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United States District Court for the

Northern District of California

THE MAGNAVOX COMPANY, a Corporation, and SANDERS ASSOCIATES, INC., a Corporation, Plaintiffs, vs. ACTIVISION, INC., a Corporation, Defendant.	No. C 82 5270 TEH MEMORANDUM IN SUPPORT OF PLAINTIFFS' MOTION TO DISQUALIFY DEFENDANT'S COUNSEL

Counsel for the defendant, Activision, Inc., should be disqualified from representing Activision in this patent infringement action because:

1. Counsel previously represented another of its clients, Atari, Inc., in a lawsuit involving the same patent as is asserted in the complaint in this action;

2. Counsel in its present representation of Activision is taking positions which are adverse to the

various activities alleged as prior art against the Re. 28,507 patent. On the day trial of the Atari case was scheduled to commence, Atari, Magnavox, and Sanders entered into a settlement of that action. (Paul ¶¶3-5.)

Atari's counsel in that prior action was Mr. Thomas O. Herbert and the firm of Flehr, Hohbach, Test, Albritton & Herbert. The Flehr, Hohbach firm and Mr. Herbert participated in the discovery in that action and in addition conducted extensive searches for prior art with respect to that patent. Counsel also consulted with Atari's technical employees concerning the subject matter of the Re. 28,507 patent, possible prior art with respect to the Re. 28,507 patent, and the validity of the Re. 28,507 patent. (Paul ¶¶3&4.) Mr. Herbert and his firm now represent Activision in its defense of this case. They still represent Atari in certain matters. (Paul ¶9.)

The settlement of the Atari case included a license agreement by which Atari secured a sublicense from Magnavox under the Re. 28,507 patent. The license was fully paid up and is still in effect. Since that license was executed, Atari has been and still is a licensee under the Re. 28,507 patent. Atari presently considers it to be in its best interest to remain a licensee under the Re. 28,507 patent and, more importantly, considers it to be <u>against</u> its best interest for the Re. 28,507 patent to be declared invalid or unenforceable by this Court. (Paul ¶¶5&6.)

Atari and Activision are now competitors in the business of selling television game cartridges (Paul ¶¶1&2),

and Activision is sued for infringement of the same Re. 28,507 patent that was involved in the Atari case.

In this action, Activision, through its counsel, asserts that the Re. 28,507 patent is not valid and not infringed. (¶¶5&6 Activision's Answer herein, ¶¶15-20 of Activision's affirmative defenses, and ¶¶22-28 of Activision's first counterclaim.) Thus, Atari's counsel is now asserting on behalf of Activision a position in this action which is adverse to the present interests of Atari. Moreover, Atari believes that during the course of representing Activision in this action, Atari's former counsel will make use of information concerning the Re. 28,507 patent obtained by that counsel during the course of its prior representation, and that some of that information was obtained by counsel from discussions with Atari officers and employees conducted during the course of that representation.

Further, as a part of the settlement of the prior Atari action, Atari, Magnavox, Sanders and the Flehr, Hohbach firm jointly agreed and entered into a Settlement Agreement. Paragraph IV of that agreement specifically provided:

> "So long as the license agreement is in effect, ATARI or its counsel, will not actively participate in any further litigation relating to the '284, '507, '285, '598 or '480 patents in which they are not a party or in which no game made by or for ATARI is involved, and will not aid or abet any person, other than a customer or

supplier of ATARI if sued for violation of the aforementioned patents in connection with the sale of games made by ATARI, accused of infringement of said patents or having an interest adverse to said patents, by supplying any information concerning the validity of said patents, the infringement of said patents, or any possible argument or facts relating to a defense against a charge or potential or possible charge of infringement of said patents except in response to a duly and legally issued subpoena."

That agreement not to actively participate in further litigation on the Re. 28,507 patent was signed by Mr. Herbert on behalf of his firm. (Paul ¶8.)

II. ARGUMENT.

Disqualification would be required even if the Flehr, Hohbach firm no longer represented Atari. But that firm does still represent Atari making the obvious conflict even more clear.

A. Disqualification is required by the readily apparent conflict of interest based only on Flehr, Hohbach's prior representation of Atari.

It is well settled in the Ninth Circuit that disqualification is required where an attorney undertakes to represent a client where the representation will be adverse to a former client, and the later case bears a substantial

> "In general Canon 4 prohibits an attorney from divulging confidences and secrets of a client. Under Canon 4 an attorney may not represent interests adverse to a former client if the factual context of the later representation is similar or related to that of the former representation."

In the circumstances here, it is clear that the "substantial relation" test is met. "Substantiality is present if the factual contexts of the representations are similar or related." Trone v. Smith, supra at 998. Here the factual context of the former representation concerned the validity and infringement of the Re. 28,507 patent. The factual context of this representation concerns the validity and infringement of the same patent. The identity of the factual contexts is sufficient of itself to demonstrate a "substantial relation." That relation is also presumed to exist where "there is a reasonable probability that confidences were disclosed which would be used against the client in later, adverse representation..." (id.) There is no need for "the former client to show that actual confidences were disclosed" (id. at 999). The identity of factual contexts here is enough to show a high likelihood that confidences were communicated by Atari to its counsel during the earlier action. But the Paul affidavit renders such communications a practical certainty. Flehr, Hohbach conferred with Atari personnel concerning the subject matter of the Re. 28,507 patent, possible prior art with respect to that patent, and

the validity of that patent. (Paul ¶4.) Moreover, Atari now believes that information thus acquired from it will be used against its interest by Activision in this action. (Paul ¶7.) Rule 4-101 of the California Code of Professional Conduct also prohibits accepting employment "adverse to a client or former client" relating to a matter on which he has obtained confidential information in the course of employment by the present or former client.

It is equally clear that Atari's counsel, by its representation of Activision in this action, has accepted representation adverse to Atari. Atari believes that it is presently in its best interest to remain a licensee under the Re. 28,507 patent and to not have that patent declared to be invalid and unenforceable. (Paul ¶6.) Activision, through its counsel, advocates and contends that the Re. 28,507 patent is invalid and unenforceable. Additionally, if that patent were found to be invalid in a final judgment in this action not reversed on appeal, that finding would be at least presumptively effective not only as to Activision but also as to every other infringer of that patent, Blonder-Tongue v. University Foundation, 402 U.S. 313 (1971), thus destroying the value of the license Atari has under the Re. 28,507 patent.

B. Disqualification is required because Flehr, Hohbach cannot adequately represent both of its clients.

ABA Canon 5 specifically deals with situations where counsel engages in representation adverse to a present client. It forbids counsel's representation of multiple clients where "exercise of his independent professional judgment in behalf of a client will be or is likely to be adversely affected by his representation of another client...." ABA Canons of Professional Ethics No. 5, DR5-105(B). There is no need to show any specific adverse effect; such is assumed to exist.

> "We agree that a specific adverse effect need not be demonstrated to trigger DR5-105(B) if an attorney undertakes to represent a client whose position is adverse to that of a present client" (Unified Sewerage Agency v. Jelco (9 Cir. 1981) 646 F.2d 1339, 1345).

The California Code of Professional Conduct, Rule 5-102(B) similarly forbids representation of parties with "conflicting interests".

As demonstrated above, by representing Activision, the Flehr, Hohbach firm is representing a client whose position with respect to the Re. 28,507 patent is adverse to and conflicts with the present position of Atari on that same patent. Such dual representation is not permitted under Canon 5.

C. The contract between the parties forbids the representation here.

The plain words of the Settlement Agreement entered into and signed by each of the plaintiffs, Atari, and the Flehr, Hohbach firm forbids that firm's representation of Activision in this case. It specifically provides that as long as the Atari license is in effect, "ATARI or its counsel, will not actively participate in any further litigation relating to the...'507...patents...." (emphasis added). The Atari license is still in effect (Paul ¶5). It cannot be denied that, by representation of Activision, Atari's former counsel is actively participating in litigation on the Re. 28,507 patent.

Moreover, this contractual provision is fully enforceable under both the California statutory law and the Canons of Ethics. Section 16,600 of the California Business and Profession Code does provide that contracts "by which anyone is restrained from engaging in a lawful profession, trade, or business of any kind is to that extent void." The Settlement Agreement in no way prevents Flehr, Hohbach from engaging in the practice of law except as to the narrowly defined subject of the patents recited in that agreement. Agreements so restricted in subject matter do not violate the statute. King v. Gerold, 109 Cal.App.2d 316, 240 P.2d 710 (1952); Gordon v. Landau, 49 C.2d 690, 321 P.2d 456 (1958); Boughton v. Socony Mobil Oil Company, Inc., 231 Cal.App.2d 188, 41 Cal. Rep. 714 (1965).

Further, the agreement does not violate any Canon of Ethics. Both the California Code of Professional Ethics (Rule 2-109(A)) and the American Bar Association Code of Professional Responsibility (DR 2-108(B)) include provisions against a lawyer entering into an agreement restricting his right to practice law. It is evident from the face of the matter that the code provisions, like the statutory section discussed above, cannot be interpreted as applying to any situation which might effect a lawyer's ability to represent a narrow class of clients in a restrictively defined subject area. Lawyer's restrictive employment agreements have been found not to contravene similar wording of other professional code provisions. Disciplinary Rule 2-108(A) of the A.B.A. Code forbids employment agreements which "restrict the right of a lawyer to practice law" after termination of the employment, but that rule has been found not to apply to an employment agreement restricting for two years employment with a competitor without providing written assurance he will not render services in connection with any "conflicting product". ABA Comm. on Professional Ethics, Informal Opinion 1301 (1975). In so finding it was noted that

> "[T]here is no branch of legal practice where the problems of conflicting interests and confidences of a client present more pressing problems than in patent practice."

It was also noted that the agreement merely affirmed the protection of confidences already provided by other ethical considerations. This is also a patent case, and the agreement