IN THE UNITED STATES DISTRICT COURT

FOR THE NORTHERN DISTRICT OF CALIFORNIA

BEFORE THE HONORABLE THELTON E. HENDERSON

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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 S

FOR 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.

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MONDAY, MARCH 14, 1983 10:00 O'CLOCK A.M.

P R O C E E D I N G S

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

Will counsel state their appearances, please?

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Trone v. Smith.

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

THE COURT: Okay.

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

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

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

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

There was no denial that there were no confidences

received.

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

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

The only confidences were on non-related matters.

THE COURT: Okay.

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

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

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

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

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

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

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

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

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

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

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

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

with Magnavox.

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

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

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

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

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

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

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

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

from Magnavox.

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

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

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

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

MR. HERBERT: Well, I think, number one, it was assigned by the Flehr firm.

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

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

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

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

The information they gained from Atari and others.

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

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

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

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

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

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

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

about Atari, not about its counsel being involved.

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

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

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

At any time under any conditions essentially?

MR. TAYLOR: Your Honor, I --

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

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

It was never indicated at that time. Had it been

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

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

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

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

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

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

Attorneys weren't even involved.

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

MR. HERBERT: Absolutely.

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

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

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

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

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

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

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

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

Just a summary of your argument on those two terms.

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

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

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

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

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

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

MR. HERBERT: Okay.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

continued to be the same.

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

With respect to the agreement --

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

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

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

THE COURT: Let's leave the argument there.

MR. HERBERT: They waived it at the time.

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

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

Could they have recouped it by that language?

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

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

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

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

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

Could they have contracted or does that go into your

public policy?

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

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

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

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

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

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

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

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

THE COURT: Okay. Fine.

Do you have anything to add?

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

THE COURT: Okay.

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

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

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

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

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

here.

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

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

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

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

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

MR. HERBERT: No.

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

MR. HERBERT: I have to go.

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

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

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

(Whereupon, the hearing was concluded.)

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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.

KENT S. GUBBINE
NOTARY PUBLIC-CALIFORNIA
PRINCIPAL OFFICE IN
CITY AND COUNTY OF SAN FRANCISCO
My Commission Expires Sept. 1, 1984

Kent S. Gubbine

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