Ethical Dilemmas and Lessons for Lawyers in the Movies

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1. General Principles of Conflicts of Interests

Most states and the United States Patent & Trademark Office pattern their disciplinary rules after the American Bar Association Model Rules of Professional Conduct ("Model Rules"). This paper briefly addresses the general rules about current and former client conflicts.

Under the principle of imputed disqualification, *see, e.g.,* Model Rule 1.10, if one lawyer may not undertake a representation, generally no lawyer "associated with" the firm can. (This includes partners, associates, and lawyers with "of counsel" relationships with the firm, and others.) Less obvious is the need to monitor conflicts of co-counsel or opposing counsel: sometimes co-counsel's conflict can be imputed to a firm or a firm may be disqualified if it is proven that the disqualified lawyers shared its client's confidential information with the other firm. *See generally, Freeman v. Chicago Musical Instrument Co.*, 689 F.2d 715 (7th Cir. 1982); *Emblaze Ltd. v. Microsoft Corp*., 2014 U.S. Dist. LEXIS 74992 (N.D. Cal. May 30, 2014); *Buckley v. Airshield Corp.,* 908 F. Supp. 299 (D. Md. 1995).

If a conflict exists, a client can under most circumstances provide informed consent after full disclosure. Most states do not require consent be in writing, but "prefer" that it is or require it be "confirmed" in writing. *See generally,* Model Rules 1.7 & 1.0(e).

A. Concurrent Conflicts of Interest

The Model Rule governing current clients, Model Rule 1.7, contains two prohibitions: a lawyer (a) may not represent one client "directly adverse to another client;" and (b) may not "represent a client if the representation of that client may be materially limited by the lawyer's responsibilities to another client." The two prohibitions are commonly termed "adversity" and "material limitations" (or, as I prefer to call it, "pulling punches").

Courts have generally interpreted Model Rule 1.7 to mean what it says: a lawyer may never be adverse to a current client, unless the client consents, waives any objection, or the lawyer demonstrates that there are exceptional circumstances that would serve either a professional or societal interests that would outweigh the public's perception of impropriety. *See Transperfect Global, Inc. v. Motionpoint Corp.*, 2012 U.S. Dist. LEXIS 85649 (N.D. Cal. June 20, 2012); *Concat LP v. Unilever PLC*, 350 F. Supp. 2d 796 (N.D. Cal. 2004) (explaining that prohibition applies strictly, even if matters are totally unrelated) (collecting cases). Generally, too this obligation is imputed to all lawyers associated with a firm: if one lawyer is representing a company in a matter, no lawyer may be adverse to that client, even in a matter completely unrelated to the representation of the client.

B. Former Client Conflicts

The end of an attorney-client relationship is extremely significant for purposes of conflicts of interest since a lawyer may be adverse to a former client, but just not in certain categories of matters. If the representation has not ended, however, then the "per se" current client rule applies, discussed above. Which rule applies can be outcome determinative, since if the party seeking to disqualify a lawyer is a *former* client, the lawyer may be adverse to the former client, but just not in substantially related matters (and in a few other circumstances).

Various circumstances can make it difficult to determine precisely when, if ever, an attorney-client relationship ended. *See Mindscape, Inc. v. Media Depot, Inc.*, 973 F. Supp. 1130 (N.D. Cal. 1997) (lawyer was disqualified from unrelated adverse representation because he had not yet corrected mistake on patent by recording proper assignee); *Balivi Chem. Corp. v. JMC Ventilation Refrigeration*, LLC, 2008 U.S. Dist. LEXIS 2151 (D. Idaho Jan. 10, 2008) (reserving ruling on the issue for factual investigation as to when adversity arose).

Of course, if the lawyer and client expressly recognize the relationship has ended, such as by a letter from the lawyer to the client so noting, then the question is easy to answer. On the other end of the spectrum, if the lawyer is currently representing the client in a matter, then the representation is ongoing.

In between are the difficult cases, including those where a client has some history of consistently retaining the same firm to represent it in matters, but, at the time the adverse representation arises, the firm is not representing the party in a matter. *Int'l. Bus. Mach. Corp. v. Levin,* 579 F.2d 271 (3rd Cir. 1978); *Ehrich v. Binghamton City Sch. Dist.*, 210 F.R.D. 17, 25 (N.D.N.Y. 2002) (present client rule applies if "an attorney simultaneously represents clients with differing interests even though the representation ceases prior to filing the disqualification motion); *Gen-Cor, LLC v. Buckeye Corrugated, Inc.,* 111 F. Supp. 2d 1049 (S.D. Ind. 2000) (generally, "a client is a current client if the representation existed at the time the complaint was filed).

An example of how a firm can be viewed as strategically trying to "convert" a current client into a former one by dropping it like a hot potato is *Altova GMBH v. Syncro Soft SRL*, No. 17-11642-PBS (D. Mass. July 26, 2018). The facts are a bit unclear, but it seems like Firm A represented Syncro Soft in three trademark-related matters. The first involved responding to a C&D letter from a third party in 2004. The second involved representing Firm A in responding to a C&D letter alleging trade dress and copyright infringement from the party moving for disqualification in this case, Altova, in April 2009 and ending in June 2009. Then in 2010 Firm filed a trademark registration for Syncro Soft and provided other assistance through 2014. The total number of hours on these matters: less than 50.

In October 2011, Firm A had begun to represent Altova in trademark matters and in June 2012 filed suit for Altova against an alleged trademark infringer. In other words, although Firm A had defended Syncro Soft from claims of trade dress and copyright infringement in 2009, from October 2011 through 2014, at least, Firm A was representing

both Altova and Syncro Soft though not in matters where each was adverse to the other. The opinion is unclear whether Firm A represented Syncro Soft after 2014.

In June, 2017, Altova asked Firm A to assert a patent that Altova had obtained against Syncro Soft. In July, 2017, Firm A sent a letter to Syncro Soft "terminating" its attorney-client relationship with it (again, it's not clear the firm was doing anything after 2014). The firm did not explain why. It then filed the patent infringement suit for Altova against Syncro Soft.

Syncro Soft moved to disqualify Firm A. The court held that at the time the conflict arose, Syncro Soft was a current client of the firm. Thus, the rule governing current client conflicts, not former client conflicts, controlled. As shown above, it is unethical for a law firm to be adverse to a current client of the firm. Thus, the firm was disqualified, the court noting that most courts do not permit lawyers to drop a client like a hot potato in order to have the former client conflict rule apply, which permits lawyers to be adverse to a former client, just not in a matter that is substantially related to the work the firm performed for its former client.

If the matter is over, then instead of Model Rule 1.7, Model Rule 1.9 applies. It permits adverse representations but not if the matter is the same or substantially related to the work the lawyer did for the client and under certain other circumstances:

> (a) 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 client unless the former client gives informed consent, confirmed in writing.
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> (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
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> > (1) whose interests are materially adverse to that person; and
> > (2) about whom the lawyer had acquired information protected by Rules 1.6 and 1.9(c) that is material to the matter; unless the former client gives informed consent, confirmed in writing.
>
> (c) A lawyer who has formerly represented a client in a matter or whose present or former firm has formerly represented a client in a matter shall not thereafter:
>
> > (1) use information relating to the representation to the disadvantage of the former client except as these Rules would permit or require with respect to a client, or when the information has become generally known; or
> > (2) reveal information relating to the representation except as these Rules would permit or require with respect to a client.

While Rule 1.9 is used to disqualify firms on the other bases, the most common basis is the prohibition against being adverse to a former client in a substantially related matter. Determining whether a current and former represented are "substantially related" can be difficult. *See* David Hricik & Mercedes Meyer, *Patent Ethics: Prosecution*, at pp. 368-90 (LexisNexis 2016-17 ed.) (collecting cases and discussing the substantial relationship test in the context of patent practice).

A February 22, 2018 order illustrates some of the issues. In *Merial Inc. et al. v. Abic Biological Labs. Ltd* (Sup. Ct. N.Y.), enjoined King & Spalding from representing Abic Biological Labs ("Abic") and Phibro Animal Health Corporation ("Phibro") in an ICC arbitration where Abic and Phibro were adverse to Merial Societe Par Actions Simplifiee ("Merial SAS"), which was a former K&S client.

The evidence appears to have shown that K&S had represented Merial SAS, and related entities, from 1998 to at least 2011 concerning transactions and litigation in the animal health and vaccine space. K&S had also for many years represented Phibro and related entities in the animal health and vaccine space.

Merial SAS was acquired by Boehringer Ingelheim GmBH ("Boehringer") in 2017, and K&S had represented an affiliate of Boehringer until December 2017. In the summer of 2017, Merial and Boehringer became cross-wise, and until then, none of the Merial parties knew that K&S had been representing Phibro.

In the summer of 2017, K&S wrote a letter to the person that it had often interacted with, the head of prosecution and litigation at Merial SAS (Dr. Jarecki-Black), explaining that K&S was representing Abic and Phibro in a licensing dispute they had with Merial SAS (and other entities). Dr. Jarecki-Black responded by asserting that K&S' representation presented a conflict of interest and demanding that K&S withdraw. A few weeks later, the firm refused, explaining in a letter that it had represented different corporate entities in the matters Dr. Jarecki-Black pointed to, the matters were in all events unrelated to the ICC licensing dispute, and no K&S lawyer who was working against Merial SAS in the ICC matter had represented it previously. In response, Merial SAS reiterated its positions, and its letter also made a new (and very odd) argument: because the license in dispute included a New York choice of law clause, a California lawyer from K&S who was representing Phibro was engaged in the unauthorized practice of law. In its final letter, K&S reiterated that there was no substantial relationship between its work for and the work against Merial SAS and made short shrift of the odd argument about the unauthorized practice of law. It seems the parties could not agree on who was right, and instead Merial SAS filed suit in New York seeking an injunction to prevent K&S from being adverse to it (and Boehringer, and affiliated entities) in the ICC.

The court enjoined K&S even though there was no overlap between patents or licenses K&S had worked on for Merial SAS and those in the ICC arbitration. Instead, the court noted that K&S "clearly knows a great deal about how the Merial entities approach issues relating to patents and licenses in the animal health and animal vaccine

space." The trial court emphasized that Merial SAS had relied on 'a highly credentialed ethicist, Roy D. Simon" and noted that, although the decision was for the court to make, "King & Spalding offered no expert testimony to rebut Mr. Simon's expert opinion." The court then noted that "a reasonable lawyer like Mr. Simon came to the conclusion that King & Spalding's multiple representations of [Merial SAS entities] on issues meaningful to the limited number of players in the animal health and animal vaccine space would materially advance Abic and Phibro's interests vis-a-vis Merial" particular because Dr. Jarecki-Black "will play an integral role in Merial's defense" in the arbitration.

There are several things of note. First, it is unusual for actual injunctions to be sought (rather than disqualification), and usually injunctions are litigated quite differently from motions to disqualify, but K&S appeared to litigated this as a basic disqualification motion. Second, from the opinion, at least, the injunction was granted based upon what is called "playbook" information -- knowing how a client litigates or otherwise behaves, not actual specific confidential information -- which is also atypical in some jurisdictions. Third, and from afar, this was not correctly decided, which underscores the point that whenever a firm is faced with a disqualification motion, it should consider the need for expert testimony (and Professor Simon is a highly credentialed ethicist but not, so far as I know, an expert in patents or licensing), and the need to show -- although it's the other side's burden -- there is no real risk of misuse of confidential information.

2. Dropping a Client Like a Hot Potato Generally Does Not Make it a Former Client.

The fact that a current client can prevent a firm from being adverse to it in any matter, but a former client only in substantially related matters has led to many cases addressing whether a firm may properly withdraw and be adverse to a "former" client because the adverse matter is unrelated to the "prior" representations. Generally, this fails.

The court in *Southern Visions, LLP v. Red Diamond, Inc.,* 370 F.Supp.3d 1314 (N.D. Ala. 2019) disqualified the Bradley firm from representing a client, Red Diamong, in a patent case from representing Southern Visions and addressed the "hot potato" doctrine as well as other common issues and is quoted here at some length:

> The facts show Bradley violated the plain language of Rule 1.7(a). It is undisputed that Bradley began representing Southern Visions in this matter on December 23, 2018—the day its business review committee approved the representation and Bradley lawyers began billing time on the matter. At that time, Bradley still represented Red Diamond in at least three pending debt collection matters. In fact, Bradley did not withdraw from representing Red Diamond in those matters until December 26, 2018—three days after it began working on this lawsuit for Southern Visions and less than one hour before one of its lawyers appeared in this case. Thus, Bradley was representing two clients directly opposed to one another in pending litigation for three days….

Bradley claims it complied with Rule 1.7(a)'s requirement of consent after consultation by having Red Diamond sign engagement letters at the outset of its prior representations of Red Diamond that contained advance conflict waivers. The advance waivers state that Red Diamond agreed that Bradley could undertake future representations of other clients "in any matter that is not substantially related" to Bradley's work for Red Diamond, "even if the interests of such clients in those other matters are directly adverse" to Red Diamond, and "even if such representations would be simultaneous."

Notwithstanding their broad language, the court does not believe these advance waivers permitted Bradley to undertake the Southern Visions representation, for two reasons: (1) Red Diamond never gave its consent "after consultation" to the Southern Visions representation, through the advance waivers or otherwise; and (2) even if Red Diamond had consented to Bradley's representation of Southern Visions, it unequivocally revoked that consent before Bradley began representing Southern Visions.

First, Rule 1.7(a) forbids concurrent conflicting representations unless each client consents "after consultation." The terms "consult" or "consultation" are defined in the Alabama Rules of Professional Conduct as denoting "communication of information reasonably sufficient to permit the client to appreciate the significance of the matter in question." And, by using the term "after," Rule 1.7(a) requires client consent to occur subsequent to such a communication. This directive recognizes the reality that it is highly likely a client will not foresee and appreciate some future conflicts when asked to sign a generic advance waiver. In other words, Rule 1.7(a) requires lawyers to obtain informed consent from their clients before undertaking directly adverse representations. That did not happen here. Neither the advance waivers Red Diamond signed nor any communications Bradley had with Red Diamond after Southern Visions approached it about this case sufficed to provide the consent after consultation Rule 1.7(a) requires.

Turning first to the advance waivers, a number of courts have held that broad, open-ended advance conflict waivers like those Red Diamond signed are ineffective to provide consent to future conflicts. *See, e.g., Lennar Mare Island, LLC v. Steadfast Ins. Co.,* 105 F.Supp.3d 1100, 1118 (E.D. Cal. 2015) (finding generic advance waiver signed by a sophisticated client "too broad and too stale to cover the current conflict"); *W. Sugar Coop. v. Archer-Daniels-Midland Co.,* 98 F.Supp.3d 1074, 1083-84 (C.D. Cal. 2015) (holding ineffective an "open-ended" conflict waiver signed by a sophisticated client that (1) purported to indefinitely waive conflicts in any matter not substantially related and (2) did not identify a potentially adverse client, the types of potential conflicts, or the nature of the potential future representations); *Celgene Corp. v. KV Pharm. Co.*, No. 07-4819SDW, 2008 WL 2937415, at *8-10 (D.N.J. July 29, 2008) (same). Open-ended advance conflict waivers are especially suspect where a lawyer seeks to rely on them to provide effective consent to directly adverse litigation between

current clients. As one court in this Circuit put it:

> [F]uture directly adverse litigation against one's present client is a matter of such an entirely different quality and exponentially greater magnitude, and so unusual given the position of trust existing between lawyer and client, that any document intended to grant standing consent for the lawyer to litigate against his own client must identify that possibility, if not in plain language, at least by irresistible inference including reference to specific parties, the circumstances under which such adverse representation would be undertaken, and all relevant like information.

Worldspan, L.P. v. Sabre Grp. Holdings, Inc., 5 F.Supp.2d 1356, 1360 (N.D. Ga. 1998).

Another way of stating this principle is to say that a court will not lightly conclude that a client's advance conflict waiver was truly intended to permit the law firm to later sue that current client on behalf of another—not without clear evidence of such intent. The rationale behind this clear-statement rule is the idea that some conflicts -- like suing a current client -- so break the bonds of trust between client and lawyer that it is highly unlikely a client would knowingly and voluntarily consent in advance to such a conflict….

Bradley responds that Red Diamond's advance waivers were effective because Red Diamond is a sophisticated consumer of legal services and should have understood that signing the waivers would permit Bradley to later sue it on behalf of another client. In support of this argument, Bradley cites a comment in the RESTATEMENT (THIRD) OF THE LAW GOVERNING LAWYERS which provides, "A client's open-ended agreement to consent to all conflicts normally should be ineffective unless the client possesses sophistication in the matter in question and has had the opportunity to receive independent legal advice about the consent." § 122, cmt. d (emphasis added). But Bradley fails to note that the same section of the RESTATEMENT it cites—the text, not the comment—expressly forbids the very representation Bradley undertook, even when a client gives informed consent. See § 122(2) ("Notwithstanding the informed consent of each affected client or former client, a lawyer may not represent a client if ... one client will assert a claim against the other in the same litigation.") (emphasis added). Thus, at least in the view of the commentators, whatever else sophisticated parties may provide advance consent to under § 122, they cannot consent in advance—or ever—to their own lawyers suing them on behalf of another client.

In light of these authorities, the court concludes that Red Diamond did not effectively consent after consultation to Bradley representing Southern Visions in this lawsuit through the advance waivers it signed. To be clear, the court stops short of holding that advance conflict waivers are never effective to provide the consent "after consultation" that Rule 1.7(a) requires. Had Bradley's advance

waivers used specific language to identify the types of potential future conflicts it had in view, and were there evidence in the record showing that Red Diamond had been fully counseled about the matter before signing the waiver and perhaps even advised to seek independent legal counsel, a different result might well obtain. But, given the advance waivers' lack of specificity, the lack of evidence that Red Diamond was fully counseled regarding their import, and especially the fact that directly adverse litigation between two direct competitors like Red Diamond and Southern Visions is an extremely serious conflict most clients would be unwilling to waive, the court is unable to conclude that the advance waivers, standing alone, provided Red Diamond's effective consent to this conflict.

Further, the court acknowledges that just because the advance waivers alone were insufficient to provide Red Diamond's consent to this conflict does not mean Bradley could not have later obtained it. Where a client has signed a generic advance waiver like those Red Diamond signed, Rule 1.7(a)'s requirement of consent "after consultation" may be satisfied by consulting with the client "after" a new conflict has arisen and obtaining the client's informed consent to the new conflict at that time.

Here, Bradley could have consulted with Red Diamond about the possibility of representing Southern Visions in this case before undertaking representation of Southern Visions, and asked Red Diamond to waive the conflict. But that is not what Bradley did.

There is no evidence Bradley consulted with Red Diamond about its decision to represent Southern Visions, and it certainly never obtained Red Diamond's consent to the representation after consultation. Rather, Red Diamond first learned that Bradley might be suing it on behalf of Southern Visions when a Bradley lawyer contacted Red Diamond's counsel in this case about an entirely separate potential conflict. On December 19, 2018, Bradley attorney Matthew Lembke called Lightfoot attorney Harlan Prater (Red Diamond's counsel in this litigation) to determine whether his legal assistant, who had previously worked for Prater, had obtained confidential information about this case.). If she had, Lembke wanted to know whether Red Diamond would consent to an ethical screen around the legal assistant to cure any conflict.

At the hearing, counsel for Red Diamond represented that this was the first time Red Diamond learned Bradley was considering representing Southern Visions. Based on the hearing testimony and the parties' submissions, the court finds that Bradley did not consult with Red Diamond or ask Red Diamond to waive the Rule 1.7(a) conflict that would be created by simultaneous representation of directly adverse clients before accepting the Southern Visions representation. Instead, Bradley planned to rely solely on the advance conflict waivers in Red Diamond's prior engagement letters as the basis for saying Red Diamond consented to this conflict. The court finds in this instance that Bradley's

reliance on the open-ended advance waivers alone, without any subsequent consultation or request for consent from Red Diamond regarding the current conflict, did not satisfy Rule 1.7(a)'s requirement of consent "after consultation."

Second, even if Red Diamond were deemed to have consented to Bradley's representation of Southern Visions through the advance waivers or otherwise, it unequivocally revoked that consent on December 21, 2018, before Bradley began representing Southern Visions. Bradley concedes that Red Diamond was absolutely within its rights to revoke any consent it had previously given to Bradley's conflicting representation of Southern Visions. Once Red Diamond revoked its consent on December 21, there was absolutely no doubt that Bradley was prohibited under Rule 1.7(a) from undertaking representation of Southern Visions in this lawsuit while simultaneously representing Red Diamond in other matters. Yet, that is exactly what Bradley did. It began representing Southern Visions on December 23 and did not withdraw from representation of Red Diamond until December 26.

Because of Red Diamond's December 21 email, Bradley knew Red Diamond did not consent to its representation of Southern Visions when it began representing Southern Visions on December 23. That alone is sufficient to show a violation of Rule 1.7(a). But in the alternative -- even if Red Diamond were deemed to have effectively consented after consultation to Bradley's representation of Southern Visions by virtue of the advance waivers or otherwise -- Bradley still failed to comply with Rule 1.7(a)'s second requirement, as explained below….

To accept a representation that pits a new client against one of the firm's current clients, a law firm must -- in addition to obtaining client consent after consultation -- reasonably believe the new representation will not adversely affect its relationship with its existing client The Comment to Rule 1.7 further explains this requirement: "[W]hen a disinterested lawyer would conclude that the client should not agree to the representation under the circumstances, the lawyer involved cannot properly ask for such agreement or provide representation on the basis of the client's consent." Ala. R. Prof. Conduct 1.7, cmt.

There is no doubt that a disinterested lawyer would not have advised Red Diamond to permit Bradley to sue it in a major patent infringement case while simultaneously representing it in other matters. Such advice would run directly contrary to the duty of undivided client loyalty that forms the basis of Rule 1.7. See Ala. R. Prof. Conduct 1.7, cmt ("Loyalty is an essential element in the lawyer's relationship to a client."). It would also run counter to common sense—rare is the client who is willing to pay a law firm handsome (or, as may be the case here, even modest) legal fees to handle certain matters while the same firm works diligently to extract a substantial award of damages from the client in another matter.

Moreover, Red Diamond's actions once it learned Bradley was considering representing Southern Visions left no room for a reasonable belief that representing Southern Visions would not adversely affect Bradley's relationship with Red Diamond. In his email on December 21, 2018, Red Diamond CEO William Bowron made clear that he was "frankly shocked" Bradley believed it could sue Red Diamond while continuing to represent it in other matters. He also stated that he viewed Bradley's attempt to represent Southern Visions as nothing "less than a violation of the trust" he placed in Bradley. Even if Red Diamond's advance waivers could be deemed effective (which, in light of Bradley's lack of consultation, they cannot), Bradley could not under these circumstances have reasonably believed that representing Southern Visions would not adversely affect its relationship with Red Diamond. Bradley's decision to begin representing Southern Visions on December 23, 2018 -- before terminating its attorney-client relationship with Red Diamond -- violated Rule 1.7(a).

In a situation like the one Bradley found itself in -- with a new, potentially lucrative client asking it to sue one of its current, albeit minor, clients -- what should a law firm do? The Alabama Rules of Professional Conduct provide clear guidance. Where "[a]n impermissible conflict of interest" exists "before representation is undertaken," "the representation should be declined." Ala. R. Prof. Conduct 1.7, cmt. Thus, faced with a concurrent conflict under Rule 1.7(a), Bradley had two permissible options under the Rules. Under Rule 1.16(a)(1), Bradley could have declined to represent Southern Visions because the representation would "result in violation of the Rules of Professional Conduct." Alternatively, under Rule 1.16(b), Bradley could have withdrawn from representing Red Diamond before accepting the Southern Visions representation—if it could do so "without material adverse effect" on Red Diamond's interests, or if other good cause for withdrawal existed. After withdrawing from representation of Red Diamond, Bradley would have been free to represent Southern Visions if not prohibited by Rule 1.9 or another rule. What Bradley could not do is exactly what it did: decide to court Southern Visions as a potential client on December 21, 2018, then accept representation of Southern Visions on December 23 (all without consulting or obtaining consent from its directly adverse current client), and then, once the new client was landed, begin work for it immediately before finally dropping Red Diamond three days later….

[A]t the hearing, Bradley argued it should not be found to have violated Rule 1.7 because the Alabama Supreme Court has stated that the Rules of Professional Conduct are "rules of reason" that require a "common sense" approach to evaluating professional conduct, and that a law firm faced with a concurrent conflict of interest under Rule 1.7(a) "may avoid disqualification by moving swiftly to withdraw from its representation of a client." *Ex parte AmSouth Bank, N.A.,* 589 So.2d 715, 719, 722 (Ala. 1991). Though Bradley concedes it began representing Southern Visions on December 23, 2018 -- three days before it terminated Red Diamond -- it contends it acted reasonably under the

circumstances and "mov[ed] swiftly" to withdraw from representing Red Diamond by sending an email on December 26, the next business day following its decision to represent Southern Visions. *Id*. at 722. Contrary to Bradley's assertions, however, *AmSouth* provides no support for its position.

In *AmSouth*, the law firm Arnold & Porter had a Rule 1.7(a) conflict of interest thrust upon it by the actions of its own client. Arnold & Porter represented *AmSouth* Bank in certain banking and corporate matters, and it also represented Drummond Company in an unrelated stockholder lawsuit challenging Drummond's conduct during a merger. AmSouth then later (through another law firm) also sued Drummond based on Drummond's conduct during the merger. When Arnold & Porter realized that -- through no fault of its own -- it was now representing AmSouth in corporate matters while simultaneously defending Drummond in the AmSouth v. Drummond lawsuit, it asked both clients to waive the conflict. Drummond agreed to waive the conflict, but AmSouth refused. Id. Arnold & Porter therefore promptly withdrew from representing AmSouth in the unrelated corporate matters and continued defending Drummond in the AmSouth v. Drummond lawsuit. AmSouth then moved to disqualify Arnold & Porter from representing Drummond in the AmSouth v. Drummond lawsuit.

In holding that Rule 1.7(a) did not require Arnold & Porter's disqualification from representing Drummond, the Alabama Supreme Court placed great emphasis on the fact that Arnold & Porter "did not by its own actions create the conflict of interest" and that "Drummond would be prejudiced more than AmSouth" by the loss of Arnold & Porter's services. It was in this context that the court called the Rules of Professional Conduct "rules of reason" requiring a "common sense" approach—and concluded that the Rules did not, in this case, require Arnold & Porter to withdraw from representing Drummond. Id. But the court expressly made clear that it was not endorsing the view that a law firm should "be allowed to abandon its absolute duty of loyalty to one of its clients so that it can benefit from a conflict of interest that it has created." (emphasis added). Instead, the court adopted the approach of several other courts, which had "recognized that the manipulation of client relationships could be the potential result if law firms were allowed to discard one attorney-client relationship in contemplation of pursuing a more beneficial, conflicting representation." Under that approach, where a law firm has a Rule 1.7(a) conflict involuntarily thrust upon it, the law firm "may avoid disqualification by moving swiftly to withdraw from its representation of a client, so as to minimize the prejudice to each client concerned, provided that the law firm did not play a role originally in creating the conflict of interest." "[T]his approach," adopted by the Alabama Supreme Court in *AmSouth*, was "consistent with the 'common sense' approach" the court had long used in "resolving questions under the Rules of Professional Conduct." Id.

In undertaking the Southern Visions representation, Bradley did precisely what the AmSouth court refused to condone—it "abandon[ed] its absolute duty of loyalty to [Red Diamond] so that it [could] benefit from a conflict of interest" it

> created by its own actions. Id. at 721. The court has adopted the Alabama Rules of Professional Conduct but is not bound to follow the Alabama Supreme Court's interpretation of those Rules. Nevertheless, this court fully understands the AmSouth court's observation that the Rules of Professional Conduct are "rules of reason" that must be given a "common sense" construction. *AmSouth*, 589 So.2d at 719. But that does not mean giving them a construction that would permit Bradley to avoid a clear Rule 1.7(a) violation in this case. Such a construction of the Rules would be manifestly unreasonable. It would be contrary to the plain text of the Rules (as well as the Comments to the Rules) and relevant state authority (like AmSouth). And it would contravene the common-sense principle that a law firm, particularly a large, sophisticated one like Bradley, should not be excused -- even for three days -- from violating the most basic conflict-of-interest commandment: Thou shalt not sue one current client on behalf of another. That is all the more true given that Bradley could very easily have avoided creating this conflict of interest in the first place, either by simply declining to represent Southern Visions or -- if permissible under Rule 1.16(b) -- terminating its relationship with Red Diamond before agreeing to represent Southern Visions.
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> For all these reasons, the court concludes that Bradley violated Rule 1.7(a) when it began representing Southern Visions in this case on December 23, 2018….
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> The court does not ascribe Bradley's error in this case to any type of malice or chicanery. The court has always known the lawyers in this case to adhere to the highest ethical standards, and it is sure this is a one-off occurrence. Nevertheless, after careful review of the facts and the relevant authorities, the court is convinced that disqualification is an appropriate remedy in this case. A rule was violated, and that rule's primary purpose is to protect clients—not lawyers. Disqualification in this case protects Red Diamond and deters future violations of the Rules. An order consistent with this memorandum opinion will be entered

(Citations and some emphasis omitted).

3. A Conflict That Does Not Damage the Client Can Cause Fee Forfeiture.

As noted above, lawyers must monitor for their own firm's conflicts, those of co-counsel, those of their experts, and those of opposing counsel. The reason why a lawyer must monitor for his own firm's conflicts is obvious, as a conflict can result in disqualification, discipline, malpractice, or simply embarrassment or loss of business. Likewise, lawyers must avoid incompetent representations because it is unethical and because, if there is damage, it can lead to a legal malpractice claim.

But, disqualification, discipline, or a malpractice suit are not the most common and immediate problem caused by conflicts or incompetency. Foremost, if a former client has failed to pay fees or expenses, and the lawyer sends a demand letter for

payment, clients will often examine whether the lawyer earned those fees while facing a conflict of interest, or committed some apparent malpractice during the representation. Even if the failure caused no harm, the firm may forego seeking unpaid fees because of the threat of a counterclaim – for fee disgorgement because of a conflict of interest or malpractice.

The importance of spotting conflicts, and the risk of failing to do so, was recently emphasized by the California Supreme Court in addressing the propriety of fee forfeiture. This claim, or remedy in some states, allows for disgorgement of fees earned while under an undisclosed conflict, causing the lawyer to pay back some or all fees -- and even if the client had not been damaged. While not a patent case, the decision should concern all lawyers and especially patent lawyers because conflicts of interest are hard to spot.

The case is *Sheppard, Mullin, Richter & Hampton, LLP v. J-M Mfg. Co*., 425 P.3d (Cal. 2018). Boiled down, the firm represented a J-M Mfg., in a qui tam action against a number of public entities while representing one of the public entities in an unrelated and small matter. The firm billed 10,000 hours in the qui tam action and 12 to the public entity, South Tahoe.

South Tahoe moved to disqualify the firm, and that motion was granted over the firm's argument that South Tahoe had agreed to a broad waiver of conflicts long before the matter for J-M had even existed. Later, J-M refused to pay the final $1 million of the $3 million the firm had billed it. The firm sought arbitration in accordance with its fee agreement with J-M, which also contained a broad waiver clause. In response, opposed arbitration and J-M sought disgorgement of the $2 million it had paid, since the firm had earned it while having a conflict of interest.

Despite its objection, J-M was compelled to arbitrate. The arbitrators found in the firm's favor, though stating the firm should have disclosed the conflict. When the firm moved to confirm the award, J-M opposed it. Eventually, J-M prevailed in the California high court. The court concluded that it could set aside an arbitral award based upon an illegal contract, and that the ethical rules provided a basis for so finding. It rejected the idea that a broad blanket waiver of "unrelated" conflicts in the engagement letter permitted the firm to represent J-M while representing South Tahoe without informing both clients of the conflict. It also held the arbitration clause was unenforceable given that the contract was unenforceable. As a result, the arbitral award of $1 million in unpaid fees was vacated.

If there is a silver lining, the court held that the firm could pursue relief under a *quantum meruit* theory and not have to disgorge all of the $2 million it had received, nor lose any claim to the $1 million it was still owed. In the regard, the court wrote:

> When a law firm seeks compensation in *quantum meruit* for legal services performed under the cloud of an unwaived (or improperly waived) conflict, the firm may, in some circumstances, be able to show that the conduct was not willful, and its departure from ethical rules was not so severe or harmful as to

> render its legal services of little or no value to the client. Where some value remains, the attorney or law firm may attempt to show what that value is in light of the harm done to the client and to the relationship of trust between attorney and client. Apprised of these facts, the trial court must then exercise its discretion to fashion a remedy that awards the attorney as much, or as little, as equity warrants, while preserving incentives to scrupulously adhere to the Rules of Professional Conduct.

The notion that a lawyer under a conflict of interest can be forced to forfeit fees is not new. See *Burrow v. Arce*, 997 S.W.2d 229 (Tex. 1999) (explaining existing case law on why attorneys' fees earned under serious conflicts of interest could be subject to disgorgement even without proof of damage caused by conflict). The notion that broad blanket waivers are unenforceable is likewise not news: while there is some greater acceptance by courts of blanket waivers, they are still ordinarily not enforceable. *See generally,* Am. B. Ass'n. Formal Eth. Op. 05-436 (May 11, 2005).

What these cases means for patent lawyers is also clear: because conflicts of interest are difficult to identify (as shown below, particularly under the *Altova* case). Not spotting a client, or not knowing for sure if one exists, increases the risk that a client could (a) avoid enforcement of an arbitration clause; (b) avoid paying for some or all fees earned under a conflict of interest; and (c) assert fee disgorgement as to fees already paid means that lawyers must monitor for conflicts more closely and, if pondering asserting a claim for unpaid fees, to carefully assess conflicts.