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9 Attorneys for Plaintiffs
The Magnavox Company and
Sanders Associates, Inc.

10 United States District Court for the
11 Northern District of California
12

13		
14	THE MAGNAVOX COMPANY, a corporation,)
15	and SANDERS ASSOCIATES, INC., a)
16	corporation,)
17)
18	Plaintiffs,)
19)
20	vs.)
21)
22	ACTIVISION, INC., a corporation,)
23)
24	Defendant.)
25)
26)
27)
28)

No. C 82 5270 TEH

MEMORANDUM IN SUPPORT
OF PLAINTIFFS' MOTION
FOR CORRECTED FINDING
OF FACT AND RECONSID-
ERATION OF MOTION TO
DISQUALIFY COUNSEL

22 This Motion for Corrected Findings of Fact and
23 Reconsideration of Motion to Disqualify Counsel is to
24 preserve, for appellate review, plaintiffs' claim that the
25 law firm of Flehr, Hobach, Test, Albritton and Herbert
26 should be disqualified as counsel for defendant. The motion
27 for corrected findings is made necessary because the
28 official transcript of the oral argument on the original

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FILED
MAY 10 1983
WILLIAM L. WHITTAKER
CLERK, U.S. DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA

1 motion to disqualify is at variance with the Court's ruling
2 on that motion.

3 On March 14, 1983, the Court heard oral argument
4 on a motion by plaintiff to disqualify the Flehr firm as
5 counsel for defendant. That motion was based in part upon
6 an agreement of the Flehr firm made in consideration of
7 Magnavox's agreement to settle a patent infringement suit
8 against Flehr's client, Atari. As part of the settlement
9 agreement, the Flehr firm agreed not to represent any other
10 defendant in litigation which involved the same patents at
11 issue here.

12 In denying plaintiffs' motion, the Court found
13 that the agreement by the Flehr firm was clear, but that it
14 was not enforceable under California law. As to the first
15 point, the Court said:

16 "[T]he fact that the agreement was signed by three
17 business entities yet only by one of the law firms
18 involved provides sufficient objective evidence
19 that the parties intended the Flehr firm to be
20 bound" (Order Denying Disqualification Motion,
21 pp. 12-13).

22 As to unenforceability, the Court stated:

23 "The important public policy considerations * * *
24 which justify the general statutory bar to
25 non-compete agreements in California are
26 particularly affronted where, as here, two
27 videogame companies attempt to buy out "dozens" of
28 patent law firms by persuading their clients to

1 settle, so that any remaining challengers to the
2 patents' validity--such as Activision--may be
3 induced to settle simply because the already short
4 supply of available experienced patent law firms
5 has been drastically reduced" (Order Denying
6 Disqualification Motion, pp. 13-14).

7 In reaching its conclusion as to unenforceability,
8 the Court made an express finding of fact based upon the
9 oral statement of counsel for Activision:

10 "According to an unchallenged representation
11 in open court by general counsel for Activision,
12 Magnavox has in the course of the last decade
13 entered into similar non-exclusive sublicense
14 agreements with 'dozens' of its competitors.
15 These agreements have regularly included
16 provisions similar to [that in the Atari
17 settlement], purporting to preclude both the
18 sublicensee and its counsel from challenging the
19 validity of the Sanders patents except under
20 certain very narrow circumstances" (Order Denying
21 Disqualification Motion, pp. 3-4).

22 This finding of fact, upon which the ruling as to
23 unenforceability appears to rest, is unsupported by the
24 official transcript.* Counsel for Magnavox recalls that

25 ---

26 _____
27 * A copy of the transcript is attached for the Court's
28 convenience.

1 counsel for Activision made such a statement, but contrary
2 to the Court's recollection, he also recalls rebutting the
3 statement by advising the Court that he knew of only one
4 such agreement wherein a law firm was restrained from
5 subsequent representation of a potential infringer
6 (Affidavit of James T. Williams attached). Magnavox is thus
7 in the untenable position of being unable to state on appeal
8 that the record in the trial court does not support the
9 Order, although this appears to be the case from a reading
10 of the transcript, and unable to agree with the Court as to
11 what was actually said at the hearing.

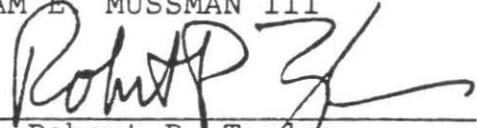
12 The actual facts are contrary to those relied on
13 by the Court. Although Magnavox has entered into some sixty
14 sublicense agreements and some fourteen settlement agree-
15 ments, only one other agreement (besides the one with Atari
16 and the Flehr firm) contains terms which in any way inhibit
17 the future representation of others by counsel for a
18 licensee (Decl. of Thomas A. Briody, attached, ¶¶ 5 and 6).
19 Magnavox respectfully requests that the Court file the

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1 Declaration of Thomas A. Briody and reconsider its order in
2 light of the contents of that declaration.

3 Dated: May 19, 1983.

4 PILLSBURY, MADISON & SUTRO
5 ROBERT P. TAYLOR
6 WILLIAM E. MUSSMAN III

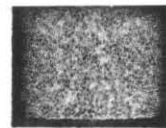
7 By 
8 Robert P. Taylor

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11 Sanders Associates, Inc.

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BRIODY DECLARATION



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8 Attorneys for Plaintiffs
The Magnavox Company and
9 Sanders Associates, Inc.

10
11 United States District Court for the
12 Northern District of California

14	_____)	
15	THE MAGNAVOX COMPANY, a Corpora-)	
16	tion, and SANDERS ASSOCIATES,)	No. C 82 5270 TEH
17	INC., a Corporation,)	
18	vs. Plaintiffs,)	<u>DECLARATION OF</u>
19	ACTIVISION, INC., a Corporation,)	<u>THOMAS A. BRIODY</u>
20	Defendant.)	
21	_____)	

22 I, THOMAS A. BRIODY, declare as follows:

23 1. I am an attorney licensed to practice in the
24 States of California, New York, Illinois, and Indiana. I am
25 presently the Corporate Patent Counsel for North American
26 Philips Corporation. The Magnavox Company (hereinafter
27 "Magnavox"), one of the plaintiffs in this action, is a
28 subsidiary of North American Philips Corporation. I first

1 joined Magnavox as Corporate Patent Counsel in September
2 1972. In 1976, after North American Philips Corporation
3 acquired Magnavox, I became Director of Licensing for North
4 American Philips Corporation. From September 1972 until now
5 I have been continuously responsible for the patent
6 licensing and other intellectual property affairs of
7 Magnavox either directly or in the role of supervising the
8 work of other attorneys who report to me.

9 2. Sanders Associates, Inc. (hereinafter
10 "Sanders"), the other plaintiff in this action, is the owner
11 of a number of patents, both United States and foreign,
12 relating to television games. Those patents include U.S.
13 patent Re. 28,507 and 3,728,480 which are involved in this
14 action and counterpart patents in approximately twenty-two
15 other countries. Magnavox is the exclusive licensee of
16 Sanders under these patents with the right to sublicense the
17 patents and bring actions for infringement of the patents.

18 3. Since 1972 I have been continuously respon-
19 sible, either directly or in a supervisory role, for the
20 Magnavox efforts to sublicense the Sanders patents and, when
21 necessary, enforce those patents through litigation. Prior
22 to the filing of this action, Magnavox had been involved in
23 nine actions for infringement of the United States Sanders
24 television game patents.

25 4. Where Magnavox has settled an infringement
26 action in the United States on the Sanders television game
27 patents or has otherwise disposed of a claim of past
28 infringement of those patents it has commonly entered into a

1 Settlement Agreement with the other party. The Settlement
2 Agreement between Magnavox and Atari, Inc. attached to the
3 Affidavit of Charles S. Paul filed by Magnavox in support of
4 its motion to disqualify defendant's counsel is one such
5 Settlement Agreement. Approximately fourteen Settlement
6 Agreements have been entered into with other parties and I am
7 familiar with the terms of those Settlement Agreements.

8 5. The Settlement Agreement between Atari, Inc.
9 and Magnavox includes a provision to prevent Atari's counsel
10 from representing other parties who might take a position
11 adverse to the Sanders television game patents. Only one other
12 of the fourteen Settlement Agreements includes any similar
13 provision which in any way relates to future representation by
14 the counsel for a party to the Settlement Agreement. That
15 other Settlement Agreement is with Midway Mfg. Co. of Chicago,
16 Illinois and includes a provision concerning future
17 representation by Midway's then counsel.

18 6. Magnavox has entered into approximately sixty
19 Sublicense Agreements under the Sanders television game
20 patents with companies located in the United States and other
21 countries and I am familiar with the terms of those Sublicense
22 Agreements. None of those Sublicense Agreements includes any
23 provision which restricts in any manner the sublicensee or its
24 counsel from representing or aiding any other party which

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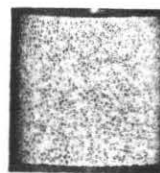
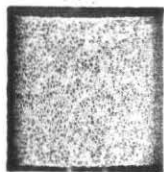
1 might challenge the validity of any of the patents referred
2 to in the sublicense.

3 I declare under penalty of perjury that the
4 foregoing is true and correct, and that this declaration was
5 executed at San Francisco, California on May 13, 1983.

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7 
8 THOMAS A. BROIDY

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WILLIAMS AFFIDAVIT



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8 Attorneys for Plaintiffs
9 The Magnavox Company and
Sanders Associates, Inc.

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11 United States District Court for the
12 Northern District of California
13

14	_____)	
15	THE MAGNAVOX COMPANY, a Corpora-)	
16	tion, and SANDERS ASSOCIATES,)	No. C 82 5270 TEH
17	INC., a Corporation,)	
18	Plaintiffs,)	<u>AFFIDAVIT OF</u>
19	vs.)	<u>JAMES T. WILLIAMS</u>
20	ACTIVISION, INC., a Corporation,)	
	Defendant.)	
	_____)	

21 STATE OF ILLINOIS)
22) SS.
23 COUNTY OF COOK)

24 I, JAMES T. WILLIAMS, do depose and say as follows:
25 1. I am an attorney licensed to practice in the
26 State of Illinois. I am one of the counsel for plaintiff in
27 this action and was the one of plaintiffs' counsel primarily
28 responsible for presenting plaintiffs' position at the

1 March 14, 1983 oral hearing on plaintiffs' motion to
2 disqualify defendant's counsel.

3 2. I recall that during the course of that hearing,
4 Mr. Michael A. Ladra, general counsel for the defendant,
5 Activision, made an unsupported statement to the effect that
6 plaintiffs have entered into a large number of agreements which
7 preclude their sublicensees under the patents in suit in this
8 action and their counsel from representing other parties
9 challenging the validity of those patents.

10 3. I also recall that during the course of that
11 hearing, I refuted that statement of Mr. Ladra by saying that
12 to the best of my knowledge there was only one other agreement
13 which in any way restricted counsel for a party to that
14 agreement from representing any other party challenging the
15 patents.

16 4. I believe that the transcript of the March 14,
17 1983 hearing is incorrect to the extent it does not reflect the
18 remarks referred to in paragraphs 2 and 3.

19 Further Affiant sayeth not.

20
21 
22 JAMES T. WILLIAMS

23 SUBSCRIBED and SWORN to before
24 me this 18th day of May, 1983.

25 
26 NOTARY PUBLIC
27

TRANSCRIPT

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IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF CALIFORNIA
BEFORE THE HONORABLE THELTON E. HENDERSON

---ooOoo---

THE MAGNAVOX COMPANY, a)
Corporation, and SANDERS)
ASSOCIATES, INC., a)
Corporation,)
)
Plaintiffs,)
)
vs.)
)
ACTIVISION, INC., a)
Corporation,)
)
Defendant.)
_____)

No. C-82-5270-TEH

REPORTER'S VERBATIM TRANSCRIPT OF PROCEEDINGS

Monday, March 14, 1983

REPORTED BY:
KENT S. GUBBINE,
C.S.R. #5797

A P P E A R A N C E SFOR THE PLAINTIFFS:

Messrs. PILLSBURY, MADISON & SUTRO, represented
by ROBERT P. TAYLOR, 225 Bush Street, P. O. Box 7880,
San Francisco, California 94120, and

Messrs. NEWMAN, WILLIAMS, ANDERSON & OLSON,
represented by JAMES T. WILLIAMS, ESQ., 77 West
Washington Street, Chicago, Illinois 60602.

FOR THE DEFENDANTS:

Messrs. FLEHR, HOHBACK, TEST, ALBRITTON &
HERBERT, represented by THOMAS O. HERBERT, ESQ.,
Suite 3400, Four Embarcadero Center, San Francisco,
California 94111, and

Messrs. WILSON, SONSINI, GOODRICH & ROSATI,
represented by MICHAEL A. LADRA, ESQ., Two Palo
Alto Square, Palo Alto, California 94304.

---ooOoo---

1 MONDAY, MARCH 14, 1983

10:00 O'CLOCK A.M.

2 P R O C E E D I N G S

3 ---ooOoo---

4 THE CLERK: 82-5270, the Magnavox Company, et al
5 versus Activision, Inc., Plaintiff's Motion to Disqualify
6 Defendant's Counsel.

7 Will counsel state their appearances, please?

8 MR. WILLIAMS: Good morning, Your Honor. Jim
9 Williams and Robert Taylor for the plaintiff and moving
10 party.

11 MR. HERBERT: Tom Herbert and Mike Ladra on
12 behalf of the defendant, responding party.

13 THE COURT: Okay. Let me just ask a preliminary
14 question for my own clarification before we get into the
15 merits.

16 Based on my rather limited understanding of prior art
17 and what all that means and how one determines it, my lay
18 person's view of looking at it would be that you look --
19 you would get this from the patent office and you would go
20 over it with an expert and my initial question is, what
21 difference does it make to this motion or otherwise as to
22 whether Mr. Flehr often went over to Atari as opposed to
23 say hiring his own independent expert who is the best in
24 the world?

25 MR. TAYLOR: The relevance, Your Honor, is that

1 the expertise of Atari was used in the aid of developing
2 that prior art and in interpreting that prior art and
3 making that prior art available.

4 It was the expertise of Atari which was used to
5 generate the defenses to the patent, and it is that
6 expertise which is taken advantage of by Activision in its
7 defense of this case.

8 THE COURT: I want to know more about the nature
9 of this expertise. Could we have been where we are today
10 if he had gone to someone else outside of Atari, gotten
11 the same expertise, same knowledge by public records?

12 MR. TAYLOR: Well, I think he would still --
13 there would be a problem. I think that the Flehr firm
14 would be using the information they gained from their prior
15 representation of Atari against Magnavox, and it's adverse
16 to the interests of Atari at the present time.

17 And I think that California Rule 4-101 prevents
18 adverse representation.

19 THE COURT: No question about that. But I am
20 just trying to -- and I haven't decided -- but I'm just
21 trying to clarify, to find out how it's relevant.

22 Is this like -- well, like any record in this court
23 where you can go look at the court file as a matter of
24 public record and find out what you want to know about this
25 case?

1 And let's say instead, someone goes to counsel and
2 find out what's here. Is it that kind of a thing or is
3 there something different about the prior art research
4 here?

5 MR. TAYLOR: I think it's different from the
6 prior art. It's not one place you can go and find it. It
7 takes a lot of digging, phone calls, to find out where it
8 exists and how it is interpreted by the people involved
9 in the lawsuit, and Atari, as we understand it, provided
10 substantial aid in the interpretation of the art in the
11 prior case.

12 I think the ABA Code of Professional Responsibility
13 is quite clear by the fact that information may have been
14 available elsewhere.

15 In fact, information which was disclosed may not even
16 be privileged under the concept of attorney-client
17 privilege -- does not relieve counsel of the obligation
18 under Canon 4.

19 I think there's also the fact that where there was
20 in fact confidences disclosed, is to a large degree
21 irrelevant.

22 There is a presumption under the ABA Code that if
23 there was a substantial relationship between the
24 representation in the prior case and the representation
25 in this case, that there were confidences disclosed as in

1 Trone v. Smith.

2 The purpose of the rule is to prevent the possibility
3 of disclosures of confidences, not to punish anybody for
4 actual confidences that were disclosed.

5 THE COURT: Okay.

6 MR. HERBERT: In response, Your Honor, Atari
7 never treated any information on its prior art as
8 confidential, and as a matter of fact that information
9 was freely exchanged with other defendants in the case,
10 other defendants in the case and their cooperation was
11 solicited in tracking down leads in the prior art.

12 Information as the prior art received from Atari was
13 not the interpretation, but rather what were the leads.
14 Where might it be and that information was followed
15 through by ourselves as lawyers, as well as the attorneys
16 for the other parties in the litigation.

17 And in addition, that information was fully laid out
18 in the prior arts statment before the court in Chicago. So
19 it was all made public and it was all acted upon openly.

20 MR. TAYLOR: I would like to point out also in
21 the affidavits that werę filed in opposition to this motion,
22 there was no denial. There were no confidences -- the
23 affirmative assertion that some of the material that may
24 have been disclosed was made available to other counsel.

25 There was no denial that there were no confidences

1 received.

2 MR. HERBERT: There was no denial, but the
3 confidences received were on the subject of Atari's own
4 product line, the secret nature of its own product line.

5 That was held in confidence because that was not in
6 any way at all related to this litigation. It's totally
7 unrelated to what is presently before the Court now.

8 The only confidences were on non-related matters.

9 THE COURT: Okay.

10 MR. LADRA: There was a settlement agreement
11 between Atari and Activision as a result of prior trade
12 secret litigation in which it was made clear that certain
13 information, the files of Atari would be made available to
14 the Flehr, Hohback firm for the purpose of representing
15 Activision in anticipated litigation.

16 So you have one further point in this case which
17 won't apply.

18 MR. TAYLOR: Your Honor, we have not seen the
19 contract that Mr. Herbert is referring to. There was one
20 portion of it read into the record in Mr. Paul's deposition.
21 There's no statement in that contract that I have seen
22 that says anything about the Flehr firm being able to use
23 that information in opposition to Atari's interests.

24 Indeed, it is clear that the situation which arose
25 was that Atari had made some allegations that perhaps

1 there was some improper use of trade secrets which the
2 Flehr firm received during their representation of Atari.

3 And it appears as though the Flehr firm turned their
4 files over to Atari and that they wanted them back so they
5 could make appropriate copies as is an attorney's right
6 to defend himself should the situation prove necessary at
7 a later time.

8 The files were then microfilmed by the Flehr firm
9 and returned to Atari at Atari's insistence.

10 I think there is nothing of record which indicates
11 any agreement by Atari that the information in those files
12 is to aid Activision in its opposition to Magnavox.

13 THE COURT: Okay. Can you point to anything in
14 the record that contradicts what was said?

15 MR. LADRA: Well, the language speaks for itself.
16 It's part of Mr. Paul's deposition. All I can say is they
17 negotiated that agreement at the time -- at the conclusion
18 of the litigation.

19 The settlement was between Activision and Atari. Our
20 firm was representing Activision in that litigation.

21 It seems silly that the only purpose of that
22 settlement agreement or that provision of the settlement
23 agreement was for the Flehr firm to have its files back.
24 The whole purpose was to provide Activision with that
25 information because at that point they were negotiating

1 with Magnavox.

2 MR. TAYLOR: There is nothing in the record to
3 support that contention.

4 THE COURT: Okay. What specific harm would Atari
5 suffer if Activision succeeds if the Sander's patents are
6 invalid.

7 MR. TAYLOR: Your Honor, they paid a million and
8 a half dollars as license fees under those various patents,
9 negotiated again a representation for Magnavox that they
10 could seek the patent to protect Atari from unlicensed
11 competition for the patents.

12 So the only value of the patent is to prevent
13 unlicensed manufacture under the patent. If those patents
14 are proved invalid, Activision has destroyed the value of
15 a one and a half million dollar license that Atari has.

16 The licensee has an interest in performing under the
17 patent under which he has received a license.

18 MR. HERBERT: Your Honor, I would like to say
19 that that license that Atari has is not non-exclusive and
20 there are many other licensees.

21 I don't know the number, but there are several other
22 licensees competing, all competing with Atari in the
23 manufacture of video games.

24 We are talking here about one additional competitor
25 who could resolve the litigation by itself taking a license

*This may be
what we remember*

1 from Magnavox.

2 In any event, Atari would be suffering from the
3 competition.

4 All we are talking about here is whether Activision
5 should pay a royalty, and if so, how much. There would
6 still be competition.

7 MR. TAYLOR: The competition would be competition
8 from Activision having not paid any royalties under the
9 patent.

10 THE COURT: What about the phrase, "or its
11 counsel," which seems to be key. Give me your argument
12 for construing that to mean the Flehr firm, that refers to
13 the Flehr firm rather than to whoever is representing
14 Atari at any given time?

15 ^{Taylor}
MR. HERBERT: Well, I think, number one, it was
16 assigned by the Flehr firm.

17 THE COURT: Let's talk about that. Why? Well,
18 maybe they could do that in response. Okay.

19 MR. TAYLOR: The Flehr firm could not have
20 possibly bound future counsel, I don't think. The only
21 reason to have the Flehr firm sign was to have the Flehr
22 firm bound by the settlement agreement.

23 THE COURT: With a particular eye to the information
24 that the Flehr firm had. That was the purpose of that
25 clause; is that correct?

1 from Magnavox.

2 In any event, Atari would be suffering from the
3 competition.

4 All we are talking about here is whether Activision
5 should pay a royalty, and if so, how much. There would
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19 MR. TAYLOR: The Flehr firm could not have
20 possibly bound future counsel, I don't think. The only
21 reason to have the Flehr firm sign was to have the Flehr
22 firm bound by the settlement agreement.

23 THE COURT: With a particular eye to the information
24 that the Flehr firm had. That was the purpose of that
25 clause; is that correct?

1 MR. TAYLOR: Absolutely. The information, the
2 experience they gained, and the defense of Atari in that
3 action.

4 The information they gained from Atari and others.

5 THE COURT: Okay. Let me hear from defendants
6 on this.

7 MR. HERBERT: Well, I assume as being counsel
8 for Atari as long as I was counsel for Atari, and Atari
9 was under contract not to attack the patents, I as counsel
10 would not be able to do so.

11 But I felt at the time of Atari -- once that
12 relationship was over, I did not feel I was counsel for
13 Atari and that was totally a different situation. And
14 the rights go -- or rather the duties go to Atari and
15 counsel, whoever the counsel might be.

16 MR. TAYLOR: Well, I guess I don't -- I don't
17 think that is a reasonable interpretation of that contract.

18 As I said, it was a way that Atari or Atari's present
19 counsel could bind future counsel.

20 THE COURT: You can see "or its counsel" refers
21 to the Flehr firm. How do I interpret that with "will not
22 actively participate in any further litigation relating to
23 the five Sander's patents in which they are not a party
24 or in which no gain by or for Atari is involved?"

25 MR. TAYLOR: Well, Your Honor, the direction was

1 about Atari, not about its counsel being involved.

2 If Atari were involved, Atari's counsel could very
3 definitely be involved in litigation. If Atari were
4 charged with infringement of patent against the statement
5 of the agreement itself, Atari and its counsel both would
6 be able to attack the validity again.

7 There again, I certainly do not expect to be sued
8 personally for infringement of the patent nor does the
9 Flehr firm. We are not a manufacturing business and there
10 again we are directed to that particular point.

11 THE COURT: The plaintiff's argument was
12 specifically -- was put in there to prevent you from using
13 the information you had gotten in the course of this, and
14 that's primarily the prior art research, I take it?

15 At any time under any conditions essentially?

16 MR. TAYLOR: Your Honor, I --

17 THE COURT: And they underscore it by saying,
18 "See here, he assigned it, he's the only one who seemed
19 to have signed it in terms of counsel and that helps prove
20 our point that that was the purpose of that."

21 MR. HERBERT: I did sign it and I signed it as
22 counsel for Atari, which I was at the time. I saw it that
23 way at the time and the contrary view as pointed out by
24 Mr. Williams was not mentioned at the time.

25 It was never indicated at that time. Had it been

1 indicated, I would have considered it as an attempt to
2 repress evidence and objected strenuously.

3 MR. TAYLOR: As far as the latter, I think there
4 is an exclusion in the very last part of the paragraph in --
5 that is, it does apply to the legally issued subpoena.

6 There was certainly no suppression of evidence, and
7 as a matter of fact, I assume just after Mr. Herbert got
8 out of the litigation, there were subpoenas and there was
9 evidence produced.

10 I think it's also important that it was only our
11 motion -- they were apparently representing Atari all the
12 way up until February 8th this year, and that was more than
13 a week after this motion was filed.

14 MR. HERBERT: The last time we represented Atari
15 even remotely relevant to this lawsuit was the former
16 litigation between Magnavox and Atari.

17 The representation which was included in the February
18 representation was not a legal representation at all, but
19 merely a matter of paying taxes, a bookkeeping matter,
20 strictly paying out our taxes.

21 Attorneys weren't even involved.

22 MR. TAYLOR: I think the selection of which
23 patent should have the taxes is a legal judgment. I don't
24 know whether the Flehr firm had any input on that.

25 MR. HERBERT: Absolutely.

1 MR. TAYLOR: But they bill for services out of
2 the law firm.

3 THE COURT: Let me follow up on that last point,
4 one more question.

5 You were there. Why didn't Magnavox's counsel
6 separately sign the agreement, do you know?

7 MR. HERBERT: Because Atari wasn't really
8 interested in whether Magnavox signed it. Magnavox wanted
9 us to sign it and Atari wanted the settlement and so we
10 signed it.

11 MR. WILLIAMS: Your Honor, I was there also and
12 I think our feeling at the time was we wanted the Flehr
13 firm to sign it because we thought they were bound by it.

14 There was no binding on our firm or plaintiff's
15 counsel, so there was no reason for them to sign it.

16 THE COURT: Okay. This is a tough one and I'm
17 going to take it under submission.

18 Let me just ask plaintiff to summarize it. Keep in
19 mind the notion of appearance of impropriety, but also
20 just a very brief statement about the real prejudice, what
21 information they have consistent with the Code of Ethics
22 and the Rules of Ethics that they would be unfair, and
23 let's talk in those terms to allow them to represent the
24 defendant in this litigation.

25 Just a summary of your argument on those two terms.

1 MR. TAYLOR: Basically, I think as far as Rule 9,
2 the appearance of impropriety, I think certainly Atari has
3 strongly and loudly voiced their feelings about the
4 appearance of impropriety.

5 They would be the ones most directly affected, I
6 think, as far as the ethical considerations here.

7 They have said that they view the Flehr firm as taking
8 the information which was gathered at Atari's expense,
9 which was gathered with Atari's technical input, which was
10 gathered as a result of conferences with Atari's engineers,
11 which undoubtedly was also interpreted as a result of
12 Atari's engineers.

13 To now take that information and use that adverse to
14 Atari's interests would be horrendously unfair to Atari,
15 and certainly is an appearance of impropriety in that
16 Atari or the Flehr firm is now taking what Atari financed
17 and using it against Atari's interests.

18 I think as to the statement of the harm, I think it's
19 a similar statement. The harm is that all this information
20 which was gathered, assimilated, interpreted, put together,
21 is now being used against the interests of Atari and I
22 think that's a definite harm.

23 THE COURT: Okay. Let me hear from Mr. Herbert
24 and respond to what he said, and then I would like to hear
25 your summary of your argument about the public policy as
that is.

1 MR. HERBERT: Okay.

2 Well, at the outset, Canon 9 really applies. It has
3 seemed to be applied only when one of the other Canons are
4 likewise employed.

5 And I do have to apologize to the Court in our brief
6 for failing to note the reversal on other grounds of the
7 Westinghouse case which Mr. Williams brought to the Court's
8 attention in a conclusionary paragraph.

9 There is still another case relevant to that and it's
10 -- it's 580 F.2d 1311. The original case we cited relying
11 upon the lack of grounds for Canon 9 was really the decision
12 on four separate motions.

13 Two of those motions were subsequently reversed, and
14 the -- a fourth one was affirmed and apparently the other
15 wasn't appealed at all.

16 But in any event, the reversal was not that Canon 9
17 applies, but Canon 9 only applies in combination with
18 Canon 4 and 5.

19 Canon 9 does not stand by itself. It stands with
20 other Canons.

21 Insofar as confidentiality is concerned, first we feel
22 there is none nor can there be any. The information we
23 obtained on prior art which was information which was not
24 confidential -- in order to be prior art, its got to be
25 public.

1 That's the nature of it. So it's public information,
2 number one.

3 Number two, it's information to some extent that we
4 did receive from Atari and of course from other sources,
5 but to some extent we did receive those leads from Atari
6 because those leads we filed with Atari's knowledge and
7 also with Atari's encouragement.

8 We freely transmitted that information to Valley
9 Manufacturing, another defendant in the case. The
10 information was freely exchanged.

11 We tracked down each other's leads, as a matter of
12 fact. We cooperated fully.

13 Further, the information was fully spelled out to the
14 court in the Chicago case in a notice of prior art. There
15 just was no confidentiality.

16 The one engineer that we dealt with at Atari was
17 noted as an expert witness. His deposition could have
18 been taken at any time on that, but it was not. There was
19 just no confidentiality.

20 There's no adversity in this respect either, Your Honor.
21 We have not changed our position whatsoever. The position
22 that we are asserting is identical to the position being
23 asserted in the previous litigation against Maganavox
24 relative to the validity of that patent or patents.

25 We have not changed our position at all. It's

1 continued to be the same.

2 We have alleged before, we allege now, the patents are
3 invalid. Atari settled, of course, and at that time Atari's
4 position was also that the patents are invalid and then
5 they settled.

6 With respect to the agreement --

7 THE COURT: Let me interrupt here for just a
8 minute. You are essentially making a waiver kind of
9 argument, I take it.

10 By allowing you to share this with others, they have
11 waived any possible confidentiality that might have existed;
12 is that it?

13 MR. HERBERT: That might have existed or I
14 believe existed or could have existed.

15 THE COURT: Let's leave the argument there.

16 MR. HERBERT: They waived it at the time.

17 THE COURT: Okay. Because how could they have
18 recouped it if this paragraph said something to this effect,
19 "so long as the license agreement is in effect, Atari or
20 its counsel will not actively participate in any further
21 litigation relating to the five Sander's patents in which
22 they are not a party or in which no gain by or for Atari
23 is involved, and will not aid any person, other than a
24 customer or supplier of Atari," et cetera, because it's
25 our understanding that this is confidential.

1 Put that in there. We are now talking about -- whether
2 that's involved.

3 Could they have recouped it by that language?

4 MR. HERBERT: I don't believe they could, Your
5 Honor. Once they dispelled the confidentiality, I don't
6 think they can make it confidential.

7 It went to various people, it went to the court in
8 Chicago, and not only that, Your Honor, the information
9 we are talking about is by its nature non-confidential.

10 It was prior uses of the same type of games by other
11 people that Massachusetts includes of technology, and other
12 places throughout the country.

13 This was public. There were publications, magazine
14 articles about this. That's what we were talking about,
15 and we took leads from them, so I don't believe they could
16 recoup it under those circumstances.

17 THE COURT: Okay. One other thing. Could they
18 have contracted -- with this kind of language, it's
19 important to us and it's an important to this agreement
20 that Mr. Flehr has certain information, and in consideration
21 for all of the things in this contract -- and then go on
22 to say this language that is in dispute, that we don't
23 want him to ever share that knowledge, confidential or not,
24 with any others.

25 Could they have contracted or does that go into your

1 public policy?

2 MR. HERBERT: I think that's public policy, Your
3 Honor. I don't see how we could contract to do that. We
4 would have objected strenuously.

5 As I said, I felt no real constraint against signing.
6 In the contract there are two other aspects that seem to
7 be glossed over to some extent.

8 There are the exclusions as to whether or not Atari
9 or counsel can be included -- one of the exclusions in the
10 material involved in the subsequent litigation is an Atari
11 product.

12 Well, an Atari product is involved in this litigation,
13 and also excluded are Atari customers. Activision is an
14 Atari customer. Activision has bought machines from Atari
15 which it uses in conjunction with its own cartridges and
16 to play games and to demonstrate games.

17 In addition, in order to have an infringement under
18 the patent suit, the cartridges produced by Activision,
19 Activision's total product line, cannot be any infringement
20 at all.

21 They need a companion piece of equipment, and the
22 companion piece of equipment, which is a console which
23 attaches to a television -- and the console is made by
24 Atari.

25 So it's a product of Atari which is involved here.

1 Now, it's not a product involved in the earlier
2 litigation, but it's a product of Atari which is involved,
3 and therefore I think under the terms of the contract, I
4 think we are excluded there.

5 THE COURT: Okay. Fine.

6 Do you have anything to add?

7 MR. LADRA: Just a practical point, Your Honor.

8 THE COURT: Okay.

9 MR. LADRA: Obviously, depending on which way
10 the Court rules, I may be looking for a new job, but it
11 would be extremely helpful from my standpoint if the Court
12 could specify which grounds it was specifying its ruling
13 on.

14 In other words, if Mr. Herbert has a letter of contract
15 from Atari that they consented to his representation of
16 Activision, would that end the matter? Or are there other
17 issues?

18 THE COURT: Okay. I will try to do that in my
19 response before we wind this up.

20 MR. TAYLOR: I just want to say I think there is
21 public policy against preventing Activision from challenging
22 the patent here. That's not what we're trying to do.

23 I think we're only trying to enforce a contract or a
24 settlement of an Illinois case. And we are not in any way
25 trying to prevent Activision from pursuing its defenses

1 here.

2 Mr. Herbert says that there has been no change of
3 position from his representation of Atari to his
4 representation of Activision. I think as soon as that
5 agreement was signed with Atari, Atari's position changed
6 radically.

7 Mr. Herbert's position changed radically. It was at
8 that moment it became in Atari's interest to maintain
9 those patents and that is clearly where Mr. Herbert under
10 protest still represented Atari.

11 As far as the exclusions that are in the agreement,
12 I just don't think Mr. Herbert or the Flehr firm comes
13 under those exclusions.

14 What is really involved here is a series of cartridges
15 that Activision makes and Activision sells in direct
16 competition with Atari. Atari has nothing at all to do
17 with the design, manufacture or sale of those cartridges,
18 as I'm sure if it was up to Atari, they would like to see
19 Activision stop doing it.

20 THE COURT: Okay. This case you cited, 580 F.2d
21 1311, that was not in the papers before; is that correct?

22 MR. HERBERT: No.

23 THE COURT: Okay. Let me give plaintiff's
24 counsel -- why don't you get in a letter response to that
25 with a copy to defense by tomorrow. Can you do that?

1 MR. HERBERT: I have to go.

2 THE COURT: You may not even want to respond to
3 it.

4 MR. HERBERT: Your Honor, in reality, it's
5 correcting his citation. I thought it was a new case. He
6 cited the wrong case, Your Honor, and I am citing the one
7 which the District Court was dismissed.

8 THE COURT: Okay. I will take the matter under
9 submission.

10 (Whereupon, the hearing was concluded.)

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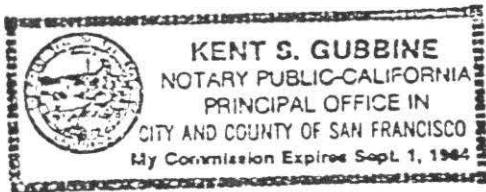
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STATE OF CALIFORNIA)
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I, the undersigned, a Notary Public of the State of California, hereby certify that the foregoing transcript pages numbers 2 through and including 23, comprise full, complete and true record of the certain proceedings therein indicated.

I further certify that I am not of counsel or attorney for any of the parties in the foregoing proceedings or in any way interested in the outcome of the cause named in said caption.

IN WITNESS THEREOF, I have hereunto set my hand and affixed my seal this 20th day of April, 1983.



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