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INSTITUTE**

ETHICS BREAKOUT SESSION (D.15)

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**"No Secrets" or "Keep Secrets"? – What Lawyers
Need to Know about the Viability and Extent of the
Attorney-Client Privilege in Joint IP
Representations**



- **Multiple Representations: The Impact on the Attorney-Client Privilege**
- **Common Interest and Joint Defense Agreements: Implications for Communications with Legal Counsel**
- **Transfer of Intellectual Property: Who Controls the Privilege?**



Multiple Representations: The Impact on the Attorney-Client Privilege

“[A]n advocate, in the discharge of his duty, knows but one person in all the world, and that person is his client. To save that client by all means and expedients, and at all hazards and costs to other persons. . . is his first and only duty; and in performing this duty he must not regard the alarm, the torments, the destructions which he may bring upon others.”

Henry Lord Brougham in 2 TRIAL OF QUEEN CAROLINE 3 (1821).



“There should be an easy answer to a question that could come up at any time: if a lawyer jointly represents two clients, what does the lawyer do if one of the clients provides confidential information to the lawyer that the client wants kept secret from the other jointly represented client? *Must* a lawyer tell the other client? *Can* the lawyer tell the other client?”



All in all, the ethics authorities display a shocking degree of disagreement in how lawyers must or should act when jointly representing multiple clients. Thus, there are no clear answers to what a lawyer must do when confronted with the scenario presented at Part I of this article. The best lesson is to explicitly agree in advance on the information flow in a joint representation. Because it carries less risk for creating insoluble loyalty problems requiring the lawyer's withdrawal, an explicit "no secrets" approach would almost always be best. Although that arrangement does not provide absolute certainty, it reduces the risk that the lawyer will face either an information flow or a loyalty crisis.



Joint (Common) Client Communication Duties

- **“As to the duty of confidentiality, continued common representation will almost certainly be inadequate if one client asks the lawyer not to disclose to the other client information relevant to the common representation. This is so because the lawyer has an equal duty of loyalty to each client, and each client has the right to be informed of anything bearing on the representation that might affect that client’s interests and the right to expect that the lawyer will use that information to that client’s benefit. See Rule 1.4. . The lawyer should, at the outset of the common representation and as part of the process of obtaining each client’s informed consent, advise each client that information will be shared and that the lawyer will have to withdraw if one client decides that some matter material to the representation should be kept from the other. ”**
 - **Rule 1.7, R. Prof. Conduct, Cmt 31.**



- **“Although the Supreme Court did not adopt the comments as the court’s official comments, the comments generally will reflect the OLPR’s interpretation and enforcement position. Lawyers can follow the comments’ guidance with confidence.”**

Timothy Burke, “Comparing Services Can Be Dickey,”
Minnesota Lawyer (July 3, 2006)



When a lawyer represents multiple clients in the same or related matters, the obligation of confidentiality to each sometimes may conflict with the obligation of disclosure to each. * * * Absent an express agreement among the lawyer and the clients that satisfies the “informed consent” standard of Rule 1.6(a), the Committee believes that whenever information related to the representation of a client may be harmful to the client in the hands of another client or a third person, the lawyer is prohibited by Rule 1.6 from revealing that information to any person, including the other client and the third person, unless disclosure is permitted under an exception to Rule 1.6. Whether any agreement made before the lawyer understands the facts giving rise to the conflict may satisfy “informed consent” (which presumes appreciation of “adequate information” about those facts) is highly doubtful. In the event the lawyer is prohibited from revealing the information, and withholding the information from the other client would cause the lawyer to violate Rule 1.4(b), the lawyer must withdraw from representing the other client under Rule 1.16(a)(1).

ABA Formal Ethics Opinion 08-450 at 2.



[T]he common attorney is required to keep each of the co-clients informed of all information reasonably necessary for the co-client to make decisions in connection with the matter The lawyer's duty extends to communicating information to other co-clients that is adverse to a co-client, whether learned from the lawyer's own investigation or learned in confidence from that co-client.

The Restatement (Third) of the Law Governing Lawyers, §§ 121, 128 (2000)



The Restatement backs away from a mandatory “no secrets” approach, recognizing that in certain circumstances – e.g., when the lawyer is withdrawing -- the lawyer may be permitted to exercise discretion:

"In the course of withdrawal, the lawyer has discretion to warn the affected co-client that a matter seriously affecting that person's interests has come to light, which the other co-client refuses to permit the lawyer to disclose. Beyond such a limited warning, the lawyer, after consideration of all relevant circumstances, has the further discretion to inform the affected co-client of the specific communication if, in the lawyer's reasonable judgment, the immediacy and magnitude of the risk to the affected co-client outweigh the interest of the communicating client in continued secrecy."

Id.



Cases

• A v. B., 726 A.2d 924 (N.J. 1999)

- H&W retain same firm to prepare wills
- H doesn't disclose to W that he fathered illegitimate child
- Mother of illegitimate child hires same firm to file paternity suit
- Firm's conflict system fails to flag conflict
- Firm later discovers conflict, withdraws from representing Mother
- Firm advises H it is ethically required to inform W of illegitimate child
- Files motion seeking permission to inform W of H's illegitimate child
- Court rules that firm may do so, but is not obligated to do so.

• *Allegaert v. Perot, 565 F.2d 246 (2d Cir. 1977)*

- Walston, the "accommodation client" and DGF, the "primary client" were represented by two firms in litigation
- The two firms drop Walston, continue to represent DGF
- Walston regards firms' continue representation of DGF as adverse to his interests, moves to DQ firms
- Court denies DQ motion saying: "Integral to our conclusion that Weil, Gotshal and Leva, Hawes were not positioned to receive information intended to be withheld from DGF is the law firms' continuous and unbroken legal relationship with their primary clients [T]he attorneys sought to be disqualified here have not changed sides from a former client to a current, adverse client [A]t all times Weil, Gotshal and Leva, Hawes represented [DGF's and its affiliates'] interests. Any representation of Walston was done with Walston's knowledge that the firms were still representing [DGF's and its affiliates'] interests and would continue to do so. Weil, Gotshal and Leva, Hawes never changed sides."
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JOINT (aka “COMMON”) OR CONCURRENT CLIENTS?

- **“Clients of the same lawyer who share a common interest are not necessarily co-clients. Whether individuals have jointly consulted a lawyer or have merely entered concurrent but separate representations is determined by the understanding of the parties and the lawyer”**

**Restatement of the Law Governing Lawyers § 75, *Cmt. c.*
(No authorities cited.)**



Characteristics of joint representations normally include:

- 1) Common goals;
- 2) Communication of goal-related information among the clients, with lawyer and with each other;
- 3) Joint meetings with lawyer;
- 4) Common understanding re fees, often with fee-sharing;
- 5) Communications by the lawyer with joint clients or clients' representative
- 6) Joint clients and attorney clients regard clients as such.



Common Interest and Joint Defense Agreements: Implications for Communications with Legal Counsel

- The “community of interest” or “common interest” doctrine is a well-established concept within the law applicable to claims of attorney-client privilege. Pursuant to the doctrine, independently represented parties with a community of interest in the matter may freely share otherwise privileged communications without waiving the privilege.
- The common interest doctrine is distinct from the co-client (or joint client) privilege, which applies when the same lawyer represents more than one client on a matter of common interest. In re Teleglobe Communications Corp., 493 F. 3d 345, 359 (3d Cir. (Del.) 2007).
- The Community of Interest or Common Interest privilege, comes into play when clients with separate attorneys share otherwise privileged information in order to coordinate their legal activities. Id.



- Neither the co-client nor common interest privilege is effective in adverse litigation between the former clients. Id.
- Under the common interest doctrine, and unlike the joint client rule, it is generally held that both parties must consent before the privilege is waived as to the outside world. John Morrell & Co. v. Local Union 304A, United Food & Comm. Workers, 913 F.3d 544, 555-56 (8th Cir. 1990) (*cert. denied*, 500 U.S. 905, 111 S.Ct. 1683, 114 L.Ed.2d 78 (1991)).



Transfer of Intellectual Property: Who Controls the Privilege?

When control of a corporation passes to new management, the authority to assert and waive the corporation's attorney-client privilege passes as well. Commodity Futures Trading Comm'n v. Weintraub, 471 U.S. 243, 349 S. Ct. 1986, 1991, 85 L.Ed. 272 (1985) (bankruptcy trustee for corporation in bankruptcy controls whether or not to waive corporation's attorney-client privilege with respect to communications that took place before filing of bankruptcy petition).



- In a merger transaction the surviving entity (commonly the buyer in the transaction) controls the attorney-client privilege of the merged company (commonly the seller in the transaction). This is true with respect to attorney-client communications concerning the acquisition. See Bass Public Ltd. Co. v. Prosmus Cos., Inc., 868 F. Supp. 615, 619-20 (S.D.N.Y. 1994); Polycast Technology Corp. v. Uniroyal, Inc., 125 F.R.D. 47, 49-50 (S.D.N.Y. 1989); Medcom Holding Co. v. Baxter Travenol Laboratories, Inc., 689 F. Supp. 841, 844 (N.D. Ill. 1988).



- The sale of less than all of the corporation, such as the sale of an operating division, or of certain other corporate assets, that also involves the transfer of associated privileged documents generally results in a waiver of the transferor's privilege. See Chase Manhattan Mortgage Corp. v. Advanta Corp., 2004 WL 422681 (D.Del. 2004) (where seller/defendant transferred privileged documents relating to a sale of a business to buyer/plaintiff, the documents lost any privilege);



- When the successor merely purchases assets and does not attempt to continue the pre-existing operation, generally the attorney-client privilege does not transfer.
- By contrast, when the successor continues the operations of the predecessor company, the successor company stands in the shoes of prior management and holds the privilege with respect to communications regarding the company's operations. Tekni-Plex, Inc. v. Meyner & Landis, 674 N.E.2d 663 (N.Y.1996).



FACT HYPOTHETICALS AND QUESTIONS

1. The licensor inventor and the licensee company.

Dr. F. Goode has invented a very effective treatment device for people suffering from symptoms of the common cold, which is called the Cold Shot™. The device involves a mechanical way of delivering natural ingredients that are immediately effective in relieving cold symptoms. He secures a United States Patent on the Cold Shot invention. He then finds a company, Cures R Us, interested in adding the product to its product line and enters into an exclusive licensing agreement with Cures R Us. The license provides Dr. Goode a 10% royalty on net sales. In addition, because the attorney doing the licenses knew her standing law, the license provides that Dr. Goode will join as a plaintiff in any suit to enforce the rights under the patent. Dr. Goode is to receive royalties on any settlement amount, and is to approve any settlements.

The Cold Shot takes off; it really works well. The royalties are very significant to Dr. Goode. This of course, creates copiers. Cures R Us identifies an infringer and hires Joe Lit to sue. He determines he must add Dr. Goode as a plaintiff to have standing to sue. To save money, Dr. Goode and Cures R Us decide Joe should represent them both in the litigation. The defendant sues Cures R Us on a counterclaim, alleging it has a patent that covers the basic technology and that Cures R Us can't practice the Goode patent without infringing defendant's earlier patent. It also claims Dr. Goode engaged in inequitable conduct in obtaining his patent and seeks to invalidate it as obvious over defendant's patent.



Both sides have moved for summary judgment, and the outcome appears to Joe Lit to be uncertain. The court has set up a settlement conference. At the settlement conference, the defendant offers to simply have each side walk away from the case with a cross license. Dr. Goode has put a great deal of effort in his invention and is offended that anyone would say he misled the patent office. Moreover, he won't receive any royalties from the defendant under the cross license. He thinks he would be giving up at least hundreds thousands of dollars in royalties and insists that Joe Lit try the case and not settle. Cures R Us thinks its entire line of business is at risk with this lucrative product and thinks the settlement is the safest thing to do. Time is of the essence. If summary judgment is granted to defendant, the cross-license offer will not be available.



Q. Assume Dr. Goode confides to Joe that defendant's assertion that he engaged in inequitable conduct may have some validity, but Joe cannot disclose this to Cures R Us. What is Joe Lit to do?

Q. What should Joe have included in his engagement letter to address the problem? Should Joe have taken on representation of both parties in the first place?

Q. Assume Joe withdraws from representing Dr. Goode, but continues to represent Cures R Us. Is that okay? Assume further that in order to provide Cures R Us leverage over Dr. Goode to convince him to accept the cross license offer, Joe threatens to disclose to Cures R Us the facts regarding Dr. Goode's inequitable conduct. Any problem?

Q. Dr. Goode retains separate counsel. Joe continues to represent Cures R Us. The plaintiffs and their counsel enter into a JDA/Common Interest Agreement. Joe then discloses what he learned earlier about Dr. Goode's inequitable conduct to Cures R Us. Any problem?



2. The Case of the Shank-Proof Venture

Alleged trademark owner sued a manufacturer and a number of that manufacturer's retail distributors. The plaintiff alleged ownership to the mark, "Shank-Proof" being placed on a particular type of golf club. The mark was descriptive in that it described what the product was supposedly designed to do. Notwithstanding the low value of the mark, both the plaintiff and the defendant seemed stuck on claiming ownership to it.

To put pressure on the manufacturer, the plaintiff originally sued the manufacturer plus a couple of the big chain golf retail outlets. A year into the case, plaintiff got permission to amend the complaint to add about 15 additional retailers. All of the defendants eventually joined forces. Most of the retail defendants had in-house counsel; others retained outside counsel, but all relied heavily on the manufacturer's counsel to take the lead. The defendants all entered into a joint defense agreement to protect communications.

There turned out to be three difficult issues during the joint defense relationship:



1. First, before the JDA was in place, several of the initial retail defendants demanded an indemnification, defense and a hold harmless agreement from the manufacturer, which was granted. As more retail defendants were served and tried to tender the defense in the same way, however, the manufacturer got cold feet. Thus, although the defendants had a joint defense agreement, some of the defendants were paying their own attorneys to defend them and reserving their potential warranty claim for indemnification against the manufacturer, while other defendants were not incurring any legal expenses but were riding along essentially for free. Needless to say, when this topic came up during JDA conference calls, some folks on the call were less than pleased with the manufacturer and its counsel.

Q. Does the disparate treatment of the retailers by the manufacturer have implications for the A/C privilege with respect to communications among the parties to the JDA?

Q. Does counsel for the manufacturer have a conflict?



ATTORNEY-CLIENT PRIVILEGE

Elements

- A communication
- Between privileged persons
- In confidence
- For purposes of seeking or obtaining legal assistance

2. Although the defense/indemnification agreement with the manufacturer saved some of the retail defendants money, some of the commonly represented retail defendants often felt they were an after-thought for the manufacturer's attorneys. The manufacturer's counsel had a tendency to leave things go to the last minute, including responding to discovery served on the retail defendants, and to not share information about its dealings with plaintiff's counsel, including an early mediation at which none of the retail defendants appeared.

Q. Did Manufacturer's counsel violate any duties to the retail clients?

Q. How should Manufacturer's counsel have dealt with the "No Secrets/Share Secrets" issue at the outset?

Q. How can Manufacturer's counsel effectively represent the interests of all the defendants at a mediation, where the Manufacturer has not agreed to defend and indemnify all of the retail defendants?



3. Finally, the retailer defendants wanted to attack the trademark on the ground that it was descriptive. The manufacturer, however, didn't want to attack the mark in that way because it intended to use the mark if it won ownership. (The manufacturer claimed ownership to the mark pursuant to a disputed settlement agreement with the plaintiff; Manufacturer's counsel thus did not want to argue that the mark had no value while at the same time contending that the Manufacturer owned the (presumably valuable) mark.) A couple of the retailers planned on their own to raise the descriptiveness argument even though it was going to be in conflict with the Manufacturer's strategy. Some of the retailers strategized with other retailers and their counsel on phone calls about which way the case should go, but they were limited in what they could actually do because Manufacturer's counsel was the lead attorney for all defendants.

Q. In the context of the JDA are any of the communications in which the retail defendants were "strategizing" against the Manufacturer protected from disclosure to the Manufacturer?

Q. Does Manufacturer's counsel have an irreconcilable conflict, and what disclosures must counsel make to each of his clients?

