.D.N.Y.2002); *Chemical Bank v. Affiliated FM Insurance Co.*, No. 87 Civ. 150, 1994 WL 141951, at *11 (S.D.N.Y. April 20, 1994); *Fund of Funds, Ltd. v. Arthur Andersen & Co.*, 435 F.Supp. 84, 95 (S.D.N.Y.), *aff’d in part and rev’d in part on other grounds*, 567 F.2d 225 (2d Cir.1977); *see generally* Kenneth R. Adamo, *Attorney Disqualification in Patent Litigation*, 1 Alb. L.J. Sci. & Tech. 177, 194–98 (1991). This principle is based on the rationale that “if the rule was otherwise, an ‘attorney could always convert a present client into a “former client” by choosing when to cease to represent the disfavored client.’” *Ehrich*, 210 F.R.D. at 25 (quoting *Unified Sewerage*, 646 F.2d at 1345 n. 4); *see also* *Chemical Bank*, 1994 WL 141951, at *11. More colloquially, this is referred to as the “hot potato” rule, which holds that counsel may not avoid a disqualifying conflict by dropping the less desirable client like a “hot potato.” *See Abubakar v. County of Solano*, No. Civ. S–06–2268, 2008 WL 336727, at *4 (E.D.Cal. Feb. 4, 2008); *ValuePart, Inc. v. Clements*, No. 06 C 2709, 2006 WL 2252541, at *2 (N.D.Ill. Aug. 2, 2006); *Universal City Studios, Inc. v. Reimerdes*, 98 F.Supp.2d 449, 453 (S.D.N.Y.2000); *Chemical Bank*, 1994 WL 141951, at *11; *Picker International Inc. v. Varian Associates, Inc.*, 670 F.Supp. 1363, 1365–66 (N.D. Ohio 1987), *aff’d*, 869 F.2d 578 (Fed.Cir.1989).

[8] ProThera seems to suggest that such reasoning does not apply here because, rather than seeking to withdraw from representing Merck, FLH was terminated. (ProThera Sur-Reply at 6 n. 4). But the rule requiring a conflict to be judged by the concurrent representation standard even after representation has ended should not turn on whether representation is terminated by conflicted counsel or by the client. Otherwise, counsel could simply persist in dual representation until one client or the other capitulates. Counsel should not be rewarded for delaying resolution of a conflict issue by being accorded a less demanding disqualification standard. Accordingly, the higher standard for concurrent representation applies in this case.

*210 2. *The Attorney–Client Relationship*

[9] The appropriate standard of analysis depends not only on whether the representation is concurrent or successive, but also on the quality of the attorney-client relationship. A strict standard “is properly imposed when a lawyer undertakes to represent two adverse parties, both of which are his clients in the traditional sense.” *Glueck v. Jonathan Logan, Inc.*, 653 F.2d 746, 749 (2d Cir.1981). Where the attorney-client relationship is attenuated, it may be appropriate to use a more relaxed standard. Thus, in *Glueck*, the court determined that the substantial relationship test would apply to whether the law firm representing an association could also represent a party in a case against an association member. *Id.* at 749–50; *see also* *British Airways, PLC v. Port Authority of New York and New Jersey*, 862

F.Supp. 889, 894–95 (E.D.N.Y.1994) (finding that “courts in this circuit will apply the ‘substantial relationship’ test, and will shun the per se or prima facie standard, when the client seeking disqualification is only a ‘vicarious’ client”); *Chemical Bank*, 1994 WL 141951, at *18 (applying substantial relationship test where representation did not amount to “traditional” attorney-client relationship).

[10] “The formation of an attorney-client relationship hinges upon the client’s [reasonable] belief that he is consulting a lawyer in that capacity and his manifested intention to seek professional legal advice.” *Diversified Group, Inc. v. Daugerdas*, 139 F.Supp.2d 445, 454 (S.D.N.Y.2001) (internal quotation marks and citation omitted); see also *Knigge v. Corvese*, No. 01 Civ. 5743, 2001 WL 830669, at *3 (S.D.N.Y. July 23, 2001). No special formality is required to demonstrate the establishment of the relationship. See *Knigge*, 2001 WL 830669, at *3; *Catizone v. Wolff*, 71 F.Supp.2d 365, 368 (S.D.N.Y.1999). Rather, courts in this jurisdiction have generally relied on six factors to determine whether an attorney-client relationship exists:

- 1) whether a fee arrangement was entered into or a fee paid;
- 2) whether a written contract or retainer agreement exists indicating that the attorney accepted representation;
- 3) whether there was an informal relationship whereby the attorney performed legal services gratuitously;
- 4) whether the attorney actually represented the individual in

- one aspect of the matter (e.g., at a deposition);
- 5) whether the attorney excluded the individual from some aspect of [the] litigation in order to protect another (or a) client’s interest;
- 6) whether the purported client believes that the attorney was representing him and whether this belief is reasonable.

Medical Diagnostic Imaging, 542 F.Supp.2d at 307 (quoting *First Hawaiian Bank v. Russell & Volkening, Inc.*, 861 F.Supp. 233, 238 (S.D.N.Y.1994)); see also *Leslie Dick*, 2009 WL 2190207, at *8 (citing same six-factor test). Here, ProThera contends that there was no traditional attorney-client relationship between Merck and FLH and that the per se test for disqualification therefore does not apply. (Memorandum of Law in Opposition to Merck’s Motion to Disqualify Frommer Lawrence & Haug LLP as Counsel for Defendant ProThera (“Def. Memo.”) at 9–10).

But ProThera’s argument fails to take into account how this test must be construed in the context of joint representation. See *In re Regents of University of California*, 101 F.3d 1386, 1389 (Fed.Cir.1996) (“When the same attorney represents the interest of two or more entities on the same matter, those represented are viewed as joint clients for the purposes of privilege.”); *211 *American Steamship Owners Mutual Protection and Indemnity Association, Inc. v. Alcoa Steamship Co.*, 232 F.R.D. 191, 197–98 (S.D.N.Y.2005) (discussing cases finding corporate directors to be joint clients); *Jordan (Bermuda) Investment Co. v. Hunter Green Investments Ltd.*, No. 00

Civ. 9214, 2005 WL 525447, at *1 (S.D.N.Y. March 4, 2005) (finding no waiver of privilege where information shared among joint clients); *Bass Public Ltd. v. Promus Cos.*, No. 92 Civ. 969, 1994 WL 9680, at *8 (S.D.N.Y. Jan. 10, 1994) (finding pre-merger entities to be joint clients of law firm); *Zackiva Communications Corp. v. Milberg Weiss Bershad Specthrie & Lerach*, 1995 WL 131847, at *2 (N.Y. Sup. Ct. Jan. 26, 1995) (slip op.) (discussing privilege as between shareholders as joint clients of firm). Where counsel is engaged by two or more clients to represent them jointly in a matter, it is unrealistic to expect that each client will necessarily execute a separate retainer agreement, communicate with counsel independently, or provide individual payment for services rendered. It is at least equally likely that one representative will interact with the attorney on behalf of all of the clients. Where, for example, a husband and wife are engaged in a transaction with a third party concerning marital property, an attorney would generally understand that she represents both spouses, even if only one deals with the attorney in connection with the matter. Where one spouse establishes and effectuates the attorney-client relationship, it is understood that this is done on behalf of the other as well.

[11] [12] Likewise, where two parties are jointly prosecuting a patent application, they are commonly considered to be joint clients. See *Beasley v. Avery Dennison Corp.*, No. SA-04-CA-0866, 2006 WL 2854396, at *4 (W.D. Tex. Oct. 4, 2006); *Hillerich & Bradsby Co. v. MacKay*, 26 F.Supp.2d 124, 126 (D.D.C. 1998).

Courts have long recognized the existence of the attorney-

client relationship among clients and attorneys allied in a common legal cause. Typically, parties jointly developing a patent with an attorney commonly have a “common legal interest” in obtaining the greatest protection and in exploiting the patents. The parties thereby develop a “community of interest,” which establishes a joint attorney-client relationship among them and the attorney. In this respect, when a community of interest exists, courts have viewed those represented as “joint clients” for the purpose of privilege.

Hillerich & Bradsby, 26 F.Supp.2d at 126 (citations omitted).⁴

[13] Here, there is no dispute that Bayer and Merck intended to file joint patent applications and that Bayer engaged FLH to prosecute those applications. It was therefore reasonable for *212 Bayer and Merck to understand that they were joint clients of FLH even though Bayer alone dealt with FLH, who had represented it in prior matters. When Bayer communicated with FLH, it did so on behalf both of itself and of Merck. (Hartmann Letter at 1). As substantive examination of the patent applications began, Merck anticipated further communications with Bayer and also with FLH directly. (Katz Decl., ¶¶ 13–14). Dr. Moser, one of the inventors and an employee of Merck,

provided to FLH a power of attorney and an assignment of his rights to Bayer and Merck to be used in connection with the applications. (Moser Decl., ¶¶ 8–10).⁵

The cases cited by ProThera do not undermine the conclusion that there was joint representation. In both *Sun Studs*, 772 F.2d at 1567–69, and *Comtech*, 1986 WL 6829, at *1–3, for example, the court found that there was no conflict of interest when a firm that had represented an assignee in a patent application subsequently represented the assignee against the inventors who had assigned their rights. In neither of those cases, however, were inventors co-owners of the patents, as Bayer and Merck are here. See *Sun Studs*, 772 F.2d at 1564 (noting that title to all patents was assigned to Sun Studs); *Comtech*, 1986 WL 6829, at *1 (finding that inventors assigned all rights to Comtech). Those cases, therefore, provide no guidance with respect to the issue of joint representation for co-owners of patent rights.

Bayer and Merck, then, were both clients of FLH “in the traditional sense.” *Chemical Bank*, 1994 WL 141951, at *13. Accordingly, the per se rule applies, and FLH must be disqualified unless it can demonstrate that there is “no actual or apparent conflict in loyalties” and that the vigor of its representation would not be diminished. *Hempstead Video*, 409 F.3d at 133 (quoting *Cinema 5*, 528 F.2d at 1387). This it cannot do, primarily because of the close connection between the subject matter of the patent application and this litigation.

3. Potential Taint

[14] The gravamen of Merck's complaint in this case is that ProThera mislabels its product as L–5–MTHF when, in fact, it is the diastereoisomeric mixture, 5–MTHF, and therefore unfairly competes with Merck's Metafolin product, which is “pure” L–5–MTHF. Accordingly, even though this is an unfair competition case, the therapeutic characteristics of these compounds are central to the claims. The uniqueness of L–5–MTHF is an important element of Merck's argument that its product and ProThera's are distinct in material ways and that ProThera's labeling is therefore misleading. So too, the unique properties of L–5–MTHF are critical to the patent applications. Its characteristics are plainly relevant to the patent claims asserted and the ultimate patentability of the drugs for which Merck and Bayer seek patent protection.

This highlights the conflicted position in which FLH finds itself. On one hand, in the patent prosecution, it is in the interest of Merck (as represented by FLH) to establish that only L–5–MTHF can serve certain therapeutic purposes. On the other hand, in this litigation, ProThera (also *213 represented by FLH) argues that 5–MTHF is interchangeable with L–5–MTHF except with respect to dosage since, in its view, the D–5–MTHF component in 5–MTHF is inert.

The close relationship between the patent prosecution and this case has two significant legal consequences. First, ProThera cannot establish the necessary predicate for escaping disqualification under the per se rule. Second, even if the per se rule did not apply because FLH's representation of Merck is considered merely indirect or attenuated, disqualification

would still be appropriate because of the substantial nexus between the matters in which FLH represents adverse interests. *See British Airways*, 862 F.Supp. at 894–95; *Chemical Bank*, 1994 WL 141951, at *18.

4. Remaining Considerations

[15] In the absence of a direct conflict of interest, courts may exercise discretion in determining whether to disqualify counsel on the basis of a violation of ethical principles. *See Purgess v. Sharrock*, 33 F.3d 134, 144 (2d Cir.1994) (finding disqualification discretionary in context of lawyer's statement being presented as evidence); *Evans*, 715 F.2d at 791 (stating that Second Circuit has not hesitated to disqualify counsel “when the circumstances warranted it”); *Blue Planet Software*, 331 F.Supp.2d at 277. However, where the per se rule applies, as it does here, that discretion, if it exists at all, is narrowly confined. Nevertheless, I will address the factors that would inform the exercise of any discretion here.

a. Tactical Advantage

ProThera argues that Merck's motion should be denied because it was interposed for tactical reasons, as demonstrated by the timing of the motion and the absence of any taint arising from the dual representation. (Def. Memo. at 18–20). Merck's motion was indeed somewhat delayed. Based on the imputed knowledge of its counsel, Merck learned on February 6, 2009 that FLH was representing ProThera in this case. And, of course, Merck knew at that time

that FLH was also representing it in the patent applications. Yet, it did not advise FLH of its intention to file the instant motion until May 8, 2009.

[16] There is, however, an entirely reasonable explanation for this delay. While Merck's counsel immediately became aware of FLH's representation of ProThera, that counsel had no reason to know that FLH was simultaneously representing Merck in the patent proceedings. (Furger Decl., ¶ 13). On the other hand, business executives at Merck knew that FLH was prosecuting the patents but did not realize that FLH had undertaken representation of ProThera. (Furger Decl., ¶ 13). Only when an attorney for Merck in this proceeding discovered that FLH had listed Merck as a client on its website, did counsel engage in the research necessary to identify the conflict. (Declaration of Robert E. Hanlon dated June 5, 2009, ¶¶ 7–8). The delay, then, is not indicative of sharp tactics.

Likewise, tactical motivations cannot be inferred from an absence of taint in the proceedings thus far. As discussed above, the significant relationship between the patent applications and this litigation make it likely that dual representation would indeed taint these proceedings.

b. Prejudice

[17] ProThera will, of course, suffer some additional cost and delay if FLH is disqualified. Certain factors, however, mitigate that prejudice. First, FLH only recently appeared in this case; this is not a

situation where counsel who have been the exclusive attorneys throughout a litigation are disqualified on the eve of trial. Second, while ProThera expresses concern *214 that it is being deprived of counsel who are expert in the law of trademark and unfair competition, Joshua King of Graybeal Jackson LLP, who has represented ProThera since the inception of the case, also specializes in this subject matter. (Declaration of Robert E. Hanlon dated June 26, 2009, ¶ 3 & Exh. A). Third, to the extent that ProThera requires additional time to engage additional counsel, it will be granted that consideration.

Thus, even if these considerations are properly addressed in a case of a direct conflict, they do not overcome the factors favoring disqualification in this instance.

C. Status of Dr. Rosenberg

In view of the fact that disqualification is warranted on the basis of dual representation by FLH, there is no need to address Dr. Rosenberg's status as a scientific advisor for FLH.

Conclusion

For the reasons set forth above, Merck's motion is granted, and FLH is relieved as counsel for ProThera.

SO ORDERED.

All Citations

670 F.Supp.2d 201

Footnotes

- 1 Previously, lawyers in New York were subject to the New York Code of Professional Responsibility and its Disciplinary Rules (the "Old Rules"), which were based in turn on the American Bar Association Model Code of Professional Responsibility (the "Model Code"). In 1983, the ABA replaced its Model Code with the Model Rules, but New York did not immediately adopt the Model Rules. Instead, New York retained the Old Rules until April 1, 2009, when it replaced them with the New York Rules of Professional Conduct (the "New Rules"). N.Y. Comp.Codes R. & Regs. tit. 22, § 1200 *et seq.* (2009); see *Leslie Dick*, 2009 WL 2190207, at *5 n. 14. Although the New Rules conform in format to the Model Rules, New York has retained the substance of some of the Old Rules, even where they deviate from the Model Rules. For ease of reference, I will refer here both to the New Rules and to the Old Rules, since the latter are cited in all cases decided before the adoption of the New Rules.
- 2 This rule is substantively similar to Canon 5, Disciplinary Rule ("DR") 5-105(A)-(B), and DR 5-101 of the Old Rules.
- 3 This is analogous to Canon 4 and DR 4-101 of the Old Rules.
- 4 Unfortunately, joint representation is frequently confused with the "common interest" doctrine, also known as the "joint defense" doctrine. See *Jordan (Bermuda) Investment Co.*, 2005 WL 525447, at *1 (distinguishing joint representation from common interest doctrine); 24 Charles Alan Wright & Kenneth W. Graham, Jr., *Federal Practice and Procedure* § 5505 at 555-56 (1986) (discussing distinction). The common interest doctrine "permits the disclosure of a privileged communication without waiver of the privilege provided the party claiming an exception to waiver demonstrates that the parties communicating: (1) have a common legal, rather than commercial, interest; and (2) the disclosures are made in the course of formulating a common legal strategy." *Sokol v. Wyeth, Inc.*, No. 07 Civ. 8442, 2008 WL 3166662, at *5 (S.D.N.Y. Aug. 4, 2008) (citing *Bank Brussels Lambert v. Credit Lyonnais (Suisse) S.A.*, 160 F.R.D. 437, 447 (S.D.N.Y.1995)). In such a situation, the parties are not joint clients and may have separate counsel. This confusion does not detract, however, from the general principle that parties may, and often do, elect joint representation, specifically in the context of the joint ownership of patents.

- 5 Provision of the power of attorney did not, by itself, create any attorney-client relationship between Merck and FLH. See *Sun Studs, Inc. v. Applied Theory Associates, Inc.*, 772 F.2d 1557, 1568 (Fed.Cir.1985); *Comtech, Inc. v. Reuter*, No. 86 CV 0478, 1986 WL 6829, at *2 (E.D.N.Y. March 18, 1986). However, the power of attorney, along with the assignment of rights by a Merck employee to both Bayer and Merck, should have been an indication to FLH that FLH was acting on behalf of both co-owners.

End of Document

© 2015 Thomson Reuters. No claim to original U.S. Government Works.

727 F.Supp.2d 469
United States District Court,
E.D. Virginia,
Richmond Division.

SUNBEAM PRODUCTS, INC. d/b/a
Jarden Consumer Solutions, Plaintiff,

v.

HAMILTON BEACH BRANDS,
INC., et al., Defendants.

Civil Action No.

3:09cv791. | July 22, 2010.

Synopsis

Background: Patentee filed patent infringement action against competitor. Competitor moved to disqualify patentee's law firm.

[Holding:] The District Court, Robert E. Payne, Senior District Judge, held that attorney's prior representation of alleged infringer disqualified his current law firm from representing patentee.

Motion granted.

West Headnotes (4)

[1] Attorney and Client

⇌ Representing Adverse Interests

Attorney and Client

⇌ Disqualification proceedings;
standing

Under Virginia law, disqualification of attorney is serious matter that cannot be based on imagined scenarios of conflict, and moving party has high standard of proof to meet in order to prove that counsel should be disqualified.

Cases that cite this headnote

[2] Attorney and Client

⇌ Disqualification in general

Under Virginia law, party's right to choose counsel is secondary in importance to court's duty to maintain highest ethical standards of professional conduct to insure and preserve trust in bar's integrity.

Cases that cite this headnote

[3] Attorney and Client

⇌ Disqualification proceedings;
standing

Under Virginia law, once attorney-client relationship has been established, irrebuttable presumption arises that confidential information was conveyed to attorney in prior matter; party moving for disqualification of attorney in successive representation context does not have evidentiary burden of showing actual disclosure of confidences.

1 Cases that cite this headnote

[4] Attorney and Client

← Patent law

Attorney and Client

← Partners and associates

Under Virginia law, attorney's prior representation of alleged infringer in litigation and patent applications involving accused product disqualified his current law firm from representing patentee in patent infringement action, even though attorney did not perform any work in current litigation and there was no evidence that he disclosed confidential information to firm members, where attorney had analyzed prior art for application that he drafted for accused product, performed non-infringement analysis as part of process, and had unrestricted access to alleged infringer's files. Va.Rules of Prof.Conduct, Rules 1.9(a), 1.10(a).

1 Cases that cite this headnote

Attorneys and Law Firms

*470 Paul Gennari, Paul D. Lall, Tremayne Norris, Steptoe & Johnson, LLP, Washington, DC, Jennifer Lynn Travers, Thomas Pasternak, Steptoe & Johnson LLP, Chicago, IL, for Plaintiff.

Brian Charles Riopelle, John Lee Newby, II, Robert Michael Tyler, McGuirewoods LLP, Richmond, VA, Robert Emmett Scully, Jr., Eric Gordon Wright, Stites & Harbison, PLLC,

Alexandria, VA, Daniel Miles Cislo, Mark David Nielsen, Cislo & Thomas LLP, Santa Monica, CA, for Defendants.

MEMORANDUM OPINION

ROBERT E. PAYNE, Senior District Judge.

This matter is before the Court on Defendant HOMELAND HOUSEWARES, LLC'S MOTION TO DISQUALIFY STEPTOE & JOHNSON LLP (Docket No. 96).¹ For the reasons that follow, the motion will be granted.

BACKGROUND

The Plaintiff, Sunbeam Products, Inc. ("Sunbeam") asserts claims for infringement of two patents against the Defendants, Hamilton Beach Brands, Inc. ("Hamilton Beach"), Homeland Housewares, LLC ("Homeland"), Alchemy Worldwide, LLC ("Alchemy"), and Back to Basics Products, LLC ("Back to Basics"). The patents relate to vessels that attach to blending bases whereby blended contents may be consumed, with the aid of a "drinking cap," directly from the vessel after blending.

The Court, in a recent Memorandum Opinion, denied Homeland's Motion to Stay the Litigation Pending Inter Partes Reexamination. *Sunbeam Prods. v. Hamilton Beach Brands, Inc.*, No. 3:09CV791, 2010 WL 2421431, 2010 U.S. Dist. LEXIS 45654 (E.D.Va. May 7, 2010). Claim construction briefs have been filed, and discovery is underway. During the

course of these proceedings, Homeland learned that Steptoe & Johnson, Sunbeam's counsel, employs an attorney named Andrew Chen who, while previously employed by Cislo & Thomas, Homeland's counsel, represented *471 Homeland in litigation and patent applications involving its Magic Bullet® product, a product accused by Sunbeam of infringing Sunbeam's patents-in-suit.

A review of Chen's 2004 timesheets while employed at Cislo & Thomas shows that he drafted a Complaint against TriStar Products, alleging infringement of patents embodied in Homeland's Magic Bullet product. *See Homeland Housewares LLC v. TriStar Products Inc.*, No. 2:04-cv-02831 (C.D.Cal.2004). His work on the *TriStar* litigation included conducting a pre-filing investigation of TriStar's product, preparing a cease-and-desist letter to TriStar, researching a possible temporary restraining order and preliminary injunction, and preparing correspondence to Homeland about the status of its intellectual property portfolio.

Chen's timesheets also show that he “[p]repar[ed] electronic images of new Magic Bullet embodiments, prepared instructions for draftsmen in connection with new drawings for bullet mugs and shaker attachments for the Magic Bullet,” and “prepar[ed a] prior art search request letter regarding mug embodiments.” His work also involved “[p]reparing correspondence to client regarding pending Magic Bullet Matters,” “[a]nalyzing various embodiments of mugs and caps to determine scope of coverage,” “analyzing prior art references in view of client's mug embodiments, [and] initiat[ing] [a]

preliminary patentability opinion letter.” Chen prepared utility and design patents respecting the accused product, and he performed analysis of the prior art, some of which is being pressed by Homeland in this case as part of its invalidity defense. Chen prepared a patentability opinion as to the accused product when he prepared patent applications for Homeland, and those opinions were given to Homeland in formal opinion letters. He prepared two Petitions to Make Special regarding two Homeland Patents related to the Magic Bullet, prepared a design patent application related to the Magic Bullet, and conducted a phone interview with a patent examiner about one of these patents.

Chen is not performing any work for Sunbeam in the present action. Nor does it appear that he has performed any work for Sunbeam during his tenure at Steptoe & Johnson.

Homeland's argument for disqualification requires the application of two of the Virginia Rules of Professional Conduct (VRPC). First is Rule 1.9(a), which prohibits “[a] lawyer who has formerly represented a client in a matter,” from “thereafter represent[ing] another person in the same or a substantially related matter” when the present and former client's “interests are materially adverse.” Second is Rule 1.10, which precludes any lawyer in a firm from representing a client when any other lawyer in that firm would be barred from representation under Rule 1.9. Thus, contends Homeland, because Chen could not represent Sunbeam without violating Rule 1.9, no member of Steptoe & Johnson can represent Sunbeam in accordance with Rule 1.10(a).

APPLICABLE LAW

According to Local Rule 83(I) for the Eastern District of Virginia, “[t]he ethical standards relating to the practice of law in civil cases in this Court shall be the Virginia Rules of Professional Conduct, as published in the version effective January 1, 2000.” Although a proposed amendment would replace the language “as published in the version effective January 1, 2000” with “as currently in effect,” the Court continues to operate under the rules as published on January 1, 2000. It does not appear, however, that any discrepancy between the rules as enacted ten years ago *472 and the rules as they stand today has any impact on the issues now before the Court.

[1] “Disqualification of an attorney ‘is a serious matter which cannot be based on imagined scenarios of conflict, and the moving party has a high standard of proof to meet in order to prove that counsel should be disqualified.’ ” *Kronberg v. LaRouche*, 2010 WL 1443898, 2010 U.S. Dist. LEXIS 35097 (E.D.Va. Apr. 9, 2010) (quoting *In re Stokes*, 156 B.R. 181, 185 (Bankr.E.D.Va.1993)). See *Aetna Cas. & Surety Co. v. United States*, 570 F.2d 1197, 1200 (4th Cir.1978) (requiring the existence of an “actual conflict” as defined by the ethical rules before disqualification is proper); *Shaffer v. Farm Fresh, Inc.*, 966 F.2d 142, 145 (4th Cir.1992) (observing that “disqualification ... may not be rested on mere speculation” about a conflict of interest). “The high standard of proof is fitting in light of the party's right to freely choose counsel, and the consequent loss of time and money incurred in being compelled to retain new

counsel.” *Tessier v. Plastic Surgery Specialists, Inc.*, 731 F.Supp. 724, 730 (E.D.Va.1990) (citations omitted). Disqualification questions are necessarily case-specific and fact-intensive, and reject the “ ‘mechanical’ application of disciplinary rules, [] instead seek[ing] analysis of the harm to the actual parties before the court.” *Rogers v. Pittston Co.*, 800 F.Supp. 350, 353 (W.D.Va.1992).

[2] Yet, a party's right to choose counsel “is ‘secondary in importance to the Court's duty to maintain the highest ethical standards of professional conduct to insure and preserve trust in the integrity of the bar.’ ” *Tessier*, 731 F.Supp. at 730 (citations omitted). Our Court of Appeals has directed that ethical rules are not to be applied “with hair-splitting nicety,” but, rather, “with the view of preventing ‘the appearance of impropriety,’ [the Court] is to resolve all doubts in favor of disqualification.” *Sanford v. Virginia*, 687 F.Supp.2d 591, 602 (E.D.Va.2009) (quoting *United States v. Clarkson*, 567 F.2d 270, 273 n. 3 (4th Cir.1977)).

As to the specific rules at issue here, VRPC Rule 1.9 governs the propriety of representation when a current client's interest may conflict with that of a former client. Rule 1.9(a) covers a lawyer who previously represented a client. In essence, when a lawyer has previously represented Client A, he may not represent Client B in “a substantially related matter in which [Client A]'s interests are materially adverse to the interests of [Client B] unless both the present and former client consent after consultation.” Rule 1.9(b) provides that, when a lawyer's *firm* has previously represented Client A, and the lawyer leaves that firm,

he may not thereafter represent Client B against Client A when the parties' interests are materially adverse *and* the lawyer had acquired confidential, material information about Client A.

[3] The key to assessing “the question of attorney disqualification in the successive representation context” is assessing the substantiality of the relationship between the present and the prior representation. *Tessier*, 731 F.Supp. at 730. An attorney-client relationship with the past client is, of course, a predicate to the consideration of a conflict. *Id.* And, “once an attorney-client relationship has been established, an irrebuttable presumption arises that confidential information was conveyed to the attorney in the prior matter;” the moving party does not have the evidentiary burden of showing actual disclosure of confidences. *Id.* at 731. Where, as here, an attorney-client relationship was formed, and the interests of the past and former clients are materially adverse, then disqualification turns solely on whether the past and present representation are substantially related.

*473 Examples of a substantial relationship in the commentary to Rule 1.9 instruct that “a lawyer could not properly seek to rescind on behalf of a new client a contract drafted on behalf of the former client,” nor could “a lawyer who has prosecuted an accused person [] properly represent the accused in a subsequent civil action against the government concerning the same transaction.” VRPC Rule 1.9 n. 1. Other commentary suggests that a lawyer's degree of involvement in the prior representation bears upon the substantiality of the relationship. *See id.* n. 2 (“The underlying

question is whether the lawyer was so involved in the matter that the subsequent representation can be justly regarded as a changing of sides in the matter in question.”).

Decisional law teaches that a substantial relationship is found when the subject matter of the two representations is “identical” or “essentially the same.” *Tessier* 731 F.Supp. at 730; *Rogers* at 353. But the test encompasses more than situations in which the issues are indistinguishable; “if the lawyer could have obtained confidential information in the first representation that would have been relevant in the second,” *Tessier*, at 730, then the matters are considered to be substantially related.

In the intellectual property context, “[a] number of cases [that] involve two different patents or trademarks, but with some colorable connection between the technologies, businesses or marks,” have been compared, in the disqualification context, to determine whether they are substantially related. Samuel C. Miller III, *Ethical Considerations in Rendering Patent Opinions*, 88 J. Pat. & Trademark Off. Soc'y 1019, 1041–42 (2006). “Sometimes a substantial relationship has been found, sometimes not. In the main, these cases are fact-bound evaluations of the degree of risk perceived by the court that a former client's secrets will be revealed or used in a later action.” *Id.*

Identity of the intellectual property at issue is not dispositive; substantial relatedness must encompass the underlying legal issues. In a relatively recent case in the Western District of Virginia, the court found that trade secrets, the substance of which may have been revealed

to a law firm while it represented M-CAM, were not substantially related to a later claim in which M-CAM sued a defendant that a law firm represented, because the latter case did “not revolve around the content or the interpretation of the information,” but rather “whether [the defendant] misappropriated that information.” *M-CAM, Inc. v. D’Agostino*, No. 3:05cv6, 2005 WL 2413109, 2005 U.S. Dist. LEXIS 45290, at *4–5. Still, other district courts within the Fourth Circuit have observed, in the patent context, that “in order to show a substantial relationship, ‘it is not necessary that two lawsuits involve the same operative facts, so long as there is a sufficient similarity of issue.’ ” *Plant Genetic Sys., N.V. v. Ciba Seeds*, 933 F.Supp. 514, 518 (M.D.N.C.1996) (quoting *Buckley v. Airshield Corp.*, 908 F.Supp. 299, 304 (D.Md.1995)). “The Court’s focus must properly be on the litigation issues in the prior and present action” or representation. *Buckley*, at 306.

When all of the elements of a conflict of interest under 1.9(a) are established as to a lawyer, VRPC Rule 1.10(a) mandates, without exception, imputation of that conflict to the entire firm. Although this imputation may be ameliorated if the conflicted lawyer leaves the firm (e.g., if Chen, hypothetically, had left the firm last week), *LifeNet, Inc. v. Musculoskeletal Transplant Foundation*, 2007 WL 1169191, 2007 U.S. Dist. LEXIS 29058 (E.D.Va. Apr. 19, 2007), imputation applies so long as the lawyer remains with the firm. Thus, the *474 inescapable impact of Rule 1.10(a) is that a firm cannot represent a client in litigation if any member of the firm previously has represented any party directly adverse to that client in the litigation, when the subject

matter of the past representation and the present litigation are “substantially related.”

DISCUSSION

To ensure that the analysis begins on the proper analytical footing, Rule 1.9(a), and not 1.9(b), appears to be the source of the alleged conflict of interest. Homeland does not assert conflict on the basis of Chen gaining specific information because of his *firm’s* representation involving the Magic Bullet, but rather on the basis of Chen’s own representation of Homeland. In sum, Homeland asserts that Chen’s work “on clearing, protecting, and enforcing intellectual property rights to the MAGIC BULLET blender product” bears a substantial relationship to the issues in the present litigation.

Sunbeam concedes the existence of a prior attorney-client relationship between Chen and Homeland. Sunbeam also does not dispute that any conflict attributed to Chen is imputed to the entire firm of Steptoe & Johnson. And Sunbeam could not, of course, argue that its interests are not adverse to Homeland’s. Sunbeam thus agrees that the dispositive issue is whether Steptoe’s current representation of Sunbeam is substantially related to Chen’s prior representation of Homeland while he was at Cislo & Thomas.

Sunbeam informs the Court that, as part of the firm’s standard conflict review procedures before the Complaint was filed, the leader of Steptoe & Johnson’s Intellectual Property Practice (Alfred Mamlet) identified the potential conflict and spoke to Chen about

his prior representation of Homeland, and concluded that it was “not the same or substantially related.” Mamlet Decl. ¶ 9. In support of this conclusion, Mamlet relates that “Mr. Chen had not conducted a ‘freedom to operate’ study, analyzed a Sunbeam assertion letter, or otherwise engaged in work on the Sunbeam patents that would be asserted in the case. Moreover, Sunbeam’s infringement action did not challenge or even implicate Homeland Housewares’ patents.” *Id.*

Sunbeam also argues that Chen does not recollect any material information about the Homeland patents, although it does acknowledge his work relating to the Magic Bullet. Sunbeam asserts that, as a third-year associate at the time, Chen was not involved in developing litigation strategy. However, these arguments do not undermine the substantial relatedness of the subject matter of the past representation to the present action. Even if, as is asserted, Chen did not have considerable contact with Homeland clients while at Cisló & Thomas, that does not mean he did not receive client confidences from the partners who did speak directly to clients. Thus, the “irrebuttable presumption” arises, *Tessier*, 731 F.Supp. at 731, that confidential information was exchanged when, as here, a prior attorney-client relationship existed.

Here, the appearance of impropriety that Rules 1.9(a) and 1.10(a) target is obvious. Based on the extensive, wide-ranging activities that Chen himself documented on his timesheets, Chen was in position to have significant inside information on a range of patent issues surrounding the allegedly infringing Magic Bullet product and its patentability.

There is no doubt that Chen “could have obtained confidential information in the first representation,” on behalf of Homeland, “that would [be] relevant in the second,” Steptoe & Johnson’s representation of Sunbeam. *Tessier*, 731 F.Supp. at 730.

*475 [4] Sunbeam relies on a number of cases from outside the Fourth Circuit in which district courts have parsed the issues in the prior and current representations finely so as to distinguish the two representations and declare them not to be substantially related. *See, e.g., Power Mosfet Techs. v. Siemens AG*, 2002 WL 32785219, 2002 U.S. Dist. LEXIS 27557 (E.D.Tex. Sept. 30, 2002) (declining to disqualify counsel despite extensive overlap between prior and former representations because the issues involved in the two representations were distinguishable in some ways); *Lemelson v. Synergistics Research Corp.*, 504 F.Supp. 1164, 1167 (S.D.N.Y.1981) (finding no conflict after rejecting the view, embraced in the Eastern District of Virginia, that “an irrebuttable presumption of receipt of confidential information” arises from an attorney’s prior representation). These authorities neither control nor persuade the Court to engage in the sort of “hair-splitting,” which the Fourth Circuit expressly has said cannot be done. *Clarkson*, 567 F.2d at 273 n. 3. Even if the decisions relied on by Sunbeam were not contrary to controlling circuit law, their persuasive authority would be minimal, given the numerous cases that have found a substantial relationship when the subject matter of patents overlapped as extensively as is the case here and where, as here, the lawyer’s work goes directly to issues that are central to the subjects in the successive representation.

See e.g., *Thorner v. Sony Computer Entm't Am., Inc.*, 2009 WL 4041624, 2009 U.S. Dist. LEXIS 108422 (D.N.J. Nov. 20, 2009) (finding substantial relatedness when the attorney's prior representation involved "prosecution of patents involving technology that is related to ... patents" that the attorney alleged were infringed in his then-extant representation); *Cameron Iron Works, Inc. v. Hydril Co.*, 1980 WL 30294, 1980 U.S. Dist. LEXIS 16489, 208 U.S.P.Q. 672 (S.D.Tex.1980) (disqualifying an attorney under similar circumstances). Sunbeam's citations may demonstrate the fact-specific nature of the inquiry, but they do not provide compelling arguments against disqualification in the case at bar.

On this record, the substantial relationship has been clearly shown between the prior and successive representations. Chen was involved in patent prosecution work for the accused product. He analyzed prior art for the application that he drafted for the accused product. He performed a non-infringement analysis as part of the process. He had unrestricted access to Homeland's files at Cisko & Thomas.

It appears quite clear that Chen's work in analyzing prior art for the patent related work on the Magic Bullet bears a substantial relationship to issues in this case that involve prior art. Sunbeam used the Homeland patents for the Magic Bullet as evidence in the claim construction process. That also tends to support a substantial relationship finding. In sum, Homeland has established the substantial relationship, and disqualification must follow.

The rules that safeguard the integrity of the judicial process and the protection of clients' confidences do not countenance the appearance of impropriety, and disqualification decisions must foster public confidence in the ethics of the Court and the bar. Thus, even if, as Sunbeam contends, the question was a close one (which it is not), the rules require that doubts be resolved in favor of disqualification. Because of the difficulty, if not impossibility, of proving what client confidences were made known to the lawyer, the law does not require a party moving for disqualification to make any showing of exchanged confidences, but rather irrebuttably presumes such exchange of confidences in any attorney-client relationship. Nor does the *476 law require a showing that Chen communicated with other Steptoe & Johnson attorneys about issues that arose in his prior representation of Homeland. In the successive representation context, the rules guard against the possibility of impropriety by prohibiting the kind of scenarios that would enable impropriety most easily to occur.

And, as Homeland asserts, "any prejudice to Sunbeam is of its own counsels' making." If Steptoe had thoroughly undertaken to understand the scope and impact of Chen's prior representation under VRPC Rules 1.9 and 1.10, it is difficult to believe that it would have accepted representation in this action.

CONCLUSION

For the reasons set forth above, Steptoe should be disqualified, Defendant HOMELAND HOUSEWARES, LLC'S MOTION TO

DISQUALIFY STEPTOE & JOHNSON LLP
(Docket No. 96) will be granted.

All Citations

It is so ORDERED.

727 F.Supp.2d 469, 98 U.S.P.Q.2d 1180

Footnotes

- 1 Homeland has requested that the motion be decided on the papers. Sunbeam did not ask for argument in its supplemental brief (having said that it would do so if it desired further argument). In any event, the issues are adequately briefed and oral argument would not materially aid the decisional process.

End of Document

© 2015 Thomson Reuters. No claim to original U.S. Government Works.

913 F.Supp.2d 900
United States District Court,
C.D. California.

ADVANCED MESSAGING
TECHNOLOGIES, INC., and
J2 Global, Inc., Plaintiffs,
v.
EASYLINK SERVICES
INTERNATIONAL
CORPORATION, Defendant.

Case No. CV 11-04239 DDP
(AJWx). | Dec. 19, 2012.

Synopsis

Background: Plaintiffs moved to disqualify counsel of record for one defendant and to compel discovery in patent infringement cases.

Holdings: The District Court, Dean D. Pregerson, J., held that:

[1] California law governed;

[2] court would presume that attorney hired as outside in-house counsel learned confidential information about plaintiff that was relevant to current cases;

[3] under “Vicarious Presumption Rule,” court would presume that attorney shared plaintiff’s confidential information with firm that was counsel of record;

[4] that presumption was irrebutable; and

[5] no remedy short of disqualification would suffice.

Motion granted in part and denied in part.

West Headnotes (13)

[1] Patents

⇐ What Constitutes Sale

Patents

⇐ Completion of Prior Invention;
“Ready for Patenting” Requirement
On-sale bar affirmative defense invalidates patent if (1) invention at issue had become subject of commercial offer for sale more than one year before filing of patent application and (2) invention was ready for patenting, either by, e.g., having that invention reduced to practice or by preparing drawings or other descriptions of invention that would enable one skilled in art to practice invention.

Cases that cite this headnote

[2] Federal Courts

⇐ Counsel

Federal court in California must apply California law in attorney disqualification motion.

1 Cases that cite this headnote

[3] Attorney and Client

↵ Disqualification proceedings;
standing

Under California law, it is presumed that attorney has relevant confidential information about client if there is substantial relationship between prior representation and current one; in determining whether there is “substantial relationship,” court should first analyze whether there was direct relationship between attorney and former client, and whether that relationship touched issues related to present litigation, emphasizing shared communications in determining whether there was “direct relationship.”

2 Cases that cite this headnote

[4] Attorney and Client

↵ Interests of former clients

Under California law, when attorney had direct contact with client, “substantial relationship” exists if subject of prior representation put attorney in position in which confidences material to current representation would normally have been imparted to counsel, and test is necessarily fact-dependent; courts look to degree of overlap in subject matters, facts or issues to determine whether there is substantial relationship, and subject matter similarity is most important.

2 Cases that cite this headnote

[5] Attorney and Client

↵ Disqualification proceedings;
standing

Under California law, patent infringement cases against a defendant whose outside in-house counsel on intellectual property matters had once represented plaintiff were substantially related to prior cases, and, thus, court would presume that the attorney learned confidential information about plaintiff that was relevant to current cases, even though the patents were altered; nothing required the court to extensively analyze the patents' modifications or do an in-depth comparison of the products since a rational link between the subject matter of the two cases would suffice, and both the attorney's professional experience and the extent of his work for plaintiff were significant.

Cases that cite this headnote

[6] Attorney and Client

↵ Disqualification proceedings;
standing

Under California law, a de minimis level of involvement with a prior case is sufficient for presuming that an attorney acquired confidential information about that prior case.

Cases that cite this headnote

[7] Attorney and Client

↔ Disqualification proceedings;
standing

Under “Vicarious Presumption Rule” of California law, where it is presumed that attorney possesses confidential information, the same must be presumed for his law firm.

Cases that cite this headnote

[8] Attorney and Client

↔ Disqualification proceedings;
standing

Under California law, court would presume that attorney hired as outside in-house counsel by defendant in patent infringement litigation who had previously served as plaintiff's attorney shared plaintiff's confidential information with firm that was defendant's counsel of record; importance of in-house counsel effectively cooperating, coordinating, and communicating with their company's attorneys was self-evident.

Cases that cite this headnote

[9] Attorney and Client

↔ Disqualification proceedings;
standing

Under California law, once there is presumption that law firm possesses confidential information, generally that presumption is irrebutable, and disqualification is compelled.

Cases that cite this headnote

[10] Attorney and Client

↔ Partners and associates

Attorney and Client

↔ Disqualification proceedings;
standing

Under California law, presumption that law firm serving as counsel of record for corporate defendant in patent infringement litigation possessed confidential information shared by outside in-house counsel for defendant who had previously served as attorney for plaintiff was irrebutable; counsel of record did not initiate timely screening and was unaware of conflict until after deposition approximately eight months after conflicted counsel began serving as defendant's outside in-house counsel.

Cases that cite this headnote

[11] Attorney and Client

↔ Disclosure, waiver, or consent

Attorney and Client

↔ Partners and associates

Under California law, no remedy short of disqualification of law firm serving as counsel of record for corporate defendant in patent infringement litigation would suffice where conflict waiver was not obtained from plaintiff who was outside in-house counsel's former client, no ethical wall was enacted around attorney who worked for plaintiff before engaging in work

for defendant, and conflict was not collateral to subject matter of case.

Cases that cite this headnote

[12] Attorney and Client

↔ Disqualification proceedings; standing

Under California law, motions to disqualify are not about punishing guilty parties; they are primarily about preserving public trust in scrupulous administration of justice and integrity of bar.

1 Cases that cite this headnote

[13] Patents

↔ In general; utility

US Patent 6,208,638, US Patent 6,350,066, US Patent 6,597,688. Cited.

Cases that cite this headnote

Attorneys and Law Firms

*902 Brian R. England, Edward Eric Johnson, Jopei Shih, Robert A. Sacks, Sullivan and Cromwell LLP, Los Angeles, CA, Frank L. Bernstein, Kenyon & Kenyon LLP, Palo Alto, CA, for Plaintiffs.

Manny J. Caixeiro, Perkins Coie LLP, New York, NY, Matthew F. Carmody, Steven M. Lubezny, Timothy J. Carroll, Perkins Coie LLP, Chicago, IL, Adrian M. Pruetz, Erica Jean Van Loon, Glaser Weil Fink Jacobs Howard

Avchen and Shapiro LLP, Grant E. Kinsel, Gigi C. Hoang, Perkins Coie LLP, Brad D. Brian, Stuart N. Senator, Munger Tolles and Olson LLP, Edith R. Matthai, Robie and Matthai, Los Angeles, CA, David John Palmer, Perkins Coie LLP, Phoenix, AZ, Holmes J. Hawkins, III, Thomas C. Lundin, Jr, King & Spalding LLP, Atlanta, GA, for Defendant.

ORDER GRANTING IN PART AND DENYING IN PART PLAINTIFFS' MOTION TO DISQUALIFY COUNSEL PERKINS COIE AND TO COMPEL DISCOVERY

DEAN D. PREGERSON, District Judge.

I. Introduction

Plaintiff j2 Global Communications, Inc. has filed a Motion to Disqualify Counsel Perkins Coie and to Compel Discovery ("Motion") in three patent infringement cases ("the Three Current Cases") pending before this court. (Dkt. No. 77.)¹ Plaintiff Advanced Messaging Technologies, Inc. is a co-Plaintiff and co-movant in two of the cases (9-4150 and 11-4239) (Plaintiffs are collectively called "j2"). In each case, one or more of the following corporations is a defendant: Open Text Corporation ("Open Text") EasyLink Services International Corporation ("EasyLink"), and Captaris, Inc. ("Captaris") (collectively "Defendants"). Open Text owns Easy Link and Captaris. Perkins Coie ("Perkins") represents the Defendants. In late *903 2011, Open Text contacted Crowell & Moring ("Crowell") about assigning one of its attorneys to temporarily serve as Open Text's outside in-house counsel for intellectual

property matters. Crowell assigned an attorney (“the Attorney”) to fill this role, even though a conflicts check revealed the Attorney formerly represented j2. In fact, he worked on cases on behalf of j2 that involved three of the four patents at issue in the Three Current Cases. As Open Text's outside in-house counsel, the Attorney had contact with Perkins. The court therefore disqualifies Perkins. This outcome is unfortunate, because there is not a molecule of evidence that Perkins did anything other than act with integrity and in a manner consistent with the highest traditions of the legal profession.

In reaching its decision, the court has considered j2's *in camera* evidence, which includes billing records of the Attorney's work for j2, and various emails that the Attorney sent and received in the course of his j2 representation. (*In Camera* Evidence of Billing Records and Emails (“*In Camera* Evidence”).)

II. Background

A. The Attorney's Experience at the Time He Represented j2

The Attorney worked at Kenyon & Kenyon (“Kenyon”) from 2002 to 2005, and began representing j2 as part of a team of attorneys in 2004. (Bernstein Decl. ¶¶ 4–5, Dkt. No. 77–2.) Crowell maintains that assigning the Attorney to Open Text was appropriate in part because he was only “a junior associate” when he represented j2. (Sacks Decl. Ex. F at 16, Dkt. No. 77–3.) Although the Attorney was an associate in 2004, by the end of that year he had many years of experience as a software engineer, studied graduate-level Computer Science, graduated *cum laude* from

a reputable law school (where he served as Managing Editor of the *Law Review*), edited a publication about the International Trade Commission, co-authored another about patent litigation, and delivered a speech about international patent licensing. (Johnson Decl. Ex. 14, Dkt. No. 113.)

B. The Work the Attorney Performed for j2

Crowell also asserts that the Attorney cleared its conflicts check because he allegedly told Crowell that “he did not recall having access to any confidential information,” and his representation of j2 “involved primarily the review of publicly available patent documents.” (Sacks Decl. Ex. B. at 6, Dkt. No. 77.)

The records before that court indicate that from 2004 until 2005 the Attorney represented j2 in patent litigation, and he billed j2 for 234.7 hours of work. (*Id.* ¶¶ 5–6; *In Camera* Evidence.) Based on the court's knowledge of law firm practices, 234.7 hours probably represents about ten percent of his billing over the roughly fifteen months that he worked on j2 matters. Specifically, the Attorney billed j2 69.8 hours for his work on *j2 Global Communications, Inc. v. Venali, Inc.* (“*Venali*”), 84.6 hours for *j2 Global Communications, Inc. v. Call Wave, Inc.* (“*Call Wave*”) (collectively “the Prior Cases”), and 56 hours for “Bobo” patent analysis. (Bernstein Decl. ¶¶ 2, 6–7.)

In the *Venali* and *Callwave* actions, j2 alleged infringement of U.S. Patent Nos. 6,208,638 (“#638 Patent”) and 6,350,066 (“#066 Patent”), and it also alleged infringement of U.S. Patent No. 6,597,688 (“#688 Patent”) in the *Venali*

case. (Bernstein Decl. ¶ 2.) A number of patents comprise the Bobo patents, and the '066 Patent is one of them. (Bernstein Decl. ¶ 7.) j2 alleges that the '638 and '688 Patents were infringed in each of the Three Current *904 Cases, and that the '066 Patent was also infringed in two of those cases.²

[1] The Attorney's billing records from Kenyon indicate he was involved in the following tasks on behalf of j2: "reviewing claim charts, performing infringement analyses, searching for and analyzing prior art, drafting a validity opinion, analyzing documents for a settlement conference, reviewing and commenting on draft pleading, discussing discovery strategies, drafting discovery requests and responses, and drafting j2's opposition to a summary judgment motion in the *Venali* action." (Bernstein Decl. ¶ 6; *In Camera* Evidence.) The Attorney sent, received (sometimes directly, sometimes by forwarding), or was copied on over 120 emails to or from j2's General Counsel. (Bernstein Decl. ¶ 9; *In Camera* Evidence.) These emails were sent to about seven or eight individuals, and sometimes involved evaluations of j2's cases. (*In Camera* Evidence.) One email the Attorney received analyzed possible infringement defenses. (Bernstein Decl. ¶ 12; *In Camera* Evidence.) That email discussed Dr. David Farber ("Dr. Farber"), and whether his activities are relevant to an on-sale bar defense.³ (*In Camera* Evidence.) (Bernstein Decl. ¶ 12; *In Camera* Evidence.) In the Three Current Cases, Defendants claim products that Dr. Farber was allegedly involved in testing and analyzing give rise to an on-sale defense to j2's '688 and '638 patent infringement claims. (Defendant's Answer to Amended Compl.

("Answer") at 10:24–15:5, Dkt. No. 48.) In 2005, the year that the Attorney left Kenyon, the United States Patent Office began a multi-year reexamination of the '066, '638, and '688 Patents, which led to changes in at least the '066 and '638 Patents. (Carmody Decl. ¶¶ 16–18, Dkt. No. 101; *See id.* Exs. E–K.)

C. History of the Three Current Cases

j2 filed two of the Three Current Cases on June 26, 2008, and the other on May 17, 2011.⁴ EasyLink is a defendant in two of the actions ("the EasyLink Cases") (case numbers 9–4189 and 11–4239), and Open Text and Captaris are defendants in the other (9–4150). Open Text owns both of these other companies, acquiring Captaris in 2008 and EasyLink in 2012. (Davies Decl. ¶ 2.) Open Text retained an attorney ("Lead Trial Counsel") to represent it and Captaris in 2008, before Lead Trial Counsel was at Perkins. (*See* Carroll Decl. ¶ 5, Dkt. No. 100.) Lead Trial Counsel moved to Perkins in February 2012, and Open Text made Perkins its counsel of record when he did. (Carroll Decl. ¶¶ 14–15.) Lead Trial Counsel and another Perkins attorney began advising Open Text about the EasyLink acquisition in mid-February 2012. (*Id.* at ¶ 20.) It is unclear when Perkins began working on the EasyLink Cases, but it was before Dr. Farber's deposition, which took place on July 27, 2012. (*Id.* ¶¶ 28–29.)

***905 D. The Conflicts Check and the Attorney's Open Text Assignment**

The Attorney is now Counsel at Crowell. (Johnson Decl. Ex. 14.) In 2011, Open Text began searching for an in-house attorney to work on "intellectual property and patent

matters,” but was “unable to fill the role even as Open Text's intellectual property and patent needs grew.” (Davies Decl. ¶ 6.) It asked Crowell to provide an attorney who could temporarily assume this position until a permanent candidate was selected. (*Id.*) As discussed, Crowell assigned the Attorney to fill this role, even though it knew that he previously represented j2 (*Id.* ¶ 9; Sacks Decl. Ex. B at 6.)

j2 was never asked to sign a conflict waiver, allowing the Attorney to work for Open Text. (Bernstein Decl. ¶ 13.) Perkins likewise knew nothing about the Attorney's prior involvement with j2. (*See* Parker Decl. ¶ 4, Dkt. No. 103; Carroll Decl. ¶ 24.)

The Attorney told Open Text's General Counsel that while he was at Kenyon he “performed a public art search relating to a Bobo patent,” and the General Counsel states that he “did not understand this to mean that [the Attorney] had worked for j2.” (Parker Decl. ¶ 4.)

E. The Attorney's Role in the Three Current Cases

In his role with Open Text, the Attorney met with Perkins on a number of occasions. (*Id.* ¶ 6.) Crowell has described the Attorney's work for Open Text as follows:

He was given an initial assignment for Open Text during the fourth quarter of 2011 to familiarize himself with the company's products and pending IP litigations. That process included his introductions to Perkins Coie lawyers representing

Open Text Later, he was asked to assist Open Text in collecting documents for Perkins Coie's use in responding to discovery requests. As [the Attorney] became more familiar with the j2 litigation, he followed Perkins Coie's litigation work and provided his views and comments thereon to Open Text in-house counsel, together with reports on the progress of the litigation. After j2 proposed that the parties mediate their dispute, [the Attorney] assisted Open Text with preparation for the mediation that was to have occurred in May 2012.

(Sacks Decl. Ex. F. at 16, Dkt. No. 77.) j2 learned of the Attorney's role at Open Text on July 27, 2012, during the deposition of Dr. Farber, when he introduced himself as Open Text's “outside in-house counsel” to one of j2's attorneys at Kenyon (Bernstein Decl. ¶ 13.) At the Farber deposition, j2's attorney announced that the Attorney used to be an associate at Kenyon, and that he would check whether the Attorney worked on j2 patent matters. (Carroll Decl. ¶ 30.) The next week, j2's attorney informed Perkins and Open Text that the Attorney had worked for j2. (*Id.*)

Two events followed the Farber deposition, but it is unclear which occurred first. The Attorney met with EasyLink's counsel of record at the time, King & Spaulding, “where we [King & Spaulding] presented to [the Attorney] our evaluation of the litigation.” (Sacks Decl.

Ex. J at 32.)⁵ Additionally, Perkins and Open Text ended communication with the Attorney. (Davies Decl. ¶ 15; Carroll Decl. ¶¶ 31–32.)

III. *Legal Standards and Analysis*

There are five issues: (1) Whether California law governs; (2) Whether the court should presume the Attorney learned confidential *906 information about j2 that is relevant to the Three Current Cases; (3) Whether the court should presume that the Attorney shared j2's confidential information with Perkins; (4) Whether such a presumption is irrebutable; and (5) Whether disqualifying Perkins is required.

Regarding the first issue, California law governs. *In re County of Los Angeles*, 223 F.3d 990, 995 (9th Cir.2000). As to the second through fifth, the California Supreme Court has stated the following:

That enduring duty to preserve client confidences precludes an attorney from later agreeing to represent an adversary of the attorney's former client unless the former client provides an informed written consent waiving the conflict. If the attorney fails to obtain such consent and undertakes to represent the adversary, the former client may disqualify the attorney by showing a substantial relationship between the subjects of the prior and the current representations. To determine whether there

is a substantial relationship between successive representations, a court must first determine whether the attorney had a direct professional relationship with the former client in which the attorney personally provided legal advice and services on a legal issue that is closely related to the legal issue in the present representation. If the former representation involved such a direct relationship with the client, the former client need not prove that the attorney possesses actual confidential information. Instead, the attorney is presumed to possess confidential information if the subject of the prior representation put the attorney in a position in which confidences material to the current representation would normally have been imparted to counsel.... When a substantial relationship between the two representations is established, the attorney is automatically disqualified from representing the second client.... Vicarious disqualification rules are a product of decisional law. Normally, an attorney's conflict is imputed to the law firm as a whole

on the rationale that attorneys, working together and practicing law in a professional association, share each other's, and their clients', confidential information.

City & County of San Francisco v. Cobra Solutions, Inc., 38 Cal.4th 839, 847–48, 43 Cal.Rptr.3d 771, 135 P.3d 20 (2006) (internal citations and quotation marks omitted). The facts in this Motion are not typical of disqualification motions generally because the Attorney worked as Open Text's outside in-house counsel, not as a Perkins attorney. However, the court holds the above-quoted rule applies here. The Attorney's prior representation involved three of the four patents at issue in the Three Current Cases, as well as an on-sale bar defense related to Dr. Farber's activities. The prior representation is, thus, substantially similar to the Three Current Cases. Because the Attorney was outside in-house counsel for Open Text on IP matters, and because of his contact with Perkins, Perkins must be disqualified.

A. California Law Governs

[2] Defendants argue that while federal courts in California look to California law in deciding a disqualification motion, state law does not bind them in the way that a diversity case would, because federal courts are governed by their own rules of professional conduct. (Defendant's Opposition to Plaintiffs' Motion to Disqualify (“Opp’n”) at 12:26–13:7, Dkt. No. 97.) The Ninth Circuit, however, has made clear that a federal court in California must apply California law in a disqualification

motion. *In re County of Los Angeles*, 223 F.3d at 995 (“[W]e apply state law in determining matters of disqualification.”).

Defendants' argument relies principally on a footnote from an unpublished Northern *907 District of California case. *Openwave Sys., Inc. v. 724 Solutions (US) Inc.*, No. C 09–3511 RS, 2010 WL 1687825, at *5 n. 6 (N.D.Cal. Apr. 22, 2010). However, even that case applied California law, because its local rule required attorneys to adhere to “California State Bar standards.” *Id.* The Central District similarly requires attorneys to “comply with the standards of professional conduct required of members of the State Bar of California and contained in the State Bar Act, the Rules of Professional Conduct of the State Bar of California, and the decisions of any court applicable thereto.” Cent. Dist. L.R. 83–3.1.2. The Central District rule “adopt[s]” such California “statutes, rules and decisions.” *Id.* California law, therefore, governs.

B. The Court Presumes the Attorney Possesses Confidential Information about j2

[3] It is presumed that an attorney has relevant confidential information about a client if there is a substantial relationship between the prior representation and the current one. *Cobra Solutions*, 38 Cal.4th at 847, 43 Cal.Rptr.3d 771, 135 P.3d 20. In determining whether there is substantial relationship, the court should first analyze whether there was a direct relationship between an attorney and the former client, and whether that relationship touched issues related to the present litigation. *Id.* Courts emphasize shared communications in determining whether there was a direct relationship. *See e.g. Farhang v. Indian Inst.*

of Tech., No. C-08-02658RMW, 2009 WL 3459455, at *2 (N.D.Cal. Oct. 27, 2009). During the Attorney's time representing j2, he and j2's General Counsel were part of a group of about seven or eight attorneys that regularly sent emails to each other. (Bernstein Decl. ¶ 9; *In Camera* Evidence.) In total the Attorney and j2's General Counsel were parties to over 120 emails. (*Id.*) One email concerned Dr. Farber, and his relevance to an on-sale bar defense, which is also at issue in the Three Current cases. (*In Camera* Evidence.) Many of these emails focused on the Prior Cases, where three of the four patents currently at issue were litigated. (*Id.*) Some of the emails relating to the Prior Cases shared drafts of papers that would later be filed with the court, and others assessed the strength of j2's cases. (*Id.*) In light of these exchanges, the court finds that a direct relationship between the Attorney and the client existed.

[4] When an attorney had direct contact with a client, a substantial relationship exists if “the subject of the prior representation put the attorney in a position in which confidences material to the current representation would normally have been imparted to counsel.” *Cobra Solutions*, 38 Cal.4th at 847, 43 Cal.Rptr.3d 771, 135 P.3d 20. The substantial relationship test is “necessarily fact-dependant.” *UMG Recordings, Inc. v. MySpace, Inc.*, 526 F.Supp.2d 1046, 1060 (C.D.Cal.2007). Courts look to the degree of overlap in “subject-matters, facts or issues” to determine whether there is a substantial relationship. *See id.* (quoting *H.F. Ahmanson & Co. v. Salomon Brothers, Inc.*, 229 Cal.App.3d 1445, 1453, 280 Cal.Rptr. 614 (1991)). Subject matter similarity is the most

important. *Jessen v. Hartford Cas. Ins. Co.*, 111 Cal.App.4th 698, 711, 3 Cal.Rptr.3d 877 (2003) (suggesting that the California Supreme Court has decided that “a ‘substantial relationship’ exists whenever the ‘subjects’ of the prior and the current representations are linked in some rational manner”) (citing *Flatt v. Superior Court*, 9 Cal.4th 275, 283, 36 Cal.Rptr.2d 537, 885 P.2d 950 (1994)). A “subject” is “broader ... than the discrete legal and factual issues involved in the compared representations,” as it includes “information material to the evaluation, prosecution, *908 settlement or accomplishment of the litigation or transaction given its specific legal and factual issues.” *Jessen*, 111 Cal.App.4th at 712–13, 3 Cal.Rptr.3d 877.

[5] Defendants argue that there is no substantial relationship because the Three Current Cases “involve different defendants, claims and evidence,” and they emphasize that “[i]n the intervening years between [the Attorney's j2 representation and his representation of Open Text], the patents have been reexamined by the PTO and their claims have been substantially altered.” (Opp'n at 22:7–10.) It is true that the patents have been altered, but to different degrees. (*See* Opp'n 10:13–21 (claiming the reexamination process required “extensive changes to the '066 patent” and “significant changes to the '638 patent,” but not noting any level of change in the '688 patent); *see also* Carmody Decl. ¶¶ 16–18 (describing the changes similarly).)

More importantly, nothing requires the court to extensively analyze the patents' modifications, nor to do an in-depth comparison of the products. To the contrary, a rational link

between the subject matter of the two cases will suffice. *Jessen*, 111 Cal.App.4th at 711, 3 Cal.Rptr.3d 877 (2003); *Knight v. Ferguson*, 149 Cal.App.4th 1207, 1213, 57 Cal.Rptr.3d 823 (2007).⁶ In addition to other matters the Attorney billed to j2, he billed j2 154.4 hours for work on the Prior Cases, which involved three of the four patents at issue in the Three Current Cases. (See Bernstein Decl. ¶¶ 2, 6.)

Additionally, the on-sale bar defense was at issue in the cases the Attorney worked on as j2's attorney, and as j2's attorney he received an email evaluating Dr. Farber's relevance to this defense. (*In Camera* Evidence.) Dr. Farber's activities are relevant to a possible on-sale bar defense in the Three Current Cases, as well. (See Answer at 10:24–15:5.) In fact, j2 learned of the Attorney's work with Open Text in the Three Current Cases, when he attended Dr. Farber's deposition. (Bernstein Decl. ¶ 13.) In disputing Dr. Farber's importance to the disqualification analysis, Defendants argue that they knew about him, along with his import to an on-sale bar defense, before the Attorney became involved with Open Text. (Opp'n at 8:6–11; Carmody Decl. ¶¶ 9–12; Bellows Decl. ¶ 2, Dkt. No. 104.) However, the Attorney still could have provided additional useful to Perkins concerning Dr. Farber. Because the Prior Cases are substantially related to the Three Current Cases the court presumes that the Attorney possessed confidential information. See *Cobra Solutions*, 38 Cal.4th at 847–48, 43 Cal.Rptr.3d 771, 135 P.3d 20.

[6] At times, Defendants refer to the Attorney as a “junior associate,” and assert that there is a “lack of evidence” about both the “nature of the work” he did for j2 and whether he acquired

confidential information about j2. (Defendants' Supplemental Brief in Support of Defendant's Opposition to j2's Motion to Disqualify Perkins Coie and Compel Discovery (“Supp. Opp'n.”) at 10:22–11:5, *909 Dkt. No. 122.) However, a de minimis level of involvement with a prior case is sufficient for presuming that an attorney acquired confidential information about that prior case. See *Pound v. DeMera DeMera Cameron*, 135 Cal.App.4th 70, 73–74, 36 Cal.Rptr.3d 922 (2005) (finding that a one-hour phone call about a case three years earlier was sufficient to presume that an attorney acquired confidential information).

Regardless, both the Attorney's professional experience and the extent of his work for j2 were significant. At the time he was representing j2, he had authored and edited publications about intellectual property, done graduate work in computer science, and worked for many years as a software engineer. (Johnson Decl. Ex. 14). Additionally, *in camera* evidence shows that his work in the Prior Cases included: “reviewing claim charts, performing infringement analyses, [reviewing] prior art ... analyzing documents for a settlement conference, reviewing and commenting on draft pleading, discussing discovery strategies, drafting discovery requests and responses, and drafting j2's opposition to a summary judgment motion ...” (Bernstein Decl. ¶ 6; *In Camera* Evidence.) In some of this work, such as discussing discovery strategies and participating in the creation and editing of motions and pleadings, the likelihood that he learned confidential information is readily apparent. In others, such as reviewing prior art, the risk may seem less likely. However, confidential information may guide prior art

reviews—such as an instruction from a partner or client about the weaknesses of certain features.

C. The Court Presumes that Perkins has the Same Confidential Information about j2 as the Attorney

[7] The general rule is that presuming an attorney possesses confidential information requires presuming the same for his law firm (“the Vicarious Presumption Rule”). See *People ex rel. Dept. of Corporations v. Speedee Oil Change Sys., Inc.*, 20 Cal.4th 1135, 1146, 86 Cal.Rptr.2d 816, 980 P.2d 371 (1999) (ruling that “a presumption that an attorney has access to privileged and confidential matters relevant to a subsequent representation extends the attorney’s disqualification vicariously to the attorney’s entire firm”); see *id.* at 1153–54, 86 Cal.Rptr.2d 816, 980 P.2d 371 (explaining that, “[t]he vicarious disqualification rule recognizes the everyday reality that attorneys, working together and practicing law in a professional association, share each other’s, and their clients’, confidential information”). The Attorney, however, does not work at Perkins. Rather, he was outside in-house counsel for Open Text on intellectual property matters. (Davies Decl. ¶¶ 6, 9; Bernstein Decl. ¶ 13.) This court is not aware of any case analyzing whether the Vicarious Presumption Rule applies to such a situation. However, some cases have analyzed whether presuming an attorney at one law firm has confidential information requires making the same presumption about another firm that is co-counsel with the tainted attorney. These cases come out different ways, but the cases applying

the Vicarious Presumption Rule to co-counsel have the better argument.

Three Northern District of California cases suggest that presuming co-counsel possesses confidential information is inappropriate. In *re Airport Car Rental Antitrust Litig.*, 470 F.Supp. 495, 506 (N.D.Cal.1979); see also *Canatella v. Krieg, Keller, Sloan, Reilley & Roman LLP*, No. C 11–05535 WHA, 2012 WL 847493, at *2 (N.D.Cal. Mar. 13, 2012) (making no mention of a presumption, and relying on *Airport Car Rental* to suggest that a multi-factor analysis is required to determine whether co-counsel has confidential information); *910 *Oracle Am., Inc. v. Innovative Tech. Distributors, LLC*, No. 11–CV–01043–LHK, 2011 WL 2940313, at *6 (N.D.Cal. July 20, 2011). Other cases have applied the Vicarious Presumption Rule and presumed that co-counsel received confidential information. *Pound*, 135 Cal.App.4th at 77, 36 Cal.Rptr.3d 922 (noting the Vicarious Presumption Rule, and holding that “there is no logical or substantive manner to distinguish” between a firm employing a tainted attorney and a firm serving as co-counsel with a tainted attorney); *Beltran v. Avon Products, Inc.*, 867 F.Supp.2d 1068, 1078, 1084 (C.D.Cal.2012) (stating the Vicarious Presumption Rule, and applying it against co-counsel, because “[i]t is also reasonable to assume that the two law firms engaged in fairly extensive discussions about the case and Plaintiff’s litigation strategy before filing their complaint and prior to the erection of an wall ethical segregating [the tainted attorney] from the case”).

[8] This court concludes that the Vicarious Presumption Rule should be applied here (i.e., that it should be presumed that Perkins has

relevant confidential information about j2.) The three Northern District cases that did not apply the Vicarious Presumption Rule to co-counsel are not persuasive. They do not consider applicable California law. *Oracle* and *Canatella* rely heavily on *Airport Car*, which was decided in 1979. *Canatella*, 2012 WL 847493, at *2, *Oracle*, 2011 WL 2940313, at *5. It seems neither *Oracle* nor *Canatella* considered *Pound*, a California appellate case that presumed co-counsel possessed the tainted attorney's confidential information. *Pound*, 135 Cal.App.4th 70, 77, 36 Cal.Rptr.3d 922 (2005). And *Pound* does not appear to have been briefed in either case. (Johnson Decl. Exs. 6–11.) *Canatella* even incorrectly declares that on “the issue of disqualification of co-counsel ... no California ... cases [are] directly on point.” *Canatella*, 2012 WL 847493, at *2. Additionally, California courts have generally ignored these three cases. *Airport Car* is the only one cited in any California opinion, and a single case from 1980 is the only one that cites its holding approvingly. *Chadwick v. Superior Court*, 106 Cal.App.3d 108, 117 n. 9, 164 Cal.Rptr. 864 (1980).

More importantly, the reasoning behind the Vicarious Presumption Rule indicates that it should also be applied against Perkins: “Normally, an attorney's conflict is imputed to the law firm as a whole on the rationale that attorneys, working together and practicing law in a professional association, share each other's, and their clients', confidential information.” *Cobra Solutions*, 38 Cal.4th at 847–48, 43 Cal.Rptr.3d 771, 135 P.3d 20. (internal quotation marks omitted.) The Attorney served as Open Text's outside in-house counsel for intellectual property matters,

and the Three Current Cases are high-stakes, complex patent matters. The importance of in-house counsel effectively cooperating, coordinating, and communicating with their company's attorneys is self-evident.

Defendants' argument that the Attorney “played a limited role” in the Three Current Cases is unavailing. (Carroll Decl. ¶ 25.) It is probably a stretch to characterize Open Text's outside in-house counsel for intellectual property matters—an experienced attorney who was also Counsel at Crowell—as playing an inconsequential role in three major patent cases. Leaving that concern aside, though, cases do not analyze how much work a tainted attorney performed in the cases for which disqualification is sought. *See Pound*, 135 Cal.App.4th at 74, 36 Cal.Rptr.3d 922 (disqualifying plaintiff's firm after it and the tainted outside counsel “briefly discussed the case” and met with plaintiffs “a few times.”) Under the Vicarious Presumption Rule, once an attorney is presumed to have confidential information, her law firm is presumed to have it, too. *Cobra Solutions*, *911 38 Cal.4th at 847–48, 43 Cal.Rptr.3d 771, 135 P.3d 20; *See Flatt*, 9 Cal.4th at 283, 36 Cal.Rptr.2d 537, 885 P.2d 950.

D. The Presumption Against Perkins Is Irrebutable and Thus Disqualification Is Mandatory

[9] Once there is a presumption that a firm possesses confidential information, generally that presumption is irrebutable and disqualification is compelled. As the California Supreme Court has said:

Where the requisite substantial relationship between the subjects of the prior and the current representations can be demonstrated, access to confidential information by the attorney in the course of the first representation (relevant, by definition, to the second representation) is *presumed* and disqualification of the Attorney's representation of the second client is mandatory; indeed, the disqualification extends vicariously to the entire firm.

Flatt, 9 Cal.4th at 283, 36 Cal.Rptr.2d 537, 885 P.2d 950 (emphasis in original); *see generally Pound*, 135 Cal.App.4th 70, 36 Cal.Rptr.3d 922 (applying mandatory disqualification rule to law firm with tainted co-counsel); *In re County of Los Angeles*, 223 F.3d at 995 (noting that “[t]he [California] courts of appeal developed a general rule that the presumption is not rebuttable”).

However, in one case the California Supreme Court held that it “need not consider whether an attorney can rebut a presumption of shared confidences, and avoid disqualification, by establishing that the firm imposed effective screening procedures.” *SpeeDee Oil*, 20 Cal.4th at 1151, 86 Cal.Rptr.2d 816, 980 P.2d 371; *see also In re County of Los Angeles*, 223 F.3d at 997 (interpreting *SpeeDee Oil* as suggesting that the California Supreme Court “may be inclined”

to allow law firms to erect ethical walls to avoid disqualification); *but see Beltran*, 867 F.Supp.2d 1068, 1083 (C.D.Cal.2012) (doubting that ethical screening can prevent disqualification); *MySpace*, 526 F.Supp.2d at 1061 (questioning the same). At least one California appellate court has decided that a law firm's ethical screening permitted it to attempt rebutting the presumption. *Kirk v. First Am. Title Ins. Co.*, 183 Cal.App.4th 776, 801, 108 Cal.Rptr.3d 620 (2010) (holding that disqualification is the “*general* rule,” and that courts “should presume knowledge is imputed to all members of a tainted attorney's law firm,” but that “in the proper circumstances, the presumption is a rebuttable one, which can be refuted by evidence that ethical screening will effectively prevent the sharing of confidences in a particular case”) (emphasis in original).⁷ Such screening must be implemented in a “timely” manner. *Id.* at 810, 108 Cal.Rptr.3d 620.

[10] In the Three Current Cases, the Attorney was not screened until after Dr. Farber's deposition, approximately eight months after he began serving as Open Text's outside in-house counsel. (*See Parker Decl.* ¶¶ 4–5.) Since Perkins was unaware of the Attorney's conflict, it did not initiate a timely screen. *See Kirk*, 183 Cal.App.4th at 810 n. 31, 108 Cal.Rptr.3d 620 (suggesting that the ethical wall must *912 be in place “before undertaking the challenged representation or hiring the tainted individual” (internal quotation marks omitted)); *In re County of Los Angeles*, 223 F.3d at 996 (emphasizing screening measures taken before tainted individual joined the firm). For Perkins, therefore, the presumption is irrebutable.

E. No Remedy Short of Disqualification Will Suffice

[11] Defendants argue that the court should fashion a remedy less drastic than disqualification. (Supp. Opp'n at 8:17–10:10, Dkt. No. 122.) The leading case on point for this issue held:

[E]ven when the court has misgivings about the conduct of the challenged attorney, it is not obligated to disqualify that lawyer merely because he has run afoul of the applicable ethical rules. The court is encouraged instead to examine the specific facts and circumstances peculiar to the individual case to decide whether disqualification, or some lesser sanction, would be an appropriate remedy. In other words, even when counsel has been shown to have committed an ethical rule infraction the court retains discretion to decline to order disqualification, and, in many cases, courts have done just that.

MySpace, Inc., 526 F.Supp.2d at 1063 (citation omitted). *MySpace*, however, involved very different facts. That case concerned a law firm that obtained a conflict waiver from its former client, enacted an ethical wall around the attorneys who worked for the prior client before engaging in work for the current

client, and whose current client waived the affirmative defense that triggered the conflict—an affirmative defense that was “collateral to what this case is about.” *Id.* at 1063–65. None of these factors are present here.

IV. Conclusion

Perkins is disqualified. The court denies the request for further discovery, because the order disqualifies Perkins, screens Open Text's General Counsel, Douglas Parker, and screens all inhouse attorneys who substantively discussed the Three Current Cases with the Attorney. (*See* Parker Decl. ¶ 6 (attesting to having been “a participant in many of the instances in which [the Attorney] had an opportunity to communicate with and interact with attorneys from Perkins Coie”)).

[12] The court finds that none of Perkins' attorneys had knowledge of the Attorney's prior j2 representation. Indeed, during oral argument the court characterized Perkins as a victim of Crowell's inexplicable decision to approve the Attorney to work for Open Text. The court affirms Perkins' innocence in this matter, and appreciate the professionalism its attorneys have exhibited. Perkins' innocence though, does not prevent its disqualification. Motions to disqualify are not about punishing guilty parties. *Kirk*, 183 Cal.App.4th at 815, 108 Cal.Rptr.3d 620. They are primarily about “preserv[ing] public trust in the scrupulous administration of justice and the integrity of the bar.” *SpeeDee Oil*, 20 Cal.4th at 1145, 86 Cal.Rptr.2d 816, 980 P.2d 371.

V. Remedies

The Motion is GRANTED as to disqualifying Perkins, but is DENIED as to compelling discovery. Accordingly, IT IS HEREBY ORDERED:

1) Perkins is disqualified from representing Defendants in this litigation. Defendants shall have until January 11, 2013, to retain successor counsel and have such counsel appear in the action.

2) In connection with the transition to new counsel, Perkins shall have no further involvement in this action, except Perkins may transmit to successor counsel its written files concerning this action, including all documents produced by either party in this action and all pleadings either filed with the court or exchanged with j2 in this action. However, notes and other nonpublic documents (collectively "non-public documents") prepared after November 1, 2011, that contain or otherwise reflect thoughts of disqualified or screened firms or individuals may not be transmitted, unless they are accompanied with a declaration, signed under penalty of perjury, from a partner ("the Partner") at Perkins with substantial familiarity with this case, attesting as follows: That the Partner has exercised due diligence in evaluating the propriety of transmitting the non-public documents to successor counsel, and attests to the best of such Partner's information and belief that the Attorney did not provide, directly or indirectly, any information contained within the non-public documents.

3) Defendants shall immediately screen from further participation in this action Douglas Parker. Any other internal counsel or external

counsel need not be screened, provided they submit a declaration signed under penalty of perjury, attesting that they have not had substantive communications with the Attorney or with any one else whom they reasonably believe may have received information from the Attorney concerning this action. By January 11, 2013, Defendants shall provide j2 and the court with both a list identifying all persons in addition to Mr. Parker who have been screened and the required affidavits.

4) Successor counsel shall not communicate with Crowell, Perkins, Douglas Parker, the Attorney, any screened person, or any other person, who had communications with the Attorney about any matter related to this action.

5) Defendants shall reimburse j2's reasonable attorneys' fees and costs incurred in connection with the Motion. By January 11, 2013, j2 shall submit to Defendants a statement identifying the amount of such fees, together with a breakdown, by attorney, of the amount of time spent on such matters. The parties shall make every effort to resolve any fee dispute without court action.

Nothing contained herein is intended to prevent any party, person, or firm from communicating about ministerial or logistical issues required to transition to new counsel. Nothing contained herein is intended to preclude the parties or attorneys from stipulating to additional exceptions to this order in connection with any collateral dispute.

IT IS SO ORDERED.

All Citations

913 F.Supp.2d 900

Footnotes

- 1 The three case numbers are: 11–4239, 9–4189, and 9–4150. As each Motion essentially implicates the same issues in each case, all cites will be to the 11–4239 case, unless otherwise noted.
- 2 Those two are case numbers 11–4239 and 9–4150.
- 3 The on-sale bar affirmative defense invalidates a patent if “(1) the invention at issue had become the ‘subject of a commercial offer for sale’ more than one year before the filing of the patent application; and (2) the invention was ready for patenting, either by, for example, having that invention reduced to practice or by preparing ‘drawings or other descriptions of the invention’ that would enable one skilled in the art to practice the invention.” *Special Devices, Inc. v. OEA, Inc.*, 270 F.3d 1353, 1354–55 (Fed.Cir.2001) (quoting *Pfaff v. Wells Elecs., Inc.*, 525 U.S. 55, 67–68, 119 S.Ct. 304, 142 L.Ed.2d 261 (1998)).
- 4 Compl., Dkt. No. 3 (case no. 9–4150); Compl., Dkt. No. 3 (case no. 9–4189); Compl., Dkt. No. 1 (case no. 11–4239).
- 5 As discussed, Perkins began working on the EasyLink Cases sometime before the Farber deposition, but Perkins did not appear as counsel of record on behalf of EasyLink until October 11, 2012. (See Carroll Decl. ¶ 21.)
- 6 Anything more than a “rational link” test would effectively require a mini-trial on the merits, entailing a comparison of the patents as they existed initially with any subsequent modifications. Expert testimony would then likely have to be presented and evaluated. Such a time-consuming process would add little value. The court would still not know whether the former attorney may have, even unwittingly, communicated important information about, for example, the financial strength of the former client, the former client’s settlement strategy, the former client’s perceived strengths or weaknesses of its claims or defenses, and other information that might give counsel an unfair advantage in the litigation.
- 7 Defendants argue that *Kirk* forbids automatically disqualifying a law firm merely because of its association with a tainted attorney, and requires proof that the Attorney shared confidences with the firm before disqualification is appropriate. (See Opp’n at 14:2–12.) Defendants offer declarations from Perkins attorneys and others as proof that they never acquired confidential information from the Attorney. (See Dkt. Nos. 98–105.) However, *Kirk* only allowed timely ethical screening to rebut the presumption, and further held that “it is not sufficient to simply produce declarations stating that confidential information was not conveyed.” 183 Cal.App.4th at 801, 810, 108 Cal.Rptr.3d 620.

644 F.Supp.2d 333
United States District Court,
S.D. New York.

GSI COMMERCE
SOLUTIONS, INC., Petitioner,
v.
BABYCENTER, L.L.C., Respondent.

No. 09 CV 2857(JSR).
| July 27, 2009.

Synopsis

Background: On petition seeking to compel arbitration of underlying breach of contract claim, defendant moved for an order disqualifying petitioner's counsel in the arbitration proceedings.

Holdings: The District Court, Jed S. Rakoff, J., held that:

[1] relationship between defendant, a wholly owned subsidiary, and its parent corporation was sufficiently close to deem them a single entity for conflict of interest purposes, and

[2] engagement agreement between parent corporation and counsel did not provide unequivocal express waiver that would be necessary to prevent counsel's disqualification.

Petition denied, and motion granted.

West Headnotes (2)

[1] Attorney and Client

⇐ Organizations and corporations, employment by or representation of Relationship between wholly owned subsidiary and its parent corporation was sufficiently close to deem them a single entity for conflict of interest purposes, on subsidiary's motion to disqualify petitioner's counsel in arbitration proceedings, based on alleged conflict of interest arising from counsel's representation of parent corporation, where subsidiary shared accounting, audit, cash management, employee benefits, finance, human resources, information technology, insurance, payroll, and travels service and systems with parent corporation, it relied on parent corporation's law department, and its liabilities directly impacted parent corporation's.

Cases that cite this headnote

[2] Attorney and Client

⇐ Disclosure, waiver, or consent Engagement agreement between parent corporation and counsel did not provide unequivocal express waiver that would be necessary to prevent counsel's disqualification from representing petitioner in arbitration proceedings against parent corporation's subsidiary, based upon conflict of interest

arising from counsel's simultaneous representation.

Cases that cite this headnote

Attorneys and Law Firms

*334 David J. McCarthy, Butler, Fitzgerald, Fiveson & McCarthy, P.C., New York, NY, for Petitioner.

Claude Solomon Platton, John D. Winter, Patterson, Belknap, Webb & Tyler LLP, New York, NY, for Respondent.

MEMORANDUM ORDER

JED S. RAKOFF, District Judge.

GSI Commerce Solutions, Inc. ("GSI") petitions the Court for an order compelling arbitration, and respondent BabyCenter, L.L.C. ("BabyCenter") cross-moves for an order disqualifying Blank Rome LLP as GSI's counsel in the underlying arbitration proceedings. Both parties agree that GSI's underlying breach of contract claim against BabyCenter is governed by an arbitration provision in the parties' contract, and both parties are fully prepared to arbitrate GSI's claim. However, BabyCenter refuses to proceed with arbitration so long as GSI is represented by Blank Rome, which currently also represents BabyCenter's corporate parent, Johnson & Johnson ("J & J"). GSI, in turn, insists that there is no conflict. After reviewing the parties' briefs and hearing oral argument, the Court, by Order dated May 26, 2009, denied

GSI's motion to compel arbitration as long as Blank Rome represents GSI and granted BabyCenter's cross-motion to disqualify Blank Rome. This Memorandum Order explains the reasons for those rulings and directs the entry of final judgment.

Blank Rome's relationship with J & J was originally established by a January 20, 2004 Engagement Agreement, under which Blank Rome agreed to represent J & J "in connection with the European Union ('EU') Data Protection Directive and potential certification for the U.S. Safe *335 Harbor." Declaration of Christopher A. Lewis, Esq. ("Lewis Decl.") Ex. 2-A, at 1. The Engagement Agreement provided that, unless otherwise agreed, its terms would apply "to this matter and to all other matters which we agree to undertake on your behalf." *Id.* That Agreement also stated, however, that:

Unless agreed to in writing or we specifically undertake such additional representation at your request, we represent only the client named in the engagement letter [*i.e.*, J & J], and not its affiliates, subsidiaries, partners, joint venturers, employees, directors, officers, shareholders, members, owners, agencies, departments, or divisions. If our engagement is limited to a specific matter or transaction, and we are not engaged to represent you in other matters, our

attorney-client relationship will terminate upon the completion of our services with respect to such matter or transaction whether or not we send you a letter to confirm the termination of our representation.

Id.

The Engagement Agreement also noted that Blank Rome had reviewed its then-current engagements, and found a conflict requiring J & J's waiver: its representation of Kimberly-Clark Corporation in patent litigation against J & J affiliate McNeil PPC. *Id.* at 2. The Agreement noted, however, that Blank Rome believed the conflict could be waived. *Id.* Blank Rome also sought a prospective waiver from J & J with respect to "patent matters related to [J & J] or its affiliates or subsidiaries." *Id.* at 3. Aside from this "specifically defined category of matters ... for Kimberly-Clark," Blank Rome did not seek, nor did it receive, any prospective waiver from J & J for any other future conflict. *Id.*

In June 2005, Blank Rome entered into an amendment to the January 20, 2004 Engagement Agreement with J & J, which reaffirmed that Blank Rome represented only J & J (and not its subsidiaries, etc.), and which provided for a prospective waiver for patent litigation that might arise between J & J and other Blank Rome clients in the future. Lewis Decl. Ex. 2-B.

Pursuant to the Engagement Agreement and the 2005 amendment, J & J periodically asked Blank Rome to provide legal advice

relating to J & J's subsidiaries and affiliates on specific matters or transactions. Declaration of Jennifer J. Daniels, Esq. ("Daniels Decl.") ¶¶ 6-10. Indeed, J & J notes that "[m]ost of the work Blank Rome performed pursuant to the Engagement Agreement was for J & J's operating companies rather than for J & J itself." Affidavit of Helen Torelli ("Torelli Aff.") ¶ 7. One such representation was of BabyCenter. Daniels Decl. ¶ 9. According to Jennifer Daniels, Esq., the Blank Rome partner in charge of that matter, at no time did Blank Rome provide any advice to BabyCenter in connection with its agreement with GSI, nor did Ms. Daniels have access to any privileged information relating to that agreement or the parties' course of dealings. *Id.* ¶ 10. Likewise, the Blank Rome partners that represent GSI in the instant dispute (James Smith and Rebecca Ward) have never performed any work for either J & J or BabyCenter, and have never received or otherwise had access to any of BabyCenter's privileged information regarding its agreement with GSI or to their course of dealings. Declaration of Rebecca D. Ward ("Ward Decl.") ¶¶ 19-20. It is also undisputed that the issues raised in the underlying dispute between GSI and BabyCenter bear no relation to the issues addressed in Blank Rome's ongoing representation of J & J or its affiliates, nor to Blank Rome's representation of BabyCenter. *Id.* ¶ 21.

*336 Nevertheless, BabyCenter contends that it should be considered a current client of Blank Rome, thus disqualifying Blank Rome from representing GSI in the underlying arbitration proceedings, because Blank Rome cannot simultaneously represent adverse parties without consent. GSI, in turn,

contends that BabyCenter is, at most, a former client whose relationship with Blank Rome ended in 2006, thus rendering disqualification unnecessary and improper.

“The authority of federal courts to disqualify attorneys derives from their inherent power to ‘preserve the integrity of the adversary process.’ ” *Hempstead Video, Inc. v. Incorporated Village of Valley Stream*, 409 F.3d 127, 132 (2d Cir.2005) (quotation omitted). Disqualification is warranted whenever an attorney's involvement in a matter “poses a significant risk of trial taint.” *Glueck v. Jonathan Logan, Inc.*, 653 F.2d 746, 748 (2d Cir.1981). Such a risk arises when, for instance, “an attorney represents one client in a suit against another client,....” *Id.*

In arguing that BabyCenter should not be considered a current client of Blank Rome, GSI relies heavily on the parties' Engagement Agreement, which, with certain exceptions, limited Blank Rome's representation to J & J and disavowed any representation of J & J's “affiliates, subsidiaries, partners, [or] joint venturers.” In that respect, GSI observes that a “lawyer who represents a corporation or other organization does not, simply by virtue of that representation, necessarily represent any constituent or affiliated organization, such as a parent or subsidiary,” New York R. of Prof'l Conduct 1.7, comment 34, and that it is well-established that lawyers are permitted to limit the scope of their representation of a client as long as the limitation is reasonable under the circumstances and the client gives informed consent. *See, e.g., Campbell v. Fine, Olin & Anderson, P.C.*, 168 Misc.2d 305, 642 N.Y.S.2d 819, 821 (1996).

But GSI reads the Engagement Agreement rather more broadly than its language justifies. In particular, it may not fairly be read to limit Blank Rome's duty of loyalty to J & J's subsidiaries that it undertakes to represent nor to authorize Blank Rome to sue those companies at the same time it is representing them. Indeed, it would be a strange agreement—and one of doubtful enforceability—that would permit a law firm to sue the very company it is currently representing absent the most express and unequivocal waiver by all concerned. Moreover, the Engagement Agreement itself contains prospective waivers of certain conflicts, thus indicating (at least implicitly) that Blank Rome was aware of the potential conflict of interest that would be posed by its representation of interests adverse to J & J and its subsidiaries.

In the end, then, the real issue here is whether BabyCenter should be considered a current client for disqualification purposes. Although the specific matter as to which Blank Rome represents BabyCenter allegedly ended in 2006, for purposes of disqualification, the Court must also examine the extent to which BabyCenter and J & J must be considered essentially the same client for purposes of the instant litigation, *JPMorgan Chase Bank v. Liberty Mutual Ins. Co.*, 189 F.Supp.2d 20, 23 (S.D.N.Y.2002), for if they are, the conflict is palpable, since it is undisputed that Blank Rome continues to represent J & J in various matters.

[1] Although technically BabyCenter is a wholly owned subsidiary of J & J, Affidavit of Stuart Wilks (“Wilks Aff.”) ¶ 4, as a

practical matter it is part and parcel of J & J. Among other things, BabyCenter shares accounting, audit, cash management, *337 employee benefits, finance, human resources, information technology, insurance, payroll, and travels service and systems with J & J. *Id.* ¶ 6; see *Discotrade Ltd. v. Wyeth–Ayerst Int’l*, 200 F.Supp.2d 355, 357 (S.D.N.Y.2002) (in light of shared services, two corporate affiliates did “not view each other as strangers, but more like members of the [same] family”). Of particular relevance here, BabyCenter does not maintain its own legal department, but instead relies on J & J’s Law Department for legal services (along with outside counsel retained by it or by it through J & J). *Wilks Aff.* ¶ 6; see *Hartford Acci. & Indem. Co. v. RJR Nabisco, Inc.*, 721 F.Supp. 534, 540 (S.D.N.Y.1989) (“[i]f the parent and subsidiary were distinct and separate entities for representation purposes, there would have been no need for the parent’s general counsel to have retained this supervisory role”). Further, the agreement between GSI and BabyCenter that is the subject of the underlying arbitration was negotiated by an attorney in J & J’s Law Department, together with businesspeople from BabyCenter. *Wilks Aff.* ¶ 7. Indeed, it is undisputed that members of J & J’s Law Department have been involved in this action on behalf of BabyCenter since the parties’ dispute arose in October 2008, *id.* ¶¶ 8–13, and Blank Rome acknowledges that it has dealt with J & J attorneys during the pendency of this action. See *Ward Decl.* ¶ 9; *Daniels Decl.* ¶¶ 11–13. Further, since BabyCenter is a wholly owned subsidiary, its liabilities directly impact J & J’s. See, e.g., *Stratagem Dev. Corp. v. Heron Int’l N.V.*, 756 F.Supp. 789, 792 (S.D.N.Y.1991) (a lawyer’s duty of loyalty “applies with equal force where

the client is a subsidiary of the entity to be sued,” and where the liabilities of a wholly owned subsidiary “directly affect the bottom line of the corporation parent”).

In short, notwithstanding the scope of representation set forth in the Engagement Agreement, the Court is satisfied that the relationship between BabyCenter and J & J is sufficiently “close as to deem them a single entity for conflict of interest purposes.” *Id.* at 358; see *JPMorgan Chase*, 189 F.Supp.2d at 21, 23 (concluding that, where the relationship between a parent and subsidiary “was extremely close and interdependent, both financially and in terms of direction,” and where “the two share a wealth of common interests adversely impacted by the lawsuit in question,” the doctrine of concurrent representation applies); *Stratagem Dev. Corp.*, 756 F.Supp. at 792; *Hartford Accident & Indem. Co.*, 721 F.Supp. at 540 (“the Court concludes that RJR Nabisco, through its subsidiary Reynolds Tobacco, was a client of LeBoeuf”); cf. *Eastman Kodak Co. v. Sony Corp.*, Nos. 04–CV–6095, 04–CV–6098, 2004 WL 2984297, at *4 (W.D.N.Y. Dec. 27, 2004) (“without Kodak’s consent, it is ethically impermissible for [a law firm] to have a wholly owned and integrated subsidiary of Kodak as a client and simultaneously represent Kodak’s adversaries in pending litigation in state and federal court”).

[2] Accordingly, the Court concludes that BabyCenter must be considered a current client of Blank Rome for purposes of disqualification. It follows that, as noted above, disqualification must follow absent the most express of waivers. See New York R. of Prof’l Conduct 1.7(a),

Comment 6 (“absent consent, a lawyer may not advocate in one matter against another client that the lawyer represents in some other matter, even when the matters are wholly unrelated”). In *Discotrade Ltd.*, for instance, the Second Circuit determined that a law firm was barred from suing one subsidiary of Wyeth, Inc. when it simultaneously represented a division of another subsidiary, on the grounds that *338 the two corporations were so close as to deem them a single entity for conflict of interest purposes. 200 F.Supp.2d at 358; see *Hempstead Video*, 409 F.3d at 133 (“in cases of concurrent representation ... it is ‘prima facie improper’ for an attorney to simultaneously represent a client and another party with interests directly adverse to that client”).

Here, as already noted, the Engagement Agreement fails to provide the unequivocal express waiver that would be necessary to prevent Blank Rome's disqualification here. On the contrary, the Engagement Agreement, though drafted by Blank Rome, provides for

only limited prospective waivers, none of which are relevant here. See *Emle Indus., Inc. v. Patentex, Inc.*, 478 F.2d 562, 573–74 (2d Cir.1973) (“[i]t would be unreasonable to read [a company's] recognition and acceptance of [potential conflicts in specific pending litigation] as a blanket waiver by [the company] of all possible future claims in which [the lawyer] might be involved in a posture adverse to [the company]”).¹

Accordingly, for the foregoing reasons, the Court here reconfirms its Order of May 26, 2009 denying GSI's motion to compel arbitration as long as Blank Rome represents GSI and granting BabyCenter's cross-motion to disqualify Blank Rome. The clerk is directed to enter final judgment.

SO ORDERED.

All Citations

644 F.Supp.2d 333

Footnotes

- 1 Further, although the parties disagree as to the scope of J & J's agreement to permit Blank Rome to represent GSI in mediation before the commencement of the underlying arbitration proceedings, there is no indication that J & J ever expressly approved of Blank Rome's continued representation of GSI in arbitration if mediation failed. Also, to the extent that GSI argues that BabyCenter unfairly delayed in objecting to Blank Rome's conflict of interest, the Second Circuit has emphasized that because “disqualification is in the public interest, the court cannot act contrary to that interest by permitting a party's delay in moving for disqualification to justify the continuance of a breach of the Code of Professional Responsibility.” *Id.* at 574.

350 F.Supp.2d 796
United States District Court,
N.D. California.

CONCAT LP and
Chelator, LLC, Plaintiffs,

v.

UNILEVER, PLC, Unilever N.V.,
Unilever U.K. Central Resources
Ltd., Unilever United States, Inc.,
and Conopco, Inc., Defendants.

No. C 04-1396 SI. | Sept. 7, 2004.

Synopsis

Background: Suit was brought seeking correction of patents to reflect rightful inventors, or cancellation of patents. Defendants moved to compel arbitration or alternatively to dismiss for lack of personal jurisdiction, and plaintiff moved for disqualification of defendants' attorney.

Holdings: The District Court, Illston, J., held that:

- [1] arbitration of claim was required;
- [2] court would not relinquish jurisdiction on forum non conveniens grounds;
- [3] court had jurisdiction over foreign parent of defendant, and its foreign subsidiaries;
- [4] alleged assignor of property rights was not indispensable party, required to be joined;

[5] stay of suit pending arbitration did not moot attorney disqualification motion;

[6] disqualification of defendant's counsel was not required due to preliminary employment discussions between former attorney for plaintiff and defendant;

[7] plaintiff had standing to seek disqualification even though defendant's attorney had never represented plaintiff; and

[8] general waiver signed by controlling person of plaintiff, and erection of "ethical wall" between attorney doing estate planning work for controlling person and attorneys for patent defendant, was insufficient to avoid disqualification of firm.

Suit stayed for arbitration; dismissal motion denied; defense counsel disqualified.

West Headnotes (18)

[1] Alternative Dispute Resolution

↔ Matters to Be Determined by Court

Alternative Dispute Resolution

↔ Existence and validity of agreement

Alternative Dispute Resolution

↔ Arbitrability of dispute

Alternative Dispute Resolution

↔ Merits of controversy

In determining whether to issue an order compelling arbitration, under the Federal Arbitration Act (FAA),

the court may not review the merits of the dispute, but must limit its inquiry into (1) whether the contract containing the arbitration agreement evidences a transaction involving interstate commerce, (2) whether there exists a valid agreement to arbitrate, and (3) whether the dispute or disputes fall within the scope of the agreement to arbitrate. 9 U.S.C.A. § 4.

21 Cases that cite this headnote

[2] **Alternative Dispute Resolution**

↔ Existence and validity of agreement

Only when there is no genuine issue of material fact concerning the formation of an arbitration agreement should a court decide as a matter of law that the parties did or did not enter into such an agreement. 9 U.S.C.A. § 4.

13 Cases that cite this headnote

[3] **Alternative Dispute Resolution**

↔ Construction in favor of arbitration

Arbitration of disputes is required, under Federal Arbitration Act (FAA), especially in international disputes, when there is the most minimal indication of parties' intent to arbitrate. 9 U.S.C.A. § 4.

4 Cases that cite this headnote

[4] **Alternative Dispute Resolution**

↔ Construction

Alternative Dispute Resolution

↔ Disputes and Matters Arbitrable Under Agreement

Patent law dispute over identity of inventors, involving United States and Israel parties, had to be submitted to arbitration under Federal Arbitration Act (FAA), pursuant to arbitration clause in secrecy agreement entered into as part of contract for development of products using patented technology; secrecy agreement was integral part of overall agreement governing development, which also involved two other agreements lacking arbitration clause, arbitration provision covered matters "arising out of or relating to" agreement, requiring broad construction, and patent inventorship in context of international patent disputes could be resolved by arbitration. 9 U.S.C.A. § 4.

17 Cases that cite this headnote

[5] **Federal Courts**

↔ Forum Non Conveniens

Federal Courts

↔ Convenience of parties and witnesses; location of evidence

Federal court sitting in California would not relinquish jurisdiction, on forum non conveniens grounds, over suit brought by United States limited partner

and subsidiary against foreign corporation and its subsidiaries, challenging inventorship of patent; by seeking United States patent foreign defendants subjected themselves to jurisdiction of United States courts, and balance of inconvenience favored small United States claimant over multinational foreign corporation.

Cases that cite this headnote

[6] Federal Courts

↔ Related or affiliated entities; parent and subsidiary

Foreign parent of United States corporation, and parents' foreign subsidiaries, were subject to personal jurisdiction of United States federal court, in suit challenging inventorship under patents; claimants alleged that foreign entities misappropriated intellectual property contained in patents in question, and there was admission that parent and subsidiaries acted as unit in business matters.

1 Cases that cite this headnote

[7] Patents

↔ Court-ordered correction

Alleged assignor of property rights was not indispensable party required to be joined in suit seeking correction of patents by alleged assignee claiming violation of those rights

arising from issuance of patents naming wrong inventors; there was no showing that any residual interest of alleged assignor would not be adequately protected by alleged assignee. Fed.Rules Civ.Proc.Rule 19, 28 U.S.C.A.

Cases that cite this headnote

[8] Attorney and Client

↔ Disqualification in general

Whether to disqualify counsel, under California law, is a decision conveyed to the discretion of the district court. Cal.Prof.Conduct Rule 3-310.

1 Cases that cite this headnote

[9] Attorney and Client

↔ Representing Adverse Interests

When deciding whether attorney disqualification is warranted, under California law, court must weigh combined effect of party's right to counsel of choice, attorney's interest in representing client, financial burden on client of replacing disqualified counsel, and any tactical abuse underlying disqualification proceeding against fundamental principle that fair resolution of disputes within adversary system requires vigorous representation of parties by independent counsel unencumbered by conflicts of interest. Cal.Prof.Conduct Rule 3-310.

13 Cases that cite this headnote

[10] Attorney and Client

⇨ Disqualification proceedings;
standing

Stay of suit challenging patent inventorship, to allow for arbitration of issue in United Kingdom, did not moot request by plaintiff that defendant's attorney be disqualified, under California law, due to conflict of interest arising from attorney's representation of plaintiff on other matters; there was possibility that case might return to court, on appeal from arbitral decision or following dismissal of arbitration. Cal.Prof.Conduct Rule 3-310.

3 Cases that cite this headnote

[11] Attorney and Client

⇨ Particular Cases and Problems

Absence of any evidence that duty of client confidentiality was breached precluded disqualification of law firm representing patent holder, which was being sued for correction or cancellation of patent, based upon preliminary employment discussions between attorney who had formerly represented claimant and patent holder's law firm. Cal.Prof.Conduct Rule 3-310.

Cases that cite this headnote

[12] Attorney and Client

⇨ Disqualification proceedings;
standing

Non-client litigants may have standing to move for disqualification of counsel, under California law, in cases where they have a sufficient personal stake in the motion because the ethical breach so infects the litigation in which disqualification is sought that it impacts the moving party's interest in a just and lawful determination of her claims. Cal.Prof.Conduct Rule 3-310.

13 Cases that cite this headnote

[13] Attorney and Client

⇨ Disqualification proceedings;
standing

Plaintiff bringing patent lawsuit had standing under California law, to seek disqualification of attorney representing defendant, even though attorney had never represented plaintiff directly, when attorney representing managing partner of plaintiff in estate planning matters was partner in firm which accepted representation of defendant, allegedly breaching duty of loyalty to client. Cal.Prof.Conduct Rule 3-310.

2 Cases that cite this headnote

[14] Attorney and Client

⇨ Disqualification proceedings;
standing

When evaluating whether a law firm may concurrently represent two clients, even on unrelated matters, it is presumed, under California law, that the duty of loyalty has been breached and counsel is automatically disqualified. Cal.Prof.Conduct Rule 3-310.

4 Cases that cite this headnote

[15] Attorney and Client

↔ Disclosure, waiver, or consent

Determination of whether waiver of conflict of interest is sufficient to avoid disqualification of attorney representing adversary of client on different matter, under California law, courts are to consider (1) waiver's breadth, (2) whether it waived only current conflicts or applied to all conflicts in future, (3) quality of conflict discussion between attorney and client, (4) specificity of waiver, (5) whether attorney sought to represent both clients, (6) sophistication of client, and (7) interests of justice. Cal.Prof.Conduct Rule 3-310.

4 Cases that cite this headnote

[16] Attorney and Client

↔ Disclosure, waiver, or consent

Client's general waiver of conflict of interest, applicable to "any" representation by law firm of adverse party in unrelated dispute, was insufficient to cover case in which

attorney undertook estate planning work for client, and his firm later undertook to represent adverse party in patent dispute with company in which client had ownership interest; a second waiver specifically addressing patent dispute was required. Cal.Prof.Conduct Rule 3-310.

3 Cases that cite this headnote

[17] Attorney and Client

↔ Partners and associates

"Ethical wall," erected by law firm to separate attorney working on estate planning matters for one of the controlling persons of plaintiff bringing patent suit from other attorneys representing patent suit defendant, was insufficient under California law to preclude disqualification of firm from representing defendant, for breach of duty of loyalty to plaintiff. Cal.Prof.Conduct Rule 3-310.

2 Cases that cite this headnote

[18] Patents

↔ In general; utility

US Patent 6,503,490, US Patent 6,583,182. Cited.

Cases that cite this headnote

Attorneys and Law Firms

*799 Henry M. Heines, April Elizabeth Abele, Paul W. Vapnek, Townsend & Townsend & Crew LLP, San Francisco, CA, for Plaintiffs.

Jason A. Lief, Kenneth L. Waggoner, Michael B. Green, Morgan Lewis & Bockius, LLP, Franklin Brockway Gowdy, Brobeck, Phleger & Harrison LLP, San Francisco, CA, Stephen B. Judlowe, Morgan Lewis & Bockius LLP, New York, NY, for Defendants.

ORDER GRANTING DEFENDANTS' MOTION TO STAY PENDING ARBITRATION, DENYING DEFENDANTS' MOTION TO DISMISS, AND GRANTING PLAINTIFFS' MOTION TO DISQUALIFY DEFENDANTS' COUNSEL

ILLSTON, District Judge.

On July 2, 2004, this Court heard argument on the following motions: defendants' motion to stay this litigation pending arbitration or, in the alternative, to dismiss the complaint on grounds of *forum non conveniens*, lack of *in personam* jurisdiction, and/or failure to join indispensable parties; and plaintiff's motion to disqualify defendants' counsel. Having carefully considered the argument of counsel and the papers submitted, the Court hereby GRANTS defendants' motion to stay the action pending arbitration; DENIES defendants' motion in the alternative to dismiss; and GRANTS plaintiffs' motion to disqualify counsel.

***800 BACKGROUND**

The dispute in this case is about intellectual property rights concerning a group of chemical compounds and methods of using those compounds in the formulation of deodorants. The compounds in question are chelators. Chelators have the active property of combining with metal ions to form further compounds, known as chelates. Due to their metal-binding properties, chelators tend to inhibit chemical reactions. NIH Unified Medical Language System, U.S. National Medical Library, < <http://ghr.nlm.nih.gov/ghr/glossary/chelator> > (last visited July 1, 2004).

Plaintiff Concat LP is a California Limited Partnership whose partners are members of the Winchell family. Compl. at ¶ 1; Declaration of Dr. H.S. Winchell, ¶ 2. During most of the period covered by this dispute, the managing partner was Dr. H.S. Winchell. Winchell Decl. at ¶¶ 1–2. The current managing partner is a corporation owned by Dr. Winchell's children. *Id.* at ¶ 2. Concat's business includes the design and development of chelators and their applications. Compl. at ¶ 16. Between 1981 and 2001, Concat supported all research and development at Israel Resources Corporation, Ltd. (“IRC”), a private company organized under the law of Israel. IRC assigned all intellectual property rights arising from this research to Concat. Compl. at ¶ 3; Winchell Decl. at ¶ 3. In June, 1996, Concat filed an international patent application covering a number of inventions, including methods of using chelators to prevent bacterial and fungal growth on human body surfaces. Compl. at ¶ 18. On September 10, 2001, Concat assigned

all of its then current intellectual property rights to Chelator, LLC, a Delaware limited liability company with its principal place of business in Concord, California. In return, Concat received all Chelator stock issued at that time. *Id.* at ¶¶ 2, 4. IRC then sold all of its assets, including intellectual property rights, to Complexx R & D services, a private company organized in Israel and wholly owned by Chelator. *Id.* at ¶ 5.

Defendants Conopco, Unilever UK and Unilever U.S. are subsidiaries of Unilever PLC, and Unilever N.V., which are organized under the laws of the U.K. and the Netherlands, respectively, but which operate as a single company and have a single board of directors. *Compl.* at ¶¶ 7–12. Unilever is a major international producer of consumer goods, including toiletries. *Id.* In August, 1996, Dr. Winchell of Concat and the then president of IRC, Dr. Haim Zaklad, contacted Unilever regarding a possible joint development of Concat's compounds for use in deodorants. *Compl.* at ¶ 19. On December 12, 1996, a Letter of Understanding was executed between IRC and Unilever U.K. Central Resources Ltd., acting on behalf of its Unilever Research Port Sunlight Laboratory (“Port Sunlight”), located in Wirral, U.K. *Id.*; *Decl. of Paul W. Vapnek in Supp. of Pls.' Mot. to Stay or Dismiss, Ex. 5.* The 1996 Letter of Understanding was followed by a “Secrecy Agreement,” executed in June, 1997, between IRC and the Unilever Research and Engineering Environmental Safety Laboratory (“ESL”), later renamed the Unilever Research SEAC Toxicology Unit (“SEAC”), located in Bedford, U.K. *Compl.* at ¶ 22; *Decl. of Jason Lief in Supp. of Defs.' Mot. to Stay or Dismiss, Ex. B.* The scope of the 1997 Secrecy Agreement, which includes

an arbitration clause, is a matter in dispute. *See Lief Decl., Ex. B* at ¶ 5. Pursuant to the 1996 Letter of Understanding, IRC provided Unilever with samples of two compounds for evaluation, the more important of which was designated 3MP/IRC011 (“3MP”) or Deofix. *Compl.* at ¶¶ 19–20. Testing and evaluation of the 3MP compound continued for the next several *801 years, during which period the parties conducted extensive discussions and exchanged scientific data. *Id.* at ¶¶ 21–44. Beginning in May, 1998, Drs. Winchell and Zaklad met and corresponded regularly with Drs. Michael Lowry and Stephen Makin of the Port Sunlight Deodorant Research Group. *Compl.* at ¶¶ 24–44. On February 1, 1999, the IRC and Port Sunlight entered a further “Confidentiality Agreement.” *Id.* at ¶ 28; *Vapnek Decl. in Supp. of Pls.' Mot. to Stay or Dismiss, Ex. 11.*

Beginning in January, 2001, Unilever filed a series of U.S. patent applications under the titles: “Deodorant Products,” “Anti-Microbial Compositions,” and “Anti-Microbial Antiperspirant Products,” all naming Dr. Makin as an inventor. *Compl.* at ¶¶ 47–52. The “Deodorant Products” application issued in January, 2003, as U.S. Patent Number 6,503,490 B2 (“the '490 patent”). *Id.* at ¶ 47. In April, 2002, Unilever announced a “breakthrough” deodorant technology employing a chemical that inhibits the growth of bacteria by binding the nutrient iron in sweat. *Id.* at ¶ 45. In September, 2002, Drs. Makin and Lowry presented a scientific conference paper entitled “Iron Sequestration on Skin: A New Route to Improved Deodorancy.” *Id.* at ¶ 46. Plaintiffs allege that these patent applications and publications are based on data

that Unilever obtained from IRS/Concat. *Id.* at ¶¶ 47–50. Plaintiffs further allege that Unilever has marketed deodorants containing plaintiffs' intellectual property. *Id.* at ¶ 54; Winchell Decl. at ¶ 17.

On June 4, 2003, Chelator was awarded U.S. Patent No. 6, 583, 182 B1 (“the '181 patent”), which claims the use of chelating agents to inhibit bacterial and fungal growth. Winchell Decl. at ¶ 16. The inventors of the '181 patent include Drs. Winchell and Zaklad. *Id.*

In late June, 2003, Dr. Winchell and his wife approached W. Scott Thomas, Esq. of the Personal Law Practice Group of the San Francisco office of Morgan, Lewis & Bockius LLP (“Morgan, Lewis”) for assistance with planning his estate. Winchell Decl. at ¶ 4; Decl. of W. Scott Thomas in Supp. of Defs.' Opp'n to Pls.' Mot. to Disqualify at ¶ 2. Morgan, Lewis are counsel to Unilever in this dispute. It is undisputed that the Winchells provided Thomas with a list of their and their children's business interests, including their partnership interests in Concat, and Concat's interests in Chelator. Winchell Decl. at ¶ 5; Thomas Decl. at ¶¶ 2–3. Thomas used this information to run a conflict of interest search in Morgan, Lewis's client database. Although Unilever was already an established client of Morgan, Lewis, the search produced a negative result, since no dispute between Unilever and Concat/Chelator existed at that time. Winchell Decl. at ¶ 5; Thomas Decl. at ¶ 5. On July 2, 2003, Thomas sent the Winchells a client-attorney engagement letter, which they executed on July 22 and 23. Winchell Decl., Ex. 1. The engagement letter included the following disclaimer:

Morgan, Lewis & Bockius is a large law firm, and we represent many other companies and individuals. It is possible that some of our present or future clients will have disputes or other dealings with you during the time that we represent you. Accordingly, as a condition of our undertaking of this matter for you, you agree that Morgan, Lewis & Bockius may continue to represent, or may undertake in the future to represent, existing or new clients in any matter, including litigation, that is not substantially related to our work for you, even if the interests of such clients in those other matters are directly adverse to you. Further, you agree in *802 light of its general consent to such unrelated conflicting representations, Morgan, Lewis & Bockius will not be required to notify you of each such representation as it arises. We agree, however, that your prospective consent to conflicting representations contained in the preceding sentence shall not apply in any instance where, as the result of our representation of you, we have obtained confidential information of

a non-public nature that, if known to another client of ours, could be used to your material disadvantage in a matter in which we represent, or in the future are asked to undertake representation of, that client.

Id. at p. 2. Also on July 2, 2003, Dr. Winchell sent Thomas by email a summary of his business interests, which included an initial description of the intellectual property of Concat and Chelator. Winchell Decl. at ¶ 7; Thomas Decl. at ¶ 3. This disclosure was preceded by the following caveat in bold letters:

**THE FOLLOWING INFORMATION IS
CONFIDENTIAL AND
PROPRIETARY. CONCAT/
CHELATOR MAY BE IRREPARABLY
HARMED SHOULD THE STATUS OF
DEVELOPMENT AND TESTING OF
OUR AGENTS BE DISCLOSED TO
THOSE DEVELOPING COMPETING
TECHNOLOGY, OR THOSE
CURRENTLY EVALUATING, OR IN
THE FUTURE MAY CONSIDER
EVALUATING (sic), OUR AGENTS.**

Winchell Decl., Ex. 2. Dr. Winchell states that, as the estate planning process developed, he provided detailed confidential information about Concat/Chelator's intellectual property and its applications to an intellectual property appraiser recommended by Thomas and directly to Thomas himself. Winchell Decl. at ¶ 8. He also states that he gave Thomas detailed information concerning the business structure, finances and assets of Concat Chelator. *Id.*

at ¶ 11. He maintains that these disclosures included matters directly relevant to the current dispute. *Id.* at ¶ 13. Thomas disagrees with this characterization of the information disclosed, which he describes as "quite general and sketchy." Thomas Decl. at ¶ 8. Thomas further states that his work for Dr. Winchell concerned personal financial matters only, that he has no scientific education or experience that would enable him to evaluate Concat/Chelator's intellectual property or its potential commercial applications, and that he has had no discussion on this subject with any member of Morgan, Lewis's New York office, which is representing Unilever in the intellectual property dispute. *Id.* at ¶¶ 6–7, 9.

On August 12, 2003, Chelator's then attorney, Gerald P. Dodson, Esq. of Morrison and Foerster, wrote to Unilever regarding Unilever's allegedly false patents and alleged misappropriation of Concat/Chelator's technology. Winchell Decl., Ex. 3. The letter requested a meeting to discuss correction of the inventorship of Unilever's '490 patent in favor of Drs. Winchell and Zaklad, Concat/Chelator's claim to ownership of the technology, and a possible licensing agreement. *Id.* On October 30, 2003, Unilever notified Dodson that it proposed to hold the meeting at the London offices of Morgan, Lewis, by whom Unilever would be represented. Winchell Decl. at ¶ 20. Dodson was at that time involved in discussions with Morgan, Lewis concerning the possibility of his joining the firm as a partner. *Id.* Believing that these discussions created a potential conflict of interest, Dodson immediately withdrew from representation of Concat/Chelator. *Id.* The proposed meeting was cancelled due to Concat/Chelator's lack

of counsel. *Id.* Dodson's negotiations with Morgan, Lewis did not lead to a partnership offer *803 and ceased as of November, 2003. Decl. of Eric Kraeutler in Supp. of Defs.' Opp'n to Pls.' Mot. to Disqualify at ¶¶ 5–6.

In a letter dated November 24, 2003, plaintiffs' new attorney, Paul W. Vapnek, Esq. of Townsend and Townsend and Crew LLP, informed Morgan, Lewis that Dr. Winchell was a Morgan, Lewis client. Vapnek Decl. in Supp. of Pls.' Mot. to Disqualify, Ex. 7. Vapnek expressed the view that this created a conflict, which “categorically precludes Morgan Lewis from continuing its representation of Unilever adverse to Dr. Winchell and his company.” *Id.* In a reply dated December 2, 2003, the Chairman of Morgan, Lewis's Standing Committee on Conflicts and Professional Responsibility rejected this view on the basis of the conflict waiver included in the client-attorney engagement letter signed by Dr. Winchell and his wife. *Id.*, Ex. 8. Morgan, Lewis has stated that, immediately on receipt of Vapnek's letter, they established a *de facto* isolation screen between Thomas's office and the New York attorneys representing Unilever, and that this was subsequently formalized with file access prohibitions and contact prohibitions. Defs.' Opp'n Br. at 10:112–21; Thomas Decl. at ¶ 9; Declaration of Thomas M. Kittredge at ¶ 4.

On April 9, 2004, plaintiffs filed a complaint with this Court asking for correction of the '490 patent to recognize Drs. Winchell and Zaklad as the named inventors of the compounds or, in the alternative, invalidation of the patent. Plaintiffs also seek a declaratory judgment regarding ownership of the subject matter

of the '490 patent and the associated patent applications, and allege causes of action for fraud and unfair competition in violation of California Business and Professions Code §§ 17200 and 17500. On May 11, 2004, defendants filed a request for arbitration with the London Court of International Arbitration (“LCIA”) pursuant to the arbitration clause contained in the June 1997 Secrecy Agreement. Now before the Court are defendants' motion to stay the suit pending that arbitration or, in the alternative, to dismiss on grounds of *forum non conveniens*, lack of *in personam* jurisdiction, and/or failure to join indispensable parties; and plaintiffs' motion to disqualify Morgan, Lewis as defendants' counsel.

DISCUSSION

I. Defendants' motion to stay or dismiss

A. Motion to stay pending arbitration

1. Legal standard

Section 4 of the Federal Arbitration Act (“FAA”) permits “a party aggrieved by the alleged failure, neglect, or refusal of another to arbitrate under a written agreement for arbitration [to] petition any United States District Court ... for an order directing that ... arbitration proceed in the manner provided for in [the arbitration] agreement.” 9 U.S.C. § 4. Upon a showing that a party has failed to comply with a valid arbitration agreement, the court must issue an order compelling arbitration. *Cohen v. Wedbush, Noble Cooke, Inc.*, 841 F.2d 282, 285 (9th Cir.1988).

[1] The Supreme Court has stated that the FAA espouses a general policy favoring arbitration agreements. *Moses H. Cone Memorial Hosp. v. Mercury Constr. Corp.*, 460 U.S. 1, 24–25, 103 S.Ct. 927, 941, 74 L.Ed.2d 765 (1983). Federal courts are required to rigorously enforce an agreement to arbitrate. *Id.* However, the strong presumption in favor of arbitration “does not confer a right to compel arbitration of any dispute at any time.” *804 *Volt Info. Sciences, Inc. v. Bd. of Trustees of Leland Stanford Junior Univ.*, 489 U.S. 468, 474, 109 S.Ct. 1248, 1253, 103 L.Ed.2d 488 (1989). This is so because “arbitration is a matter of contract and a party cannot be required to submit to arbitration any dispute which he has not agreed so to submit.” *United Steelworkers v. Warrior & Gulf Navigation Co.*, 363 U.S. 574, 582, 80 S.Ct. 1347, 1353, 4 L.Ed.2d 1409 (1960); *see also McDonnell Douglas Finance Corp. v. Pennsylvania Power & Light Co.*, 858 F.2d 825, 831 (2nd Cir.1988) (stating that the purpose of the FAA is to “make arbitration agreements as enforceable as other contracts, but not more so”) (citation omitted). In determining whether to issue an order compelling arbitration, the court may not review the merits of the dispute, but must limit its inquiry into (1) whether the contract containing the arbitration agreement evidences a transaction involving interstate commerce, (2) whether there exists a valid agreement to arbitrate, and (3) whether the dispute(s) fall within the scope of the agreement to arbitrate. *Republic of Nicaragua v. Standard Fruit Co.*, 937 F.2d 469, 477–78 (9th Cir.1991), *cert. denied*, 503 U.S. 919, 112 S.Ct. 1294, 117 L.Ed.2d 516 (1992). If the answer to each of these queries is affirmative, then the court must

order the parties to arbitration in accordance with the terms of their agreement. 9 U.S.C. § 4.

[2] “When considering a motion to compel arbitration, a court applies a standard similar to the summary judgment standard of Fed.R.Civ.P. 56.” *McCarthy v. Providential Corp.*, 1994 WL 387852 at *2, 1994 U.S. Dist. LEXIS 10122 at *6 (N.D.Cal.1994). In considering a motion to compel arbitration which is opposed on the ground that no agreement to arbitrate was made, a district court should give to the opposing party the benefit of all reasonable doubts and inferences that may arise *Id.*, 1994 WL 387852 at *2, 1994 U.S. Dist. LEXIS 10122 at *6–7 Only when there is no genuine issue of material fact concerning the formation of an arbitration agreement should a court decide as a matter of law that the parties did or did not enter into such an agreement. *Three Valleys Mun. Water Dist. v. E.F. Hutton & Co.*, 925 F.2d 1136, 1141 (9th Cir.1991).

[3] On the other hand, “[t]he standard for demonstrating arbitrability is not a high one; in fact, a district court has little discretion to deny an arbitration motion, since the [Federal Arbitration] Act is phrased in mandatory terms.” *Standard Fruit*, 937 F.2d at 475; *cf. Dean Witter Reynolds, Inc. v. Byrd*, 470 U.S. 213, 218, 105 S.Ct. 1238, 1241, 84 L.Ed.2d 158 (1985) (holding that the Act “leaves no place for the exercise of discretion by a district court”). Moreover, the federal policy favoring arbitration “applies with especial force in the field of international commerce.” *Mitsubishi Motors Corp. v. Soler Chrysler–Plymouth, Inc.*, 473 U.S. 614, 631, 105 S.Ct. 3346, 3356, 87 L.Ed.2d 444 (1985). Defendants are thus correct in their assertion that “the clear

weight of authority holds that the most minimal indication of the parties' intent to arbitrate must be given full effect, especially in international disputes." *Standard Fruit*, 937 F.2d at 478. Moreover, the scope of an arbitration clause must be interpreted liberally and "as a matter of federal law, any doubts concerning the scope of arbitrable disputes should be resolved in favor of arbitration." *Moses H. Cone*, 460 U.S. at 24, 103 S.Ct. at 941; *Three Valleys*, 925 F.2d at 1144; *French v. Merrill Lynch*, 784 F.2d 902, 908 (9th Cir.1986). Hence, "[a]n order to arbitrate ... should not be denied unless it may be said with positive assurance that the arbitration clause is not susceptible of an interpretation that covers the asserted dispute. Doubts should be resolved in favor of coverage." *United *805 Steelworkers*, 363 U.S. at 582-83, 80 S.Ct. at 1353, 4 L.Ed.2d 1409 (1960).¹

2. The subject matter of this dispute is within the scope of the arbitration clause of the 1997 Secrecy Agreement.

(a) The transactions covered by the 1997 Secrecy Agreement are not distinct from the matter in dispute.

[4] Defendants have asked this Court to enforce the arbitration clause of the 1997 Secrecy Agreement between IRC and ESL/SEAC, which reads as follows:

- 5) Any dispute arising out of or in connection with this Agreement which is not settled by the parties amicably shall be referred to and finally resolved by arbitration under the Rules of the London Court of International Arbitration, which Rules are deemed to be incorporated

by reference into this Clause. The place of arbitration shall be London and the language, English ...

- 6) This Agreement shall be governed by the Law of England.

Lief Decl., Ex. B. Plaintiffs concede the existence of this agreement and the federal policy favoring arbitration. *Dean Witter Reynolds*, 470 U.S. at 218, 105 S.Ct. at 1241; see Pls.' Opp'n Br. at 7:6-24. However, they maintain that the 1997 agreement does not apply to the subject matter of this dispute. Pls.' Opp'n Br. at 8:1-9:11. In support of their position, plaintiffs point to the first clause of the Secrecy Agreement, which reads:

- 1) In consideration of the Disclosing Party disclosing to the Recipients information concerning:—

Deodorant active 3MP and/or HD2MP

(hereinafter referred to as "the Information") for health, safety and environmental evaluation purposes, the Recipients undertake for a period of five (5) years from the date of disclosure to treat the Information as strictly confidential and therefore not to disclose it to any third party (except reliable employees, under secrecy obligations, permanently employed in Unilever Research and Engineering and identified by the Head of the Environmental Safety laboratory as essential participants in the health, safety and environmental evaluation process) and to make no commercial use of it without the express consent of the Disclosing Party.

Lief Decl., Ex. B; *cf.* Pls.' Opp'n Br. at 8:14–21. Plaintiffs maintain that the scope of this agreement was limited to IRC's disclosure to one specific Unilever laboratory, ESL/SEAC, for the “health, safety and environmental evaluation purposes” to which the text refers. Pls.' Opp'n Br. at 8:14–9:11. The agreement says nothing about the patents that are the focus of this dispute. *See id.* In oral argument, plaintiffs clarified their position by explaining that they do not allege misuse of the data they submitted to ESL/SEAC. On this basis, plaintiffs assert that the 1997 Secrecy agreement between IRC and ESL/SEAC does not cover the subject matter of this dispute. *See id.* They maintain that the patent infringement and other claims submitted to this Court are all based on alleged misappropriation of other information *806 that IRC disclosed to the Port Sunlight laboratory under the terms of the December, 1996 Letter of Understanding and the February, 1999 Confidentiality Agreement. *See* Vapnek Decl. in Supp. of Pls.' Opp'n to Defs.' Mot. to Stay or Dismiss, Ex. 5. Neither of these agreements contains an arbitration clause. *See id.* The 1999 Confidentiality Agreement contains a choice of law provision subjecting the agreement to the laws of Israel and the parties to the non-exclusive jurisdiction of the Israeli courts. *Id.*² Dr. Stephen Makin, who is named as an inventor of the disputed patents, was employed by Port Sunlight and had extensive dealings with Drs. Winchell and Zaklad of IRC, beginning on or about May 7, 1998. *See* Compl. at ¶ 24.

In support of their position that the 1997 Secrecy Agreement refers to a transaction that was entirely separate from the disclosures

giving rise to this dispute, plaintiffs point to correspondence between ESL/SEAC and Drs. Winchell and Zaklad. In a letter covering the 1997 Secrecy Agreement and dated June 4, 1997, the head of ESL, Dr. H.D. Clark, refers to “the care we take over the receipt of confidential information from non-Unilever Companies.” Vapnek Decl. in Supp. of Opp'n, Ex. 10.³ In oral argument, plaintiffs argued that this statement supports of their position that the information they disclosed to ESL/SEAC was quite separate from the information they shared with Port Sunlight. More telling, perhaps, is a letter of February 23, 1999, in which Mary Snow of SEAC requests further information regarding the compounds submitted by IRC. Vapnek Decl. in Supp. of Opp'n, Ex. 18. In oral argument, plaintiffs drew attention to the following statement by Snow:

I recognize that this new request will most likely involve you releasing more detailed information than you had previously provided to my URPS [Port Sunlight] colleagues thus (sic) I would like to reaffirm the statement I made in my previous letter. Detailed manufacture and processing information and safety data sent to us is not passed on to Research or the operating companies. Such information received will only ever be used to help us assess the safety in use of 3MP.

Id. at p. 2. Again, plaintiffs submit that this statement confirms their position that the information they submitted to ESL/SEAC is not at issue in this dispute.

In oral argument, defendants maintained that the 1999 Confidentiality Agreement is “not a novation” of the 1997 Secrecy Agreement.

In their opinion, the 1999 agreement covered commercial development of the data submitted under the 1997 agreement, which referred to scientific research based on the same data. Defendants therefore argued that the 1999 Confidentiality Agreement is conditioned by the 1997 Secrecy Agreement and characterized the distinction of content proposed by plaintiffs as merely “artful pleading.” On this basis, defendants argued that the arbitration provision of the 1997 agreement also controls the 1999 agreement *807 and, hence, applies to the subject of this dispute.

Plaintiffs' construction of the historical and legal relationship of these agreements is not without merit, but it has several weaknesses. In the first place, their complaint does not make it clear that the 1997 Secrecy Agreement is unrelated to this dispute; rather, it appears to imply the contrary. *See* Compl. at ¶¶ 21–23. Secondly, plaintiffs themselves show, with supporting evidence, that Unilever and its subsidiaries are, in effect, one homogenous entity and that, in consequence, communication between the member companies and operational units must always be assumed. Pls.' Opp'n Br. at 12:6–12; *see* Vapnek Decl. in Supp. of Opp'n, Ex. 22 at p. 47; *id.*, Ex. 23. Finally, plaintiffs' reconstruction of events requires the Court to accept that all disclosures made by IRC to Port Sunlight prior to the Confidentiality Agreement of February 1, 1999, were governed solely by the December 12, 1996 Letter of Understanding. Plaintiffs have asserted that those disclosures began as early as January 1997 and that Drs. Winchell's and Zaklad's first meeting with Dr. Makin of Port Sunlight occurred on or about May 7, 1998. Compl. at

¶¶ 20, 24. The 1996 Letter of Understanding, which binds IRC for a ninety-day period only, is no more than a preliminary instrument, of very limited scope and duration. The terms of the letter are too sketchy to serve as a basis for any substantial disclosure of scientific data, yet plaintiffs indicate that they made significant disclosures to Port Sunlight during the period prior to February 1, 1999. *See* Compl. at ¶¶ 25–27. On balance, therefore, the record tends to support defendants' contention that the 1997 Secrecy Agreement is an integral part of the series of transactions giving rise to this dispute.

(b) The language of the arbitration clause is inclusive.

On the basis of their position regarding the scope of the 1997 Secrecy Agreement, plaintiffs have asked the LCIA to dismiss the arbitration for lack of jurisdiction. *See* Vapnek Decl. in Supp. of Opp'n, Ex. 24 at ¶ 11. The LCIA will make its own determination as to its jurisdiction over this dispute. Under Ninth Circuit law, however, this Court disagrees with plaintiffs' narrow reading of the arbitration clause. In considering the scope of an arbitration clause's application, U.S. courts have recognized a distinction between “broad” and “narrow” language. *Mediterranean Enterprises, Inc. v. Ssangyong Corp.*, 708 F.2d 1458, 1463–64 (9th Cir.1983); *cf. Tracer Research v. National Environmental Servs.*, 42 F.3d 1292, 1295 (9th Cir.1994); *see also McDonnell Douglas*, 858 F.2d at 832. The rule is that, where an arbitration clause applies to matters “arising under” the agreement, its scope is narrowly defined, but where it applies to matters “arising out of or relating to” the agreement, its application should be broadly construed. *Mediterranean Enterprises*,

708 F.2d at 1463–64. The arbitration provision at issue covers all disputes “arising out of or in connection with” the 1997 Secrecy Agreement. Lief Decl., Ex. B. Its scope is, therefore, broad. The Court finds that plaintiffs’ claims arise “in connection” with the 1997 agreement and are, therefore, subject to the arbitration clause contained therein unless and until the LCIA should decide otherwise.

(c) In the context of an international dispute, the issue of patent inventorship may be resolved by arbitration.

During oral argument, the Court posed the question whether the issue of patent inventorship is susceptible of resolution by *808 arbitration. To this question, defendants answered, “Yes,” but plaintiffs answered, “No.” Neither party has addressed the question in its written submissions. The question appears to be one of first impression in this Circuit. The Court finds that the law on this subject has until recently been uncertain, but that, in the context of an international dispute, the affirmative answer is correct.

In *Diematic Mfg. Corp. v. Packaging Indus., Inc.*, 381 F.Supp. 1057, 1061 (S.D.N.Y.1974), the court, in considering a dispute that included the issue of inventorship, held that “the grave public interest in questions of patent validity and infringement renders them inappropriate for determination in arbitration proceedings.” In reaching that decision, the court relied heavily on *American Safety Equip. v. J.P. Maguire & Co.*, 391 F.2d 821 (2d Cir.1968), where the court reached an analogous decision in the field of Antitrust law. However, in *Mitsubishi Motors*, the Supreme Court held that the *American Safety* ruling does not apply

to international disputes, thereby effectively overruling *Diematic. Mitsubishi Motors*, 473 U.S. at 632–35, 105 S.Ct. at 3356–3358, 87 L.Ed.2d 444 (1985); see *Warner & Swasey Co. v. Salvagnini Transferica S.p.A.*, 633 F.Supp. 1209, 1212 (W.D.N.Y.1986). The *Diematic* decision, as stated, has also been superceded by federal statute:

A contract involving a patent or any right under a patent may contain a provision requiring arbitration of any dispute relating to patent validity or infringement arising under the contract. ... Any such provision or agreement shall be valid, irrevocable, and enforceable, except for any grounds that exist at law or in equity for revocation of a contract.

35 U.S.C. § 294(a) 2004; see *Warner & Swasey*, 633 F.Supp. at 1212.

The Court's question raises the possibility that the specific issue of patent inventorship, as distinct from “patent validity or infringement,” falls outside the contractual matters covered by this statute, in which case it may be a non-arbitrable issue under U.S. law. However, the *Mitsubishi Motors* decision has established a very strong presumption in favor of arbitration of international disputes, even where U.S. statutory claims are implicated. 473 U.S. at 626–27 and 631, 105 S.Ct. at 3353–34 and 3356. In that case, the Supreme Court held that “the international legal order” requires national courts to “subordinate domestic notions of arbitrability to the international policy favoring

commercial arbitration.” *Id.*, 473 U.S. at 638–39, 105 S.Ct. at 3360.

In *Miner Enters. v. Adidas AG*, 1995 WL 708570, 1995 U.S. Dist. LEXIS 17822 (N.D.Ill.1995), the court dismissed a complaint involving patent inventorship because it was subject to a transnational arbitration agreement. That court explicitly rejected plaintiffs' argument that U.S. patent law does not permit the issue of inventorship to be arbitrated, holding that there is no authority to support this restrictive reading of 35 U.S.C. § 294(a). *Id.*, 1995 WL 708570 at *2–3, 1995 U.S. Dist. LEXIS 17822 at *7–8. Similarly, in *Danisco A/S v. Novo Nordisk A/S*, 2003 WL 282391, 2003 U.S. Dist LEXIS 1842 (S.D.N.Y.2003), the court granted a stay pending international arbitration of a patent dispute about inventorship of food enzymes. The plaintiffs in that case contended that the issue of inventorship was outside the scope of the arbitration agreement because it was “fundamentally different” from that of ownership. *Id.*, 2003 WL 282391 at *3, 2003 U.S. Dist LEXIS 1842 at *9. The *Danisco* court rejected this contention. *Id.*, 2003 WL 282391 at *3, 2003 U.S. Dist LEXIS 1842 at *10. These *809 rulings are consistent with the Supreme Court's declared unwillingness “to subvert the spirit” of the United States' accession to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards, codified at 9 U.S.C. §§ 201–208, “by recognizing subject-matter exceptions where Congress has not expressly directed the courts to do so.” *Mitsubishi Motors*, 473 U.S. at 639, 105 S.Ct. at 3360.⁴

The great weight of authority thus favors the position that patent inventorship is an arbitrable issue in international disputes. Plaintiffs have not demonstrated that the 1997 agreement does not apply to the subject matter of this dispute. The broad language of the arbitration clause in that agreement indicates strongly that it does. On these grounds, and since doubts are to be resolved in favor of arbitration, defendants' motion to stay this matter pending arbitration must be GRANTED.

B. Motion to dismiss on grounds of *forum non conveniens*

1. Legal standard

[5] *Forum non conveniens* is a common law doctrine, articulated by the U.S. Supreme Court in 1947, allowing a court to decline to exercise its jurisdiction in cases where litigation in the forum would be seriously inconvenient for one of the parties and a more convenient forum is available elsewhere. *Gulf Oil Corp. v. Gilbert*, 330 U.S. 501, 504, 67 S.Ct. 839, 841, 91 L.Ed. 1055 (1947). With regard to transfer of venue between federal courts, the *Gulf Oil* doctrine has been superseded by statute. 28 U.S.C. § 1404(a). However, it remains viable where the alternative forum is abroad. *Piper Aircraft Co. v. Reyno*, 454 U.S. 235, 102 S.Ct. 252, 70 L.Ed.2d 419 (1981); *cf. Quackenbush v. Allstate Ins. Co.*, 517 U.S. 706, 722, 116 S.Ct. 1712, 1723, 135 L.Ed.2d 1 (1996); *American Dredging Co. v. Miller*, 510 U.S. 443, 449, n. 2, 114 S.Ct. 981, 986, 127 L.Ed.2d 285 (1994); *See Schwarzer, Tashima & Wagstaffe, Fed. Civ. Proc. Before Trial* 4:314 (2001).

Dismissal under *forum non conveniens* requires that an alternative forum be available in the

foreign country. *Piper Aircraft*, 454 U.S. at 254, 102 S.Ct. at 265. In addition, a court must balance a number of private and public interest factors. *Ceramic Corp. of America v. Inka Maritime Corp.*, 1 F.3d 947, 949 (9th Cir.1993). Plaintiff's choice of forum will ordinarily prevail, unless those factors strongly favor trial in the foreign country. *Id.* at 950. However, courts should disregard a plaintiff's forum choice where the suit is a result of forum-shopping. See *Alltrade, Inc., v. Uniweld Products, Inc.*, 946 F.2d 622, 628 (9th Cir.1991). The *forum non conveniens* determination ultimately lies in the court's discretion. *Lueck v. Sundstrand Corp.*, 236 F.3d 1137, 1143 (9th Cir.2001).

2. The doctrine of *forum non conveniens* does not justify dismissal because defendants, by the act of filing U.S. patent applications, have exposed themselves to the foreseeable possibility of litigation in U.S. courts and because the balance of interests does not overcome the presumption in favor of plaintiff's forum choice.

Defendants argue that, under *Gulf Oil*, the Court should exercise its discretion to dismiss this Complaint. Defs.' Br. in Supp. of Mot. to Stay or Dismiss at 15:12–16:24. In cases that concern competing foreign interests, agreements as to forum and choice of law will be upheld by the *810 courts. *Scherk v. Alberto-Culver Co.*, 417 U.S. 506, 518–19, 94 S.Ct. 2449, 2456–57, 41 L.Ed.2d 270 (1974); *Standard Fruit*, 937 F.2d at 478. Defendants argue that this principle applies because the transactions leading to this dispute were between an Israeli company, IRC, and a British one, Unilever U.K. Defs.' Br. in Supp. of Mot.

to Stay or Dismiss at 16:17–18. They maintain that forcing them to litigate in California would be vexatious and oppressive, because “no Unilever defendant could reasonably have anticipated being hauled into court in this state.” *Id.* 16:8–20 (citing to *World-Wide Volkswagen Corp. v. Woodson*, 444 U.S. 286, 297–298, 100 S.Ct. 559, 567–68, 62 L.Ed.2d 490 (1980), where the Court rejected the theory that, because it was foreseeable that a car sold by a dealer would be driven to a state where the dealer did no business, the dealer could be sued in that state). However, plaintiffs have challenged a U.S. patent and several U.S. patent applications filed by and through Unilever U.S. Compl. at ¶¶ 47–50. The possibility that Unilever might be called to account for those applications under U.S. law was not unforeseeable.

For this reason, the Court does not accept defendants' characterization of the dispute as between foreign interests only. The plaintiff companies are based in California and two of the defendant companies, Conopco and Unilever U.S., are incorporated in the United States. Compl. at ¶¶ 1–2, 11–12. On a motion to dismiss for *forum non conveniens*, the moving party has the burden and must make “a clear showing of facts which establish such oppression and vexation of a defendant as to be out of proportion to plaintiff's convenience, which may be shown to be slight or nonexistent.” *Ravelo Monegro v. Rosa*, 211 F.3d 509, 514 (9th Cir.2000); cf. *Baris v. Sulpicio Lines, Inc.*, 932 F.2d 1540, 1549 (5th Cir.1991). The Court is not persuaded that the inconvenience of this forum to Unilever, a multinational company doing business in the United States and selling its products in

California, outweighs the inconvenience to the much smaller plaintiff companies if a foreign forum is imposed. Nor does the Court see any public interest factor which would overcome the presumption that plaintiffs' choice of forum will prevail. *Ceramic Corp. of America*, 1 F.3d at 950. Defendants' motion that this Court should decline to exercise its jurisdiction is, therefore, DENIED.

C. Motion to dismiss for lack of *in personam* jurisdiction

1. Legal standard

A court may only exercise jurisdiction over an out-of-state defendant if the defendant is amenable to service of process under the forum's long-arm statute and if the exercise of jurisdiction over the defendant would not violate the Due Process Clause of the Fifth and Fourteenth Amendments. *Omni Capital Intern. Ltd. v. Rudolf Wolff & Co. Ltd.*, 484 U.S. 97, 104, 108 S.Ct. 404, 98 L.Ed.2d 415 (1987). There are two bases upon which the court may exercise jurisdiction over a defendant in a diversity case under the Due Process Clause. First, there is general jurisdiction, which arises in cases in which a defendant's "continuous and systematic" contacts within the forum state renders that defendant amenable to suit in any lawsuit brought against it in the forum state. *Nationwide Mutual Ins. Co. v. Tryg Intern. Ins. Co.*, 91 F.3d 790, 793 (6th Cir.1996). Second is specific jurisdiction, which exists in cases in which the subject matter of the lawsuit arises out of or is related to the defendant's contacts with the forum. *Id.*

In any action, a basis of *in personam* jurisdiction must exist for each defendant.

Fed.R.Civ.P.12(b)(2). If challenged, the plaintiff has the burden of establishing a district court's personal jurisdiction over *811 the defendants. *Doe I v. Unocal Corp.*, 248 F.3d 915, 922 (9th Cir.2001) (per curiam). However, a district court should not act on the defendant's motion to dismiss without first holding an evidentiary hearing. *Harris Rutsky & Co. Ins. Servs. v. Bell & Clements Ltd.*, 328 F.3d 1122, 1128–1129 (9th Cir.2003). Therefore, the plaintiff need only make a *prima facie* showing of jurisdiction to avoid the defendant's motion to dismiss. *Id.*; cf. *Data Disc, Inc. v. Systems Tech. Assocs., Inc.*, 557 F.2d 1280, 1285 (9th Cir.1977). Unless directly contravened, plaintiffs' version of the facts is taken as true, and "conflicts between the facts contained in the parties' affidavits must be resolved in [plaintiffs'] favor for purposes of deciding whether a *prima facie* case for personal jurisdiction exists." *Unocal*, 248 F.3d at 922 (quoting *AT & T v. Compagnie Bruxelles Lambert*, 94 F.3d 586, 588 (9th Cir.1996)); see also *Bancroft & Masters, Inc. v. Augusta Nat'l, Inc.*, 223 F.3d 1082, 1087 (9th Cir.2000) (holding that "[b]ecause the *prima facie* jurisdictional analysis requires us to accept the plaintiff's allegations as true, we must adopt [plaintiff]'s version of events for purposes of this appeal").

Personal jurisdiction over a nonresident defendant may exist if the defendant has either a continuous and systematic presence in the state or minimum contacts with the forum state such that the exercise of jurisdiction "does not offend traditional notions of fair play and justice." *Int'l Shoe Co. v. Washington*, 326 U.S. 310, 316, 66 S.Ct. 154, 158, 90 L.Ed. 95 (1945).

2. Defendants' motion to dismiss for lack of *in personam* jurisdiction fails because plaintiffs have made a *prima facie* showing that Unilever's parent companies and foreign subsidiaries are within the jurisdiction of the Court.

[6] Relying on *Cannon Mfg. Co. v. Cudahy Packing Co.*, 267 U.S. 333, 45 S.Ct. 250, 69 L.Ed. 634 (1925) and its progeny, defendants submit that this Court does not have *in personam* jurisdiction over Unilever's parent corporations and foreign subsidiaries. Defs.' Br. in Supp. of Mot. to Stay or Dismiss at 17:19–18:2. In *Cannon*, the Court held that a Maine corporation was not present for purposes of service or jurisdiction in North Carolina, despite its domination of a subsidiary doing business in that state. However, the *Cannon* analysis was based on the “presence” test established in *Pennoyer v. Neff*, 95 U.S. 714, 24 L.Ed. 565 (1877). *Cannon*, 267 U.S. at 336–37, 45 S.Ct. at 251. In *International Shoe*, the Supreme Court replaced *Pennoyer's* “presence” test with a “minimum contacts” standard. 326 U.S. at 318–20, 66 S.Ct. at 159–160. As a result, *Cannon's* continued viability has been questioned. See *Avery Dennison Corp. v. UCB SA*, 1997 U.S. Dist. LEXIS 2931, *7–8 (D.Ill.1997).

Defendants are, nonetheless, correct in their assertion that the existence of a relationship between a parent company and its subsidiaries is not in itself sufficient to establish personal jurisdiction over the parent on the basis of the subsidiaries' minimum contacts with the forum. *Transure, Inc. v. Marsh and McLennan, Inc.*, 766 F.2d 1297, 1299 (9th Cir.1985). On the other hand, if the parent and subsidiary are not really separate entities, or one acts as an agent

of the other, the local subsidiary's contacts with the forum may be imputed to the foreign parent corporation. *El-Fadl v. Central Bank of Jordan*, 75 F.3d 668, 676 (D.C.Cir.1996). An alter ego or agency relationship is typified by parental control of the subsidiary's internal affairs or daily operations. *Doe I v. Unocal Corp.*, 248 F.3d 915, 925–926 (9th Cir.2001); *Kramer Motors, Inc. v. British *812 Leyland, Ltd.*, 628 F.2d 1175, 1177 (9th Cir.1980). “Typically, the courts find jurisdiction over the parent in two situations: 1) where the subsidiary is acting on behalf of or at the direction of the absent parent, i.e., as the parent's agent, and 2) where the degree of relationship between the parent and the subsidiary is so significant that it justifies the exercise of jurisdiction.” *Avery Dennison*, 1997 U.S. Dist. LEXIS 2931 at *8–9.

Defendants contend that “[t]here is no fact and no act of commission in the Complaint which is in any way said to have been committed by Unilever PLC, Unilever N.V. and/or Unilever United States, Inc.” Defs.' Br. in Supp. of Mot. to Stay or Dismiss at 17:2–4. This is not accurate. In the first place, defendants omit to mention the June 1999 Confidentiality Agreement between IRC and Unilever Research U.S. Vapnek Decl. in Supp. of Opp'n, Ex. 11. Second, plaintiffs allege that Unilever U.S. improperly filed patent applications incorporating plaintiffs' intellectual property, and that it did so at the behest of one or both of the two parent companies, Unilever PLC and/or Unilever N.V. Compl. at ¶¶ 47–50. Defendants further argue that Unilever U.K. Central Resources Ltd. is beyond the jurisdiction of this Court because it is not alleged to do business in the United

States or to have committed any specific act in the United States or California associated with any cause of action in the Complaint. Defs.' Br. in Supp. of Mot. to Stay or Dismiss at 17:4–6. Plaintiffs, however, allege that the British subsidiary is the source of the misappropriated intellectual property contained in the U.S. patents. Compl. at ¶¶ 47–50. It is undisputed that an employee of Unilever U.K. Central Resources Ltd., Dr. Stephen Makin, is a named inventor of the contested '490 patent and the other U.S. patent applications, and that Dr. Makin had extensive contact with Dr. Winchell. *Id.*

To establish a *prima facie* case, plaintiff need only demonstrate facts that if true would support jurisdiction over the defendant. *Ballard v. Savage*, 65 F.3d 1495, 1498 (9th Cir.1995). The evidence produced by Concat/Chelator meets this standard. Unilever's own literature explains that the companies within the group act as “a single entity with a single management team,” that they co-operate in all areas, and—of signal importance—that they exchange all relevant business information. Pls.' Opp'n Br. at 12:6–12; Vapnek Decl. in Supp. of Opp'n, Ex. 22 at p. 47; *id.*, Ex. 23. On this basis, the Court finds, *prima facie*, that defendant companies are within the scope of its specific jurisdiction.

D. Motion to dismiss for failure to join indispensable parties

1. Legal standard

[7] A person claiming an interest in the subject of a civil action shall, if subject to service and unless joinder of the person would deprive the court of jurisdiction, be joined to the action if those already parties cannot be accorded

complete relief in the person's absence, or if the person's interest in the matter may be prejudiced by the outcome, or if non-joinder of the person would expose another party to a substantial risk of multiple or inconsistent obligations. Fed.R.Civ.P. 19(a). If the person has not been joined, the court shall order that the person be made a party. *Id.* Such a person is considered a “necessary” party to the action. *Temple v. Synthes Corp.*, 498 U.S. 5, 111 S.Ct. 315, 112 L.Ed.2d 263 (1990). If the person cannot be joined, the court must determine whether “equity and good conscience” will permit the action to proceed. Fed.R.Civ.P. 19(a). If not, the person is considered to be an “indispensable” party to *813 the action. *Id.*; *Temple*, 498 U.S. at 7, 111 S.Ct. at 316. *Provident Tradesmens Bank & Trust Co. v. Patterson*, 390 U.S. 102, 118–19, 88 S.Ct. 733, 742–43, 19 L.Ed.2d 936 (1968). A litigation must be dismissed if an indispensable party cannot be joined. Fed.R.Civ.P. 12(b)(7).

Determination of this issue thus proceeds by a two-part inquiry. When a court has found that a party is “necessary” and should be joined “if feasible,” but that joinder is not possible, it must then decide whether to dismiss or to proceed without that party. *Provident Tradesmens Bank*, 390 U.S. at 118–19, 88 S.Ct. at 742–43. Thus, the decision to proceed is a decision that the absent person is merely “necessary” while the decision to dismiss is a decision that the person is “indispensable.” *Id.* The decision whether to dismiss on grounds of indispensability is highly case-specific, involving a balancing of substantive and procedural factors. *Id.* Thus, a court does not know whether a particular person is “indispensable” until it has examined the

situation to determine whether it can proceed without him. *Id.*; *cf. United States ex rel. Morongo Band of Mission Indians v. Rose*, 34 F.3d 901, 907 (9th Cir.1994).

2. Defendants have not shown that IRC and/or Complexx are indispensable parties to this litigation because the facts that plaintiffs must prove to prevail would negate or greatly mitigate any prejudicial effect of their non-joinder.

Defendants contend that IRC, the only party with whom Unilever had formal dealings, and its alleged successor in interest, Complexx, are necessary and indispensable parties to this litigation. Defs.' Br. in Supp. of Mot. to Stay or Dismiss at 19:15–10. It is true that the agreements at issue were executed in the name of IRC alone. Lief Decl., Ex. A; Vapnek Decl. in Supp. of Opp'n, Ex. 24, Annex 3. It is also true that “in an action to set aside a lease or a contract, all parties who may be affected by the determination of the action are indispensable.” *Virginia Surety Co. v. Northrop Grumman Corp.*, 144 F.3d 1243, 1248 (9th Cir.1998); *cf. Lomayaktewa v. Hathaway*, 520 F.2d 1324, 1325 (9th Cir.1975). However, plaintiffs have not asserted a breach of contract claim. Their Complaint alleges patent infringement, misappropriation of intellectual property, fraud and unfair competition. *See* Compl. at ¶¶ 55–83. The action therefore sounds in tort.

Defendants question Concat/Chelator's claim to be the assignee of IRC's intellectual property. Defs.' Opp'n Br. at 19:15–19, 25–26. They further argue that the uncertainty of Concat/Chelator's claim to title to the intellectual property at issue exposes Unilever to the risk of multiple suits in a variety of jurisdictions

on the same matter. *Id.* 19:26–20:10. This is a legitimate concern, especially since plaintiffs have yet to produce any evidence of the alleged assignment of IRC's intellectual property rights to Concat/Chelator, or of the alleged parent-subsidiary relationship between the U.S. and Israeli companies. Unless they can prove these allegations at trial, plaintiffs will not prevail.

Nonetheless, the facts if as alleged appear to justify Concat/Chelator's claim that it is able to adequately represent any residual interest IRC and/or Complexx may have in this matter. Pls.' Opp'n Br. at 13:14–20. A future suit by IRC and/or Complexx against Unilever will be precluded if plaintiffs' control of those companies is established. The Court notes that plaintiffs have petitioned for correction of inventorship of the disputed patents to include both Dr. Winchell of Concat/Chelator *814 and Dr. Zaklad of IRC. Compl. at ¶¶ 55–83. Moreover, the Court is required to consider the extent to which any prejudice to defendants may be lessened “by protective provisions in the judgement, by the shaping of relief, or other measures.” Fed.R.Civ.P. 19(b). If necessary, the adjudication of this dispute could be tailored to mitigate Unilever's exposure to further suit by limiting damages or by requiring Concat/Chelator to indemnify Unilever in whole or in part against future claims by the parties in question.

For these reasons, the Court finds that defendants have not shown that IRC or Complexx are indispensable parties to this action and their motion for dismissal on this basis is DENIED.

II. Plaintiffs' motion for disqualification of defendants' counsel

A. Legal standard

1. Disqualification generally

[8] Whether to disqualify counsel is a decision conveyed to the discretion of the district court. See *Gas-A-Tron of Ariz. v. Union Oil Co. of Calif.*, 534 F.2d 1322, 1325 (9th Cir.1976). Pursuant to Local Rule 11, every attorney before this Court must “comply with the standards of professional conduct required of the members of the State Bar of California.” N.D. Cal. Civ. Local Rule 11–4(a) (1). Accordingly, the Court applies California law in this matter. *Certain Underwriters at Lloyd's, London v. Argonaut Ins. Co.*, 264 F.Supp.2d 914 (N.D.Cal.2003); see also *Asyst Technologies v. Empak, Inc.*, 962 F.Supp. 1241, 1242 (N.D.Cal.1997); *Elan Transdermal Ltd. v. Cygnus Therapeutic Systems*, 809 F.Supp. 1383, 1387 (N.D.Cal.1992).

[9] Because disqualification is a drastic measure, it is generally disfavored and should only be imposed when absolutely necessary. See *Alexander v. Primerica Holdings, Inc.*, 822 F.Supp. 1099, 1114 (D.N.J.1993); *United States ex rel. Lord Electric Co. v. Titan Pac. Constr. Corp.*, 637 F.Supp. 1556, 1562 (W.D.Wash.1986). When deciding whether disqualification is warranted, “[t]he court must weigh the combined effect of a party's right to counsel of choice, an attorney's interest in representing a client, the financial burden on a client of replacing disqualified counsel and any tactical abuse underlying a disqualification proceeding against the fundamental principle that the fair resolution

of disputes within our adversary system requires vigorous representation of parties by independent counsel unencumbered by conflicts of interest.” *Allen v. Academic Games Leagues of Am.*, 831 F.Supp. 785, 789 (C.D.Cal.1993) (citing *In re Lee G.*, 1 Cal.App.4th 17, 1 Cal.Rptr.2d 375, 380 (1991)); see also *Lord Electric*, 637 F.Supp. at 1562. Because a motion to disqualify is often tactically motivated and can be disruptive to the litigation process, it is a drastic measure that is generally disfavored. *Visa U.S.A., Inc. v. First Data Corp.*, 241 F.Supp.2d 1100, 1104 (N.D.Cal.2003); cf. *Certain Underwriters*, 264 F.Supp.2d at 918. On the other hand, however, “the paramount concern must be the preservation of public trust both in the scrupulous administration of justice and in the integrity of the bar.” *State Farm Mut. Auto. Ins. Co. v. Federal Ins. Co.*, 72 Cal.App.4th 1422, 86 Cal.Rptr.2d 20, 24 (1999). In *Snider v. Superior Court*, 113 Cal.App.4th 1187, 7 Cal.Rptr.3d 119, 125 (2003), the court explained that it was important to have a bright-line test to determine the ethical boundaries of an attorney's conduct. “Otherwise, an attorney would be uncertain whether the rules had been violated until ... he or she is disqualified. Unclear rules risk blunting an advocate's zealous representation of a client.” *Id.* (quoting *815 *Nalian Truck Lines, Inc. v. Nakano Warehouse & Transp. Corp.*, 6 Cal.App.4th 1256, 8 Cal.Rptr.2d 467, 472 (1992)); cf. *Crenshaw v. Mony Life Ins. Co.*, 318 F.Supp.2d 1015, 1019–20 (S.D.Cal.2004).

2. Concurrent representation

This issue is governed by Rule 3–310 of the California Rules of Professional Conduct, which states:

- (C) A member shall not, without the informed written consent of each client:
- (1) Accept representation of more than one client in a matter in which the interests of the clients potentially conflict; or
 - (2) Accept or continue representation of more than one client in a matter in which the interests of the clients actually conflict; or
 - (3) Represent a client in a matter and at the same time in a separate matter accept as a client a person or entity whose interest in the first matter is adverse to the client in the first matter

* * * * *

- (E) A member shall not, without the informed written consent of the client or former client, accept employment adverse to the client or former client where, by reason of the representation of the client or former client, the member has obtained confidential information material to the employment.

Cal. Rules of Prof'l Conduct 3–310. Rule 3–310 prohibits representation of clients whose interests are adverse unless both clients give their informed consent. *Certain Underwriters*, 264 F.Supp.2d at 918–19; *Visa*, 241 F.Supp.2d at 1104; *Flatt v. Superior Court*, 9 Cal.4th 275, 36 Cal.Rptr.2d 537, 885 P.2d 950, 956 n. 4 (1994); *Truck Ins. Exch. v. Fireman's Fund Ins. Co.*, 6 Cal.App.4th 1050, 8 Cal.Rptr.2d 228, 231 (1992). The prohibition applies even if the two disputes are unrelated. *Flatt*, 36 Cal.Rptr.2d 537, 885

P.2d at 955 (holding that “[e]ven though the simultaneous representations may have *nothing* in common, and there is *no* risk that confidences to which counsel is a party in the one case have any relation to the other matter, disqualification may nevertheless be *required*”) (emphasis in original). The reason for the prohibition is “the attorney's duty—and the client's legitimate expectation—of *loyalty*, rather than confidentiality.” *Id.* (emphasis in original); *cf. Certain Underwriters*, 264 F.Supp.2d at 919; *Mindscape, Inc. v. Media Depot, Inc.*, 973 F.Supp. 1130, 1132–33 (N.D.Cal.1997); *Forrest v. Baeza*, 58 Cal.App.4th 65, 67 Cal.Rptr.2d 857, 862 (1997) (holding that “[t]he strict proscription against dual representation of clients with adverse interests ... derives from a concern with protecting the integrity of the attorney-client relationship rather than from concerns with the risk of specific acts of disloyalty or diminution of the quality of the attorney's representation”); *Truck Ins. Exchange*, 8 Cal.Rptr.2d at 232 (stating that “[i]f this duty of undivided loyalty is violated, ‘public confidence in the legal profession and the judicial process’ is undermined.”) (citing *In Re Yarn Processing Patent Validity Litigation*, 530 F.2d 83, 89 (5th Cir.1976)). In *Unified Sewerage Agency v. Jelco Inc.*, 646 F.2d 1339, 1345 (9th Cir.1981), the court held that “disqualification of a law firm based upon representation of a client in a lawsuit against an existing client requires no showing of specific ‘adverse effect’ resulting from such representation.”

B. The Court's decision to stay this suit pending arbitration in another forum does not moot plaintiffs' motion to disqualify counsel because there is a substantial

likelihood of further proceedings in the federal courts.

[10] Defendants argue that, having granted their motion to stay this litigation *816 pending arbitration in London, the Court should dismiss plaintiffs' motion for disqualification of counsel as moot. Defs.' Opp'n Br. at 4:13–22. A federal district court in southern California, faced with facially similar facts and issues, has adopted this course. *Richards v. Lloyd's of London*, 1995 U.S. Dist. LEXIS 6888, Fed.Sec.L.Rep.(CCH) ¶ 98,801, 1995 WL 465687 (S.D.Cal.1995), *aff'd en banc with regard to enforcement of forum agreement only*, 135 F.3d 1289 (9th Cir.1998), *cert. denied* 525 U.S. 943, 119 S.Ct. 365, 142 L.Ed.2d 301 (1998). In that case, however, the court, having found that a wholly unambiguous forum choice clause was enforceable, dismissed the case and thereby relinquished its jurisdiction. 1995 WL 465687 at *10, 1995 U.S. Dist. LEXIS 6888 at *42. This Court has not done so and further litigation in this forum is, therefore, possible.

The Court recognizes that its determination of this matter will have no force outside of its jurisdiction and that the LCIA will apply its own conflict rules. However, plaintiffs may seek leave to appeal this Court's decision to stay the action or, at a later date, petition this Court for review of an arbitral decision. It is also possible that the LCIA will grant plaintiffs' motion to dismiss the arbitration. *See Vapnek Decl. in Supp. of Opp'n, Ex. 24.* The Court therefore finds that, because there is a substantial likelihood of further proceedings within this jurisdiction, the issue of disqualification of counsel remains the subject of a live controversy. *See City of Erie v. Pap's A.M.*, 529 U.S. 277, 288, 120 S.Ct.

1382, 1391, 146 L.Ed.2d 265 (2000) (holding that “[o]ur interest in preventing litigants from attempting to manipulate the Court's jurisdiction to insulate a favorable decision from review ... counsels against a finding of mootness here”).

C. Dodson's preliminary employment discussions with Morgan, Lewis do not justify disqualification of Morgan, Lewis because the duty of client confidentiality applied to those discussions and there is no evidence that a breach occurred.

[11] Plaintiffs' motion to disqualify Morgan, Lewis has two factual bases, each of which requires separate consideration. First, plaintiffs allege a conflict of interest arising from the preliminary employment discussions between Morgan, Lewis and plaintiffs' erstwhile attorney, Dodson. Pls.' Br. in Supp. of Mot. to Disqualify at 10:12–26. Discussions of this nature are covered by the attorney's duty of client confidentiality. *People v. Speedee Oil Change Systems, Inc.*, 20 Cal.4th 1135, 86 Cal.Rptr.2d 816, 980 P.2d 371, 378–79 (1999). For Dodson to share confidential information about Concat/Chelator with Morgan, Lewis would be a grave violation of that duty, even if he had no knowledge of a dispute. However, the record contains no evidence of any such improper disclosure. Plaintiffs state that Dodson withdrew his representation immediately upon discovering that Unilever was Morgan, Lewis' client. Pls.' Br. in Supp. of Mot. to Disqualify at 10:12–14; *cf. Winchell Decl. at ¶ 20.* Discussions between Dodson and Morgan, Lewis were discontinued at the same time. Kraeutler Decl. at ¶¶ 5–6. However, these observations do not dispose of the issue entirely. The following Opinion

of the American Bar Association, cited by defendants, Opp'n Br. at 11:14–15, turns out to be less than wholly favorable to their position:

A lawyer's pursuit of employment with a firm or party that he is opposing in a matter may materially limit his representation of his client, in violation of Model Rule 1.7(b). Therefore, the lawyer must consult with his client and obtain the client's consent before that *817 point in the discussions when such discussions are reasonably likely to materially interfere with the lawyer's professional judgment.... Generally, the time for consultation and consent will be the time at which the lawyer agrees to engage in substantive discussions of his experience, clients, or business potential, or the terms of a possible association, with the opposing firm or party. If client consent is not given, the lawyer may not pursue such discussions unless he is permitted to withdraw from the matter.... Lawyers in the law firm negotiating with the lawyer also have a conflict, requiring similar action to resolve, if their becoming associated with the lawyer would cause

their firm's disqualification, or if the interest of any of those lawyers in the job-seeking lawyer's becoming associated with the firm may materially limit their representation of a client adverse to the job-seeking lawyer.

“Job Negotiations with Adverse Firm or Party,” ABA Formal Op. 96–400 (January 24, 1996), <http://www.abanet.org/cpr/ethicsearch/96400.html> (last visited July 1, 2004). No direct testimony regarding Dobson's reasons for his decision to withdraw from representation of Concat/Chelator is at present before the court. Nonetheless, the fact that he did so gives rise to the reasonable, if circumstantial, inference that he believed his negotiations with Morgan, Lewis had reached, or were approaching, the stage of “substantive discussions” at which a conflict would arise.⁵ Morgan, Lewis deny that this was so and state that the discussions never passed the preliminary stage. Defs.' Opp'n Br. at 3:16–22, 11:6–10; Kraeutler Decl. at ¶¶ 2–6.

In oral argument, plaintiffs pointed to an email dated November 14, 2003, from Stephen Judlowe of Morgan, Lewis to Vapnek's partner, Henry Heines. Vapnek Decl. in Supp. of Pls.' Mot. to Disqualify, Ex. 6. Plaintiffs drew attention to Judlowe's statement that Morgan, Lewis had disclosed the discussions to Unilever and obtained Unilever's informed consent to proceed. *Id.* Judlowe further stated: “Morgan Lewis has received no information of any kind from Mr. Dobson about this matter, other than to identify the existing adversity between

Unilever and Winchell/Chelator and to discuss scheduling of the proposed meeting in the United Kingdom.” *Id.* Plaintiffs interpreted this as meaning that Morgan, Lewis was aware of the conflict during the time when it was conducting partnership discussions with Dobson. The Court finds that the evidence will not bear this weight. The meeting to which Judlowe refers was to have been held at Morgan, Lewis's London offices. Dobson only became aware of the conflict when Unilever proposed this meeting. Pls.' Br. in Supp. of Mot. to Disqualify at 10:12–18. Plaintiffs infer that the disclosure to which Judlowe refers occurred before these events, but there is no evidence that Morgan, Lewis or Unilever *818 knew about the conflict before Dobson became aware of it.

On the present record, the Court finds that, with regard to this issue, Concat/Chelator has not met the burden of proof required for disqualification of counsel. In the absence of evidence of disclosure of confidential information, the fact that Dobson is no longer Concat/Chelator's attorney has removed any potential conflict and the issue is, therefore, moot.

D. Disqualification of Morgan, Lewis is required by law because the firm's concurrent attorney-client relationships with Unilever and Dr. Winchell breach the attorney's duty of loyalty to client, not confidentiality.

1. Concat/Chelator has standing to raise the issue of disqualification because Dr. Winchell has an ownership interest in Concat/Chelator and was formerly an

owner of IRC; because, at the time when he consulted Morgan, Lewis, he was the managing partner of Concat/Chelator; and because he played a leading role in IRC's and Concat/Chelator's dealings with Unilever.

[12] Defendants argue that, if Dodson's relationship with Morgan, Lewis is set aside, Concat/Chelator has no standing to raise the issue of disqualification, because neither company is, or has ever been, a client of Morgan, Lewis, and Dr. Winchell is not a party to this dispute. Defs.' Opp'n Br. at 4:25–5:8. It is true that, “as a general rule, courts do not disqualify an attorney on the grounds of conflict of interest unless the former client moves for disqualification.” *Kasza v. Browner*, 133 F.3d 1159, 1171 (9th Cir.1998) (quoting *United States v. Rogers*, 9 F.3d 1025, 1031 (2d Cir.1993) (quoting, in turn, *Yarn Processing*, 530 F.2d at 88)). However, courts have found that non-client litigants may have standing to move for disqualification of counsel in cases where they have a sufficient “personal stake” in the motion because “the ethical breach so infects the litigation in which disqualification is sought that it impacts the moving party's interest in a just and lawful determination of her claims.” *Colyer v. Smith*, 50 F.Supp.2d 966, 971 (C.D.Cal.1999); *cf. Doe v. Madison Sch. Dist. No. 321*, 177 F.3d 789 (9th Cir.1999) (stating that “[o]rdinarily, to prove an injury in fact under Article III of the Constitution, the plaintiff need only allege an injury that is ‘fairly traceable’ to the wrongful conduct”) (quoting *Kane v. Johns–Manville Corp.*, 843 F.2d 636, 642 n. 2 (2d Cir.1988)); *Metro–Goldwyn–Mayer v. Tracinda Corp.*, 36 Cal.App.4th 1832, 43 Cal.Rptr.2d 327, 335 (1995) (holding that disqualification is appropriate where counsel's

employment is adverse to the client or former client, even though the prior client is not a party to the litigation). The circumstances of the present case conform to these conditions.

[13] Defendants initially questioned Dr. Winchell's interest in Concat/Chelator. Defs.' Opp'n Br. at 4:25–28. On this basis, they challenged Concat/Chelator's standing to bring this motion since Dr. Winchell is not a party to the litigation and Concat/Chelator is not and has never been a client of Morgan, Lewis. *Id.* at 5:1–7:18. At oral argument and subsequently, plaintiffs have declared that Dr. Winchell and his wife own a 24% limited partnership interest in Concat, which is the sole owner of Chelator, and that Dr. Winchell was the majority stockholder and board Chairman of IRC. Winchell Supplemental Decl. in Supp. of Pls.' Mot. to Disqualify at 2:4–25. It is undisputed that, during the period covered by this dispute, Dr. Winchell was Concat's managing partner and that he *819 played a leading role in the negotiations and scientific discussions between IRC and Unilever. Compl. at ¶¶ 19–44.

Defendants now accept the fact of Dr. Winchell's ownership interest in Concat/Chelator but maintain that “the case law overwhelmingly requires the client to bring the Motion to Disqualify—not a third party, even if there is an ownership connection.” Letter of James N. Penrod dated July 7, 2004 at p. 3. It is true that, in order to establish Article III standing, a party must show that it has personally suffered an “injury in fact” which is causally related to the conduct at issue. *Colyer*, 50 F.Supp.2d at 968 (citing *Lujan v. Defenders of Wildlife*, 504 U.S. 555, 560–61,

112 S.Ct. 2130, 2136–37, 119 L.Ed.2d 351 (1992)). Defendants' position is that non-party Winchell did not disclose any confidential information about Concat/Chelator to Thomas of Morgan, Lewis and, therefore, no “injury in fact” has occurred. Defs.' Opp'n Br. at 7:1–18; Penrod letter at 1–3. However, defendants invoke the “substantially related” standard, which is applicable to former, not concurrent, client relationships. Defs., Opp'n Br. at 6:4–8; *but see Yarn Processing*, 530 F.2d at 89. Moreover, the prohibition against concurrent adverse representation is based on the duty of loyalty, not confidentiality. Even in cases involving prior relationships with non-parties, courts have recognized a variety of circumstances under which disqualification is required. *Thomas v. Municipal Court of Antelope Valley J.D.*, 878 F.2d 285 (9th Cir.1989); *Hull v. Celanese Corp.* 513 F.2d 568, 569 (2d Cir.1975); *Leveresen v. Superior Court*, 34 Cal.3d 530, 194 Cal.Rptr. 448, 668 P.2d 755 (1983); *Comden v. Superior Court*, 20 Cal.3d 906, 145 Cal.Rptr. 9, 576 P.2d 971 (1978); *Metro–Goldwyn–Mayer*, 43 Cal.Rptr.2d at 335; *William H. Raley Co. v. Superior Court*, 149 Cal.App.3d 1042, 197 Cal.Rptr. 232 (1983); *Jeffry v. Pounds*, 67 Cal.App.3d 6, 136 Cal.Rptr. 373 (1977).

In light of the much stricter standard applying to conflicts arising from concurrent representation, the Court agrees with plaintiffs that Dr. Winchell's disclosures to Thomas of Morgan, Lewis were not merely of a private nature, since they were inextricably intertwined with the business and financial matters of Concat/Chelator. Pls.' Br. in Supp. of Mot. to Disqualify at 6:25–28; Pls.' Reply at 4:6–8. This fact gives Concat/Chelator standing.

See *Emle Industries, Inc. v. Patentex, Inc.*, 478 F.2d 562 (2d Cir.1973) (granting motion to disqualify made by the corporation which the former client controlled).⁶

2. The advance waiver signed by Dr. Winchell is insufficient to establish informed consent owing to its very general nature and because Morgan, Lewis failed in its obligation to request a further waiver when it discovered the dispute between Unilever and Concat/Chelator.

[14] [15] “When evaluating whether a law firm may concurrently represent two clients, even on unrelated matters, it is presumed that the duty of loyalty has been breached and counsel is automatically disqualified.” *Visa*, 241 F.Supp.2d at 1104; cf. *Flatt*, 36 Cal.Rptr.2d 537, 885 P.2d at 955; *820 *Truck Ins. Exch.*, 8 Cal.Rptr.2d at 231–32. Morgan, Lewis' concurrent representation of Dr. Winchell and Unilever is therefore, *prima facie*, cause for disqualification. However, under California law, the presumption may be rebutted if full disclosure is made and both clients agree in writing to waive the conflict. *Visa*, 241 F.Supp.2d at 1104; *Truck Ins. Exch.*, 8 Cal.Rptr.2d at 228. Since the waiver must be informed, a second waiver may be required if the original waiver insufficiently disclosed the nature of a subsequent conflict. *Visa*, 241 F.Supp.2d at 1106. Evaluation of whether the original disclosure was adequate requires a fact-specific inquiry. *Id.* Factors that may be considered include: (1) the waiver's breadth; (2) its temporal scope, i.e., whether it waived only current conflicts or applied to all conflicts in the future; (3) the quality of the conflict discussion between attorney and client; (4) the specificity

of the waiver; (5) the nature of the actual conflict, i.e., whether the attorney sought to represent both clients in the same dispute or in unrelated matters; (6) the sophistication of the client; and (7) the interests of justice. *Id.* (citing, e.g., *SpeeDee Oil Change*, 86 Cal.Rptr.2d 816, 980 P.2d at 378; *Zador Corp., N.V. v. Kwan*, 31 Cal.App.4th 1285, 37 Cal.Rptr.2d 754, 758–59 (1995)).

Applying these factors to the waiver executed by Dr. Winchell at Thomas' request, Winchell Decl., Ex. 1, the Court finds as follows: (1) the terms of the waiver are extremely broad and were evidently intended to cover almost any eventuality; (2) its temporal scope is likewise unlimited; (3) the record contains no evidence of any discussion of the waiver;⁷ (4) the waiver lacks specificity as to the conflicts that it covers and effectively awards Morgan, Lewis an almost blank check; (5) however, Morgan Lewis explicitly stated that it would not seek to represent Dr. Winchell and an adverse client in a “substantially related” matter; and (6) Dr. Winchell's education and business experience are strongly indicative of a high degree of sophistication. Thus, the fifth and sixth factors tend to support a finding of informed consent, but the first four weigh in the opposite direction. The interests of justice (factor 7) remain to be determined.

[16] Defendants maintain that prospective conflict waiver letters are “a *sine qua non* for large law firms practicing in diverse practice and geographic areas.” Defs.' Opp'n Br. at 9:9–10. It is true, as defendants assert, that a prospective waiver is not required to indicate every conceivable possibility of potential conflict. *Visa*, 241 F.Supp.2d at 1105.

Here, Morgan, Lewis had no knowledge of the impending dispute between Concat/Chelator and Unilever, and no blame attaches to Thomas for failing to detect a conflict which had not yet crystallized. There is no evidence that either party was aware of the conflict until October 30, 2003, when Unilever informed Dobson that Morgan, Lewis would be its counsel in the dispute.⁸ *821 However, Morgan, Lewis should have checked for a potential conflict before agreeing to undertake representation of Unilever. It is at least arguable that, had they done so with sufficient thoroughness, they would have discovered the connection between Thomas and Concat/Chelator, *via* Dr. Winchell.

The important question, however, is why Morgan, Lewis, when it did eventually become aware of its concurrent obligations to opposing clients, failed to notify the parties and, unless they both agreed to waive the conflict, withdraw from this dispute. Under the law of this jurisdiction, even if a prospective waiver of conflict has been obtained, the attorney must request a second, more specific waiver, “if the [prospective] waiver letter insufficiently disclosed the nature of the conflict that subsequently arose between the parties.” *Visa*, 241 F.Supp.2d at 1106. This Morgan, Lewis did not do. In *Visa*, the court found that a second waiver was not required because the initial waiver signed by plaintiff First Data Corporation included specific disclosure of the law firm's concurrent representation of defendant Visa U.S.A., Inc., together with a clear warning that, because First Data and Visa were business competitors, the two concurrent client relationships might, in future, give rise to conflict. *Id.* at 1107. Having been

given adequate opportunity for review, First Data knowingly and specifically waived its objection to the firm's representation of Visa in future litigation against First Data. *Id.* See also *Zador*, 37 Cal.Rptr.2d at 764 (upholding a prospective waiver in which the prospective adverse client was named). These facts are in stark contrast to the generalized boilerplate waiver that Morgan, Lewis presented to Dr. Winchell. By the standard that applies in this jurisdiction, Morgan, Lewis failed to obtain Dr. Winchell's—or Concat/Chelator's— informed consent to a waiver of conflict in this dispute. See Cal. Rules of Prof'l Conduct 3–310(C), (E).

3. The inter-attorney screening measures instituted by Morgan, Lewis are insufficient because they were directed only to the preservation of confidentiality and did not cure the firm's breach of its duty of loyalty to its client, and because they were too late to be effective.

[17] Defendants maintain that no conflict of interest exists in fact because Thomas has never shared the information he obtained from Dr. Winchell with the New York-based Morgan, Lewis attorneys representing Unilever, and because Morgan, Lewis has instituted screening measures to prevent this from occurring in the future. Defs.' Opp'n Br. at 10:12–21; Thomas Decl. at ¶ 9; Kittredge Decl. at ¶ 3–4. In support of this argument, defendants cite the court's statement in *County of Los Angeles v. United States Dist. Court (In re County of Los Angeles)*, 223 F.3d 990, 996 (9th Cir.2000), that “[a]n ethical wall, when implemented in a timely and effective way, can rebut the presumption that a lawyer has contaminated the entire firm.” However,

this statement applied to “the use of screening procedures to avoid vicarious disqualification where a former judicial officer or government lawyer has joined the firm.” *Id.* (citing Model Rules of Prof'l Conduct R. 1.11(a)-(b), 1.12(c) (1)). Under circumstances such as these, “the ethical wall concept has had some limited acceptance in California as a *822 method to avoid what might be the unduly harsh result of vicarious disqualification of an entire firm. But that acceptance has been in a very different arena—that of former government attorneys now in private practice—and has involved a situation in which the former government attorney has not had access to confidential information concerning the subject matter of the litigation.” *Henriksen v. Great Am. Sav. & Loan*, 11 Cal.App.4th 109, 14 Cal.Rptr.2d 184, 187 (1992) (citations omitted). A situation in which an individual member of a firm is disqualified because of his prior employment is quite different from one in which two partners concurrently represent adverse clients.

Although an ethical wall may, in certain limited circumstances, prevent a breach of confidentiality, it cannot, in the absence of an informed waiver, cure a law firm's breach of its duty of loyalty to its client. *Visa*, 241 F.Supp.2d at 1110. Screening measures like those instituted by Morgan, Lewis do nothing to mitigate conflict arising from concurrent adverse client relationships, since the purpose of the prohibition against such relationships is to preserve the attorney's duty of loyalty, not confidentiality, to his client. *Certain Underwriters*, 264 F.Supp.2d at 919; *Mindscape*, 973 F.Supp. at 1132–33; *Flatt*, 36 Cal.Rptr.2d 537, 885 P.2d at 955–56; *Forrest*, 67 Cal.Rptr.2d at 862; *Truck Ins. Exch.*, 8

Cal.Rptr.2d at 231–32. Since the duty of loyalty is paramount, the prohibition applies even where there is no misuse of confidential information or other evident adverse effect. *Unified Sewerage Agency*, 646 F.2d at 1345. Because the measures taken by Morgan, Lewis were directed only to the preservation of confidentiality and failed to address the issue of client loyalty, they were an ineffective response to the conflict in which the firm found itself embroiled. That a conflict of loyalty exists in fact as well as in principle is indicated by the fact that Dr. Winchell's own attorney, Thomas, has voluntarily testified in support of defendants and in direct opposition to the interests of his client. *See* Thomas Decl. in Supp. of Defs.' Opp'n to Pls.' Mot. to Disqualify.

Even if the ethical wall could have prevented a conflict, it was not implemented before November 24, 2003, three months after Dodson's August 12 letter to Unilever initiated this dispute. Winchell Decl., Ex. 3. It was thus too late to be effective. *See LaSalle Nat'l Bank v. County of Lake*, 703 F.2d 252, 259 (7th Cir.1983) (holding that, for an ethical screen to be effective, it must be set up at the time when the potentially disqualifying event occurred); *Cobb Publishing, Inc. v. Hearst Corp.*, 907 F.Supp. 1038, 1047 (E.D.Mich.1995) (finding that a delay of eleven or eighteen days in establishing an ethical wall is too long).

Thus, Morgan, Lewis cannot escape the conflict arising from its concurrent representation of parties with adverse interests in this litigation and plaintiffs' motion to disqualify the firm from further participation in this suit is, therefore, GRANTED.

CONCLUSION

For the foregoing reasons and for good cause shown, the Court hereby

- (1) GRANTS defendants' motion to stay this litigation pending proceedings at the London Court of International arbitration [docket # 7];
- (2) DENIES defendants' motion to dismiss this litigation [docket # 7]; and

(3) GRANTS plaintiffs' motion to disqualify defendants' counsel, Morgan, Lewis & Bockius LLP, from appearing on behalf of or advising defendants, or advising other counsel, in connection with any matter associated *823 with this dispute within the jurisdiction of this Court [docket # 12].

IT IS SO ORDERED.

All Citations

350 F.Supp.2d 796

Footnotes

- 1 It should perhaps be noted that, in its original context, this statement applied specifically to an arbitration clause of a collective bargaining agreement governed by § 301 of the Labor Management Relations Act, not the Federal Arbitration Act. However, the Supreme Court's citation of the statement in *Mitsubishi Motors*, 473 U.S. at 626, 105 S.Ct. at 3353–54, is indicative of a wider application.
- 2 A further Confidentiality Agreement, between IRC and Unilever U.S., was executed on June 10, 1999. See Vapnek Decl. in Supp. of Opp'n, Ex. 11. This agreement parallels the February 1999 agreement between IRC and Port Sunlight in all respects except for its choice of law provision, which specifies New Jersey law and non-exclusive jurisdiction of the New Jersey courts. The purpose of the agreement is obscure and counsel were not able to explain it during oral argument.
- 3 Confusingly, Dr. Clark refers to the Secrecy Agreement as a "Confidentiality Agreement." However, there is no doubt that the 1997 Secrecy Agreement is the subject of the letter.
- 4 It is not necessary for this Court to reach the question whether the *Miner Enters.* and *Danisco* decisions would be correct if applied to non-international disputes
- 5 However, ABA Formal Op. 96–400 would only prohibit Dodson from continuing his discussions with Morgan, Lewis without first obtaining the permission of Concat/Chelator. It would not require him to unilaterally withdraw from representation of Concat/Chelator. The ethical basis of his decision is, therefore, unclear. See *Stanley v. Richmond*, 35 Cal.App.4th 1070, 41 Cal.Rptr.2d 768, 775 (1995) (holding that, where an attorney has *accepted* employment with a firm representing a party adverse to her client without first having obtained the client's permission, the attorney has a duty to withdraw as soon as practical, but only after taking "reasonable steps to avoid foreseeable prejudice to the rights of [her] client, including giving due notice to [the] client [and] allowing time for employment of other counsel") (citing Cal. Rules of Prof'l Conduct, Former Rule 2–111; cf. Rule 3–700(A)(1)(2)).
- 6 In oral argument, defendants argued that Winchell is a "*de facto* former client" because he never followed through with Thomas. If Winchell was a former client, there is no conflict unless the issues are "substantially related." *Yarn Processing*, 530 F.2d at 89. However, the reason Winchell never followed through was presumably that he discovered the conflict. Plaintiffs pointed out that Thomas owed work product to Winchell and suggested that he failed to follow through for the same reason.
- 7 Thomas states that he met with Dr. Winchell only once, on July 1, 2003, and does not list the subject among the contents of the discussion. Thomas Decl. at ¶ 2. The letter containing the waiver is dated July 2 and was not executed by the Winchells until July 22 and 23. Winchell Decl., Ex. 1.
- 8 The Court accepts Morgan, Lewis' explanation that the bill sent to Dr. Winchell with a request for immediate payment was routine, despite Dr. Winchell's suspicions that it was an attempt to obtain payment before he discovered the conflict. Def.'s Opp'n Br. at 3 n. 1; Thomas Decl. at ¶ 6; Winchell Decl. at ¶ 22. By the same token, the Court rejects defendants'

suggestion that Dr. Winchell approached Thomas on a pretext, with the intention of ensnaring him in a conflict of interest. Def.'s Opp'n Br. at 9 n. 7. The Court notes in passing that this grave but unsupported accusation appears to concede that the conflict would be problematic for Morgan, Lewis. There is no evidence that Concat/Chelator knew in advance that Morgan, Lewis would be Unilever's counsel in this dispute. Dr. Winchell explains that he approached Thomas on a recommendation from his son-in-law. Winchell Decl. at ¶ 4.

End of Document

© 2015 Thomson Reuters. No claim to original U.S. Government Works.

216 F.Supp.2d 325
United States District Court,
S.D. New York.

CHANG'S IMPORTS, INC., Plaintiff,
v.
Ronald SRADER and
Joseph Rubin, Defendants.

No. 00 Civ. 4832(JGK).
| Aug. 20, 2002.

Trademark licensor brought negligence action against, inter alia, attorney that mediated settlement agreement between it and licensee. On attorney's motion for summary judgment, the District Court, Koeltl, J., held that: (1) attorney was not acting as attorney for either party in negotiating and drafting settlement agreement, rather he was acting as a neutral mediator, and thus attorney was not negligent, under New York law, in providing legal representation to two clients with adverse interests, and (2) attorney did not engage in any conduct that fell below any applicable standards of care and that could give rise to claim for negligence.

Motion granted.

West Headnotes (13)

[1] Attorney and Client

↔ Elements of malpractice or negligence action in general

To establish claim for negligence in practice of law under New York law, a party must establish

that (1) attorney was negligent, (2) negligence was proximate cause of loss sustained, and (3) plaintiff sustained actual damages as result of the attorney's negligence.

Cases that cite this headnote

[2] Attorney and Client

↔ Skill and care required

Under New York law, negligence or legal malpractice exists when attorney fails to exercise that degree of skill commonly exercised by ordinary member of legal community.

Cases that cite this headnote

[3] Attorney and Client

↔ What constitutes a retainer

Attorney, who mediated settlement agreement between trademark licensor and licensee, was not acting as attorney for either party in negotiating and drafting settlement agreement, rather he was acting as a neutral mediator, and thus attorney did not negligently provide legal representation to two clients with adverse interests under New York law; waiver letter provided by attorney that was signed by licensor and licensee clearly stated that attorney was not acting as attorney for either licensor or licensee.

Cases that cite this headnote

[4] Attorney and Client

↔ Acting in different capacities;
counsel as witness

Under New York law, attorney can act as a neutral mediator.

Cases that cite this headnote

[5] Attorney and Client

↔ Disclosure, waiver, or consent

By signing waiver letter provided by attorney, which disclosed that attorney, who had previously represented trademark licensor, would be acting as neutral mediator with respect to settlement negotiations between licensor and licensee, licensor and licensee explicitly waived any conflict issue under New York law.

Cases that cite this headnote

[6] Attorney and Client

↔ Acting for party adversely interested

Prior representation by attorney, who mediated settlement agreement between trademark licensor and licensee, of licensor could not form basis for any negligence action, under New York law, by licensor against attorney, since licensor was aware that attorney had represented him, and there was no claim that prior representation had not been disclosed to licensee.

Cases that cite this headnote

[7] Attorney and Client

↔ Acting for party adversely interested

Although attorney, who mediated settlement agreement between trademark licensor and licensee, might have previously met licensee once at meeting with licensor, wherein attorney represented licensor, prior meeting did not create conflict of interest that needed to be disclosed, under New York law, with respect to settlement negotiations, since all the parties would have been aware of the meeting.

Cases that cite this headnote

[8] Attorney and Client

↔ Acting for party adversely interested

Attorney, who mediated settlement agreement between trademark licensor and licensee, was not negligent, under New York law, in failing to disclose prior representation of businessman, who helped with mediation; businessman was not a party to mediation, attorney was not representing his interests either as attorney or as mediator during proceedings, both licensor and licensee knew of attorney's prior representation, and there was no evidence that prior representation in any way affected attorney's ability

to perform as impartial mediator as between interests of licensor and licensee.

Cases that cite this headnote

[9] Alternative Dispute Resolution

↔ Liabilities; immunity

Under New York law, mediator cannot be held to higher degree of skill and care than that commonly exercised by ordinary members of relevant mediation community.

Cases that cite this headnote

[10] Attorney and Client

↔ Acting in different capacities; counsel as witness

Attorney, who acted as neutral mediator with respect to settlement negotiations between trademark licensor and licensee, did not negligently perform his duties as mediator under New York law; attorney brought parties together and successfully drafted agreement that was executed by both parties and that settled their dispute.

Cases that cite this headnote

[11] Alternative Dispute Resolution

↔ Liabilities; immunity

Even if neutral mediator, who negotiated settlement agreement between trademark licensor and licensee, was required to advise licensor that he should obtain

his own counsel during mediation, mediator did render such advice, and thus was not negligent under New York law; waiver agreement provided by mediator that was signed by the parties clearly advised them that they should be represented by different attorneys.

Cases that cite this headnote

[12] Alternative Dispute Resolution

↔ Liabilities; immunity

Mediator, who negotiated settlement agreement between trademark licensor and licensee, was not negligent, under New York law, for failing to advise licensor that agreement would allegedly allow licensee to contest monies owed to licensor, failing to investigate facts relevant to amounts owed to licensor, and failing to draft agreement so as to foreclose such dispute; agreement noted that such obligations were separate and apart from agreement, agreement reasonably settled only disputes that had arisen between the parties at the time, and mediator had no duty to investigate matters that were collateral to his mediation tasks.

Cases that cite this headnote

[13] Alternative Dispute Resolution

↔ Liabilities; immunity

Settlement agreement between trademark licensor and licensee,

which was negotiated and drafted by neutral mediator, was not proximate cause of licensor's injuries arising from licensee's actions of disputing amount of money owed to licensor, and thus mediator was not liable in negligence, under New York law, for failing to advise licensor that licensee might dispute amounts owed or for failing to stipulate to amounts owed in agreement; agreement did not provide any grounds for disputing amounts owed that were not already available to licensee.

Cases that cite this headnote

***327 OPINION AND ORDER**

KOELTL, District Judge.

The plaintiff, Chang's Imports, Inc. ("Chang's Imports") brought this action against the defendant Ronald Srader asserting a number of causes of action that purportedly either arose out of or relate to an agreement between these parties (the "Settlement Agreement"). This Agreement purported to settle a number of disputes between the plaintiff and Srader, which arose out of a prior relation and concerned the conditions under which the plaintiff would license and sell the "Margaret Jerrold" trademark to Srader, an appropriate payment schedule for the amounts owed between the parties and a method for determining these amounts. The plaintiff also

raised a number of causes of action against the defendant Joseph Rubin, an attorney who helped mediate the parties' prior disputes and who drafted the Settlement Agreement.

On July 18, 2001, the Court dismissed Counts One, Two, Four, Five, Six, Seven and paragraph 64 of Count Fourteen of the Complaint without prejudice. The Court subsequently granted a motion by Srader to compel the plaintiff to arbitrate the underlying disputes between Srader and the plaintiff. These parties are presently arbitrating the plaintiff's claims against Srader.

The defendant Rubin now moves pursuant to Rule 56 of the Federal Rules of Civil Procedure for summary judgment dismissing the remaining two claims against him, namely, Counts Fourteen and Fifteen, which are for negligence in conducting the mediation and drafting the Settlement Agreement.

I.

The standard for granting summary judgment is well established. Summary *328 judgment may not be granted unless "the pleadings, depositions, answers to interrogatories, and admissions on file, together with the affidavits, if any, show that the moving party is entitled to a judgment as a matter of law." Fed.R.Civ.P. 56(c); *see generally Celotex Corp. v. Catrett*, 477 U.S. 317, 106 S.Ct. 2548, 91 L.Ed.2d 265 (1986); *Gallo v. Prudential Residential Servs., Ltd. P'ship*, 22 F.3d 1219 (2d Cir.1994); *Shaw v. Rizzoli Int'l Publ'ns, Inc.*, No. 96 Civ. 4259, 1999 WL 160084, at *1, (S.D.N.Y. Mar.23, 1999). "The trial court's task at the summary

judgment motion stage of the litigation is carefully limited to discerning whether there are genuine issues of material fact to be tried, not to deciding them. Its duty, in short, is confined at this point to issue-finding; it does not extend to issue-resolution.” *Gallo*, 22 F.3d at 1224.

The moving party bears the initial burden of “informing the district court of the basis for its motion” and identifying the matter that “it believes demonstrate[s] the absence of a genuine issue of material fact.” *Celotex*, 477 U.S. at 323, 106 S.Ct. 2548. The substantive law governing the case will determine those facts that are material and “only disputes over facts that might affect the outcome of the suit under the governing law will properly preclude the entry of summary judgment.” *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 248, 106 S.Ct. 2505, 91 L.Ed.2d 202 (1986). In determining whether summary judgment is appropriate, the Court must resolve all ambiguities and draw all reasonable inferences against the moving party, Rubin in this case. *See Matsushita Elec. Indus. Co. v. Zenith Radio Corp.*, 475 U.S. 574, 587, 106 S.Ct. 1348, 89 L.Ed.2d 538 (1986) (citing *United States v. Diebold*, 369 U.S. 654, 655, 82 S.Ct. 993, 8 L.Ed.2d 176 (1962)); *Gallo*, 22 F.3d at 1223. If the moving party meets this burden, the burden shifts to the nonmoving party, Chang's Imports in this case, to come forward with “specific facts showing that there is a genuine issue for trial.” Fed.R.Civ.P. 56(e). With respect to the issues on which summary judgment is sought, if there is any evidence in the record from any source from which a reasonable inference could be drawn in favor of the nonmoving party, summary judgment is improper. *See*

Chambers v. TRM Copy Ctrs., 43 F.3d 29, 37 (2d Cir.1994).

II.

Unless otherwise indicated, the following facts are either undisputed or are matters of public record. On May 31, 1987, the plaintiff and Srader entered into an agreement (the “1987 Agreement”) that allowed Srader to develop a shoe business owned by the plaintiff under the plaintiff's “Margaret Jerrold” trademark. Under the 1987 Agreement, the plaintiff agreed to advance Srader payments for certain business expenses, Srader agreed to manage the shoe business, and the parties were to split the gross proceeds in accordance with certain specified payment terms. (Pl.'s Rule 56.1 St. ¶ 1; Def.'s Rule 56.1 St. ¶ 1.) The Agreement ultimately expired in 1997. (Pl.'s Rule 56.1 St. ¶ 2; Def.'s Rule 56.1 St. ¶ 2.) According to the Complaint, the amounts that had been advanced to Srader were reflected in a series of promissory notes (the “Notes”). (Compl.¶ 13.)

After the Agreement expired, a number of disputes arose between the plaintiff and Srader concerning the conditions under which Srader could continue to license and/or acquire the “Margaret Jerrold” trademark. The plaintiff and Srader retained the defendant Rubin, who is an attorney, to act as a mediator to assist them in finding an amicable resolution to their differences. Rubin had previously provided legal representation to Clark Chang, the plaintiff's principal. (Pl.'s Rule 56.1 St. ¶ 3; Def.'s Rule 56.1 St. ¶ 3.)

*329 On March 17, 1999, the plaintiff and Srader signed a letter agreement from Rubin stating:

Gentlemen:

You have requested me to assist you in finding an amicable resolution to your differences relating to the trademark Margaret Jerrold and the business relating thereto.

As you can well understand this places me in a clear conflict of interest and I have advised you that you should be represented by different attorneys. However, you have represented to me that you are both aware of the conflict of interest issue and still desire me to assist you in finding a common resolution of your difficulty and structuring a settlement.

Please sign below to evidence your waiving any claim of conflict of interest, your request that I act for both of you and your consent to my doing so with regard to this matter. You further agree to share the cost of my services on a 50-50 basis.

Hopefully, we can mediate a settlement that will enable you both to work together in a successful way.

Letter dated March 17, 1999 ("Waiver Letter"), attached as Ex. A to Compl. Both Chang and Srader signed the Waiver Letter under the statement: "Accepted and Agreed To." *Id.*

Rubin subsequently assisted the parties in coming to a resolution of their disputes, and then reduced the agreement to writing in the form of a draft Settlement Agreement.

(Pl.'s Rule 56.1 St. ¶ 10; Def.'s Rule 56.1 St. ¶ 10.) Rubin forwarded the draft to the plaintiff and Srader for comments, and again mentioned review by an independent attorney, and the parties executed the final Settlement Agreement on March 31, 1999. (Pl.'s Rule 56.1 St. ¶¶ 11-12; Def.'s Rule 56.1 St. ¶ 11-12.)

The Settlement Agreement acknowledged the existence of the advancements that the plaintiff had made to Srader under the 1987 Agreement (the "Loan"), and indicated that Srader's obligations for the Loan were separate and apart from the Settlement Agreement. *See* Settlement Agreement at 1 ("WHEREAS, Chang made certain loans to Srader pursuant to the [1987 Agreement] and personally (e.g., to pay taxes) (collectively, 'the Loan') and Srader desires to use funds from the business generated by use of the Trademark to repay said Loan"); *id.* at § 2.06. The Settlement Agreement nevertheless consolidated these obligations and created a new payment schedule for the Loan, *id.* at §§ 2.01 & 2.03, and allowed Srader to license exclusively and then purchase the Margaret Jerrold trademark from the plaintiff on the condition that Srader, among other things, met this payment schedule. *Id.* at §§ 1.01 & 1.02. During the mediation, Srader had not disputed that he owed the plaintiff the amounts reflected in the Notes. *See, e.g.,* Deposition of Joseph Rubin dated July 17, 2001 ("Rubin Dep."), at 44-45, 78-79, 86-88, 102-03, 115-16, 141, 145-46, attached as Ex. D to Affirmation of William I. Strasser dated December 7, 2001 ("Strasser Aff."). The plaintiff had claimed that this amount was \$712,640.45, however, and Srader had taken the position that he wanted to have his accountant go over the relevant records before

he would agree that that particular sum was accurate. *See* Rubin Dep. 85, 110–113. In light of this dispute, the Settlement Agreement provided for a method of determining the amount due on the Loan, under which each party was to have an independent accountant determine the amount purportedly owed, and, if the accountants could not come to an agreement, a third independent accountant was to be retained and the issue was to be *330 decided by majority vote. Settlement Agreement § 4.01.

After executing the Settlement Agreement, the parties retained separate accountants to review the relevant records, in accordance with the terms of the Agreement, but the accountants came to very different conclusions concerning the amounts owed between the parties. The plaintiff's accountant determined that Srader owed the plaintiff \$966,916.66. Srader's accountant, by contrast, determined that Srader did not owe the plaintiff anything and that the plaintiff in fact owed Srader over \$900,000.00. (Pl.'s Rule 56.1 St. ¶ 17; Def.'s Rule 56.1 St. ¶ 17.) This latter conclusion was based in part on the contention that the amounts owed on the Loan had to be offset under the 1987 Agreement for certain chargebacks that were owed to Srader under the 1987 Agreement. *See* Deposition of Ronald Srader dated November 14, 2002 (“Srader Dep.”), at 102–11.

Rather than submitting this dispute to a third accountant, the plaintiff brought suit against Srader and Rubin, seeking among other things to invalidate the Settlement Agreement and obtain the amounts allegedly owed on the Notes.¹ (Pl.'s Rule 56.1 St. ¶ 18; Def.'s Rule

56.1 St. ¶ 18.) The Court subsequently granted a motion by Srader to compel arbitration of the dispute between the plaintiff and Srader pursuant to an arbitration clause in the Settlement Agreement.

III.

The plaintiff's fourteenth cause of action is for negligence against Rubin for allegedly representing both the plaintiff and Srader during the mediation although Rubin “was in a position of conflict of interest and should never have mediated and/or discussed the matter with both the Plaintiff ... and ... Srader, without Plaintiff having the benefit of counsel.” (Comp.¶ 63.) The Complaint alleges, further, that Rubin was negligent in failing to advise the plaintiff to seek independent counsel, failing to inform the plaintiff that the Settlement Agreement purportedly extended beyond the scope of the license and sale of the Margaret Jerrold trademark, and failing to advise the plaintiff that the Settlement Agreement allowed Srader to contest monies allegedly owed to the plaintiff by Srader pursuant to the Notes. (Compl.¶¶ 65, 68.) The plaintiff's fifteenth cause of action is also for negligence, specifically for failing to investigate critical facts relevant to the Notes and drafting the Settlement Agreement in a way that allowed Srader to contest the amounts owed under the Notes. The defendant Rubin moves for summary judgment on these claims on the ground that the plaintiff has not produced any evidence of any actions on Rubin's part that fell below the standard of care that Rubin owed the plaintiff during the mediation and drafting process.

One of the critical issues in this motion is the appropriate standard of care to be applied to Rubin's conduct during the mediation process. The plaintiff bases its claims for negligence almost entirely on the contention that Rubin was an attorney, who, as such, allegedly owed the plaintiff all of the duties of professional responsibility that arise when an attorney represents, or decides whether to represent, a client. The plaintiff's primary evidence is also in the form of expert testimony concerning the relevant professional standards of conduct *331 that allegedly apply to attorneys in New York.²

[1] [2] [3] In order to establish a claim for negligence in the practice of law under New York law, a party must establish that (1) the attorney was negligent; (2) the negligence was the proximate cause of the loss sustained; and (3) the plaintiff sustained actual damages as a result of the attorney's negligence. *Estate of Nevelson v. Carro, Spanbock, Kaster & Cuiffo*, 259 A.D.2d 282, 686 N.Y.S.2d 404, 405 (1999); *Khadem v. Fischer & Kagan*, 215 A.D.2d 441, 626 N.Y.S.2d 500, 502 (1995); *Franklin v. Winard*, 199 A.D.2d 220, 606 N.Y.S.2d 162, 164 (1993). Negligence or legal malpractice exists when an attorney fails to exercise that degree of skill commonly exercised by an ordinary member of the legal community. *Estate of Nevelson*, 686 N.Y.S.2d at 405; *Thaler & Thaler v. Gupta*, 208 A.D.2d 1130, 617 N.Y.S.2d 605, 606 (1994); *Marshall v. Nacht*, 172 A.D.2d 727, 569 N.Y.S.2d 113 114 (1991).

However, Rubin was not acting as an attorney for either the plaintiff or Srader in negotiating

and drafting the Settlement Agreement; he was acting as a neutral mediator. The plaintiff and Srader both signed the Waiver Letter, indicating that they understood that they were hiring Rubin only "to assist [them] in finding an amicable resolution to [their] differences relating to the trademark Margaret Jerrold and the business relating thereto," and that they were "both aware of the conflict of interest [that position would entail] and still desire[d Rubin] to assist [them] in finding a common resolution of [their] difficulty and structuring a settlement." Waiver Letter.

The plaintiff cites *Layton v. Pendleton*, 864 S.W.2d 937 (Mo.App.1993), for the proposition that an attorney who acts as a scrivener in drafting an agreement that reduces to writing an understanding that has been reached between two parties can nevertheless be negligent for failing zealously to advocate for one of the parties' positions during the drafting process. In *Layton*, however, the attorney was found negligent based largely on the fact that the attorney also did not "ever inform the parties that she was acting only as a scrivener," such that "it was reasonable for [the plaintiff] to expect that [the attorney] was acting on his behalf as a lawyer." *Id.* at 942. The court explained that "[i]f a lawyer acts in a transaction as a scrivener, it is only reasonable that the parties be informed that the lawyer is acting as a scrivener and not as an attorney for either party." *Id.*

In this case, the Waiver Letter clearly set forth the parties' understanding of Rubin's role and the Waiver Letter refutes any contention that the plaintiff could have reasonably believed that Rubin was acting as the plaintiff's private

attorney during the mediation process. *See also* Rubin Dep. 95, 127–28. Rubin was not acting as an attorney for either the plaintiff or Srader, and Rubin made this fact clear to the parties through the Waiver Letter. The Waiver Letter was also clear that Rubin was to “act for both” Srader and the plaintiff, and not just for the plaintiff. Waiver Letter. Hence, Rubin was not providing legal representation to two clients with adverse interests. *Compare* New York Code of Professional Conduct DR 5–105 (setting out rule and exceptions in connection with conflicts of interest in legal representation and conditions for simultaneous legal representation).

*332 [4] [5] [6] There is, moreover, no question that an attorney can act as a neutral mediator. Ethical Consideration 5–20 states that:

[a] lawyer is often asked to serve as an impartial arbitrator or mediator in matters which involve present or former clients. The lawyer may serve in either capacity after disclosing such present or former relationships. A lawyer who has undertaken to act as an impartial arbitrator or mediator should not thereafter represent in the dispute any of the parties involved.

Although the plaintiff bases part of its negligence claim on the contention that Rubin did not adequately disclose all of his former relationships to the plaintiff, the Waiver Letter

clearly disclosed the fact that Rubin would be acting as a mediator and the parties explicitly waived any conflict issue by signing the Waiver Letter. *See* Waiver Letter; *see also* Rubin Dep. 143–44. Rubin had not previously represented Srader, although he had represented the plaintiff. This latter fact cannot form the basis for negligence claim by the plaintiff, however, because the plaintiff was aware that Rubin had represented him, and there is no claim that this fact was not disclosed to Srader. *See* Affidavit of Joseph Rubin sworn to June 25, 2001 (“Rubin Aff.”), at ¶¶ 3, 6, attached as Ex. B to Affirmation of Marc Jonas dated November 8, 2001 (“Jonas Aff”).

[7] [8] The plaintiff argues that Rubin failed to disclose a prior relation with Srader, but there is no evidence in the record that Rubin ever represented Srader or even knew him prior to the mediation. *See, e.g., id.* at ¶ 3; Affidavit of Ronald Srader sworn to April 6, 2001 (“Srader Aff.”), at ¶ 2, attached as Ex. C to Jonas Aff. The plaintiff’s sole evidence relating to a prior relation between Rubin and Srader indicates that the two may have met once at a meeting, but such a meeting would not have created a conflict that needed to be disclosed.³ The plaintiff also argues that Rubin was negligent in failing to disclose that Rubin had represented Ivan Rempel, who conducted business with both the plaintiff and Srader and was known to both, and who helped conduct the mediation. *See* Rubin Dep. 157–58. Rempel was not a party to the mediation, however, and Rubin was not representing Rempel’s interests either as an attorney or as a mediator during these proceedings. Hence, Rubin was not required to disclose his prior representation of Rempel. In any event, there is uncontroverted

evidence in the record that both parties knew of Rubin's prior representation of Rempel, and there is no evidence indicating that this prior representation in any way affected Rubin's ability to perform as an impartial mediator as between the interests of the plaintiff and Srader. See Deposition of Clark Chang dated September 20, 2001 ("Chang Dep."), at 91–92, attached as Ex. E to Strasser Aff.; Srader Aff. ¶ 5; Affidavit of Ivan Rempel sworn to December 20, 2001, at ¶¶ 5, 6.

[9] [10] There is almost no law on what the appropriate standard of care is, if any, for a mediator who helps negotiate a settlement between parties. However, a mediator cannot be held to a higher degree of skill and care than that commonly exercised by ordinary members of the relevant *333 mediation community. Although there are a number of different kinds of mediation that parties may seek, "[t]he role of a mediator is often that of the honest broker who must suggest a solution giving advantage to both sides and minimizing the price that each must pay." *In re Joint Eastern and Southern Districts Asbestos Litig.*, 737 F.Supp. 735, 739 (E.D.N.Y.1990). Such was the case here, where the parties explicitly retained Rubin not to provide legal assistance but rather to "assist [the parties] in finding an amicable resolution to [their] differences relating to the trademark Margaret Jerrold and the business relating thereto." Waiver Letter. There can be no claim that Rubin failed to satisfy this duty because Rubin did assist in bringing these parties together and did successfully draft an agreement that was executed by both parties and that settled their dispute.

[11] The plaintiff argues that Rubin was nevertheless negligent in his capacity as a mediator because he failed to advise Rubin that he should obtain his own counsel during the mediation. Putting aside the fact that there is no authority for the proposition that a reasonable mediator must render such advice at the risk of personal liability, there is also no factual basis for the contention that Rubin failed to give such advice. The Waiver Letter clearly indicates that Rubin had "advised [the plaintiff and Srader] that [they] should be represented by different attorneys." Waiver Letter; see also Rubin Dep. 61–62.

The plaintiff tries to circumvent the language of the Waiver Letter by citing isolated portions of Rubin's deposition in which Rubin testified that he told the plaintiff, after having drafted the Settlement Agreement, that "if you have an attorney review it with the attorney." Rubin Dep. 68 (emphasis added). However, the language of the Waiver Letter clearly advised the plaintiff that he should be represented by counsel, and Rubin also testified much more explicitly that he:

asked [Chang] had he read the agreement. I asked him to again discuss it now. Again, I say I don't know if he mentioned you by name [referring to the deposing attorney, Mr. Strasser]. That he had another lawyer that he did other things with. I said to him, please, whoever the other lawyer is or if it's Mr. Strasser, I can't remember the timing, I told him to go check it out. Be sure you're okay

with this whole thing from your point of view. Make sure. I'm doing my best to mediate this thing, but I'm not acting as your lawyer. So go get a lawyer if you want. And I was emphatic with him. And I also did the same for Srader. I made those phone calls. And that was the conversation I had. But I also asked him if he had any comments on the agreement. But I said, get back to me. And I think they did get back to me later with some changes.

Rubin Dep. at 168. The plaintiff has not cited any evidence that contradicts Rubin's testimony, and, in any event, the Waiver Letter provided the plaintiff with adequate advice regarding the importance of seeking independent counsel during the mediation.

[12] The plaintiff argues that Rubin was also negligent as a mediator for failing to advise him that the Settlement Agreement would allegedly allow Srader to contest monies previously known to be owed to the plaintiff under the Notes; failing to investigate critical facts relevant to the amounts owed under the Notes and the obligations thereunder; and failing to draft the Settlement Agreement so as to foreclose such a dispute. These arguments misconstrue the scope of the Settlement Agreement, the scope of the dispute *334 that the Agreement purported to settle, and the scope of Rubin's role as a mediator.

It is undisputed that at the time of the mediation, Srader admitted that he owed monies to the plaintiff under the Notes. Srader Dep. 154–56; Rubin Dep. 115–16. The primary dispute between the parties concerned whether Srader could continue using the Margaret Jerrold trademark and the precise conditions under which Srader could continue licensing and could ultimately acquire the trademark from the plaintiff. *See* Rubin Dep. 109, 141. The Settlement Agreement set up a payment schedule for the Loan and made payment of the Loan a condition for Srader's continuing license and acquisition of the Margaret Jerrold trademark, but it did not purport to alter or modify the parties' rights with regard to the amounts owed under their previous agreements. To the contrary, the Settlement Agreement specifically noted that the obligations relating to the Loan were separate and apart from the Settlement Agreement. Settlement Agreement § 2.06

Srader was also apparently unwilling to accept that he owed the plaintiff \$712,640.45 under the Notes at the time of the mediation, and instead took the position that he wanted to have an independent accountant verify the sums before he could commit to a precise amount. *See, e.g.*, Rubin Dep. 85, 111–12. The Settlement Agreement set up a neutral mechanism to handle any such outstanding disputes, whereby the parties could have their independent accountants determine the appropriate amounts owed, and could have any discrepancies settled by using a third and independent accountant. The Settlement Agreement thereby reasonably settled the only disputes that had arisen between the parties at the time. Once having found an amicable

resolution to the outstanding disputes between the parties, Rubin had no duty as a mediator to investigate facts relating to matters that were collateral to his mediation tasks.

The plaintiff complains that Rubin should have specifically mentioned the Notes and fixed the amounts owed on them, but the Settlement Agreement did explicitly acknowledge the existence of the Loan, and the plaintiff and Srader were unable to agree on the amounts owed on the Loan. Instead, the parties agreed to a neutral mechanism for determining the amount of the Loan, and there is no basis for the claim that Rubin even could have obtained an agreement to a fixed sum.

[13] In any event, to the extent that Srader has attempted to raise new counterclaims against the plaintiff under the Settlement Agreement, Srader's claims are based not on any provision in the Settlement Agreement but rather on obligations allegedly arising out of the parties' previous business arrangements, including the 1987 Agreement. Whether Srader can in fact raise such claims as offsets to the Loan, and whether the claims are valid, are questions that are currently being arbitrated. There is, however, no basis for the claim that the Settlement Agreement played any role in allowing Srader to dispute the amounts allegedly owed between the parties on any grounds that were not already available to Srader. The bare use of the neutral mechanism for determining the amounts owed to the plaintiff could not, with any reasonable foreseeability, be the cause of legally cognizable injury to the plaintiff. Hence, the Settlement Agreement is not the proximate cause of any damages to the plaintiff,

and Rubin cannot be found liable for failing to advise the plaintiff that Srader might seek to dispute the amounts owed under the Loan or for failing to stipulate to the amounts owed in the Settlement Agreement. *Cf., e.g.,* *335 *Thaler & Thaler*, 617 N.Y.S.2d at 606–07 (dismissing legal malpractice claim on motion for partial summary judgment when there was no evidence that different conduct by the attorney could have helped prevent the injury alleged); *Franklin*, 606 N.Y.S.2d at 164 (“We find that the IAS court properly dismissed the legal malpractice causes of action of the plaintiff's complaint, with prejudice, since the complaint failed to set forth the requisite allegation, that ‘but for’ the attorneys' alleged malpractice, the plaintiff would not have sustained some actual ascertainable damages.”) Indeed, the Settlement Agreement provided a neutral dispute resolution mechanism, which should provide the plaintiff with an adequate mechanism for vindicating any legitimate claims he has raised against Srader in this action.

Finally, the plaintiff raises a number of claims asserting that Rubin was negligent due to some of his post-drafting conduct. The plaintiff has not indicated how any of this conduct could have caused the plaintiff any injury. Ethical Consideration 5–20 does state that “[a] lawyer who has undertaken to act as an impartial arbitrator or mediator should not thereafter represent in the dispute any of the parties involved,” but there is no evidence that Rubin has represented the plaintiff or Srader in any of these continuing disputes. Hence, the plaintiff's claims must also be dismissed insofar as they are based on any post-mediation conduct.

In sum, the plaintiff has not identified any conduct on the part of Rubin that fell below any applicable standards of care and that could give rise to a claim for negligence. The plaintiff's fourteenth and fifteenth causes of action are therefore dismissed.

granted and the remaining claims against Rubin are dismissed. There being no further claims pending in this case, the Clerk of the Court is directed to enter judgment and to close this case.

SO ORDERED.

CONCLUSION

For the foregoing reasons, the defendant Rubin's motion for summary judgment is

All Citations

216 F.Supp.2d 325

Footnotes

- 1 The plaintiff originally brought suit in the United States District Court for the District of New Jersey, but that court found that there was no diversity jurisdiction over the claims raised in that action. See *Chang's Imports, Inc. v. Srader*, Civ. No. 99-3989 (D.N.J.). The plaintiff subsequently brought the present action in this Court.
- 2 The parties dispute whether the plaintiff's expert evidence is admissible. It is unnecessary to address this issue here, however, because this evidence is not probative of any actionable negligence, for the reasons discussed below.
- 3 Srader testified at his deposition that he met Rubin once at a meeting with Clark Chang in which Rubin was representing Chang. See Srader Dep. at 164. This meeting would not have constituted a prior representation of Srader by Rubin, however, and Chang would have been aware of the meeting. Rubin has testified that he does not remember meeting Srader until March of 1999, and both Rubin and Srader testified that they did not have any close personal relation or attorney-client relation. Rubin Dep. 36; Srader Aff ¶ 2; Rubin Aff ¶ 3.