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• EYE ON ETHICS •

Analyzing Conflicts and the "Hot-Potato" Rule

By Paul Fleischut

The question arises, is it acceptable to terminate a client to convert it from an existing client to a former client for analyzing potential conflicts of interest?

On January 15, 2009, the large multi-office intellectual property firm Fish & Richardson filed a patent infringement lawsuit on behalf of Plantronics Inc. against Aliph Inc., after sending a termination notice to Aliph the day before. Aliph is currently seeking to disqualify Fish & Richardson. The suit is in federal court in Texas, but Aliph urges application of California's ethics rules on the basis that both Plantronics and Aliph are headquartered there. One presumes California's hot-potato doctrine is more developed than that of other jurisdictions.

Thus far Fish & Richardson has been publicly silent on the matter; but presumably it will have an answer to Aliph's allegations. The Michigan-based firm Butzel Long had just such an answer when its former client Lear Automotive Dearborn Inc. accused the firm of ethical violations in representing Johnson Controls a) in a first matter as trade secret plaintiff against parties aligned with Lear, and b) in a second matter as defendant in a patent infringement lawsuit by Lear. As to the first matter, which in fact overlapped with Butzel's representation of Lear, Butzel argued and the court agreed that since Lear was not a party, the representation was not directly adverse to Lear. And there was no subject-matter conflict or misuse of information because the trade secret litigation was unrelated to any work Butzel had done for Lear. In the

second matter, there was no violation because the potato was fully quenched: Butzel had terminated Lear three months before the infringement suit was filed.

In its March 31, 2009 order vindicating Butzel, the US District Court for the Eastern District of Michigan underscored these factors in determining the hot-potato rule did not apply:

Courts generally have invoked this doctrine where the attorney in question represented one of the clients on matters substantially related to the current dispute;

The conflict that has arisen is not one of Butzel's making, but rather more of a natural evolution of the respective clients' businesses;

The Butzel - Lear relationship was already waning when Butzel terminated; and

Butzel's relationship with Lear provided the firm no access to information which might be used to Lear's disadvantage or to Johnson Controls' advantage, so there would be no prejudice to Lear.

The hot-potato rule emanates from the Rules of Professional Conduct relating to confidentiality, conflicts, loyalty, and withdrawal.

Rule 1.6 forbids us from revealing information relating to representation of a client unless the client consents or the revealing is impliedly authorized to carry out the representation. The Rule is not limited to confidential information; and the protection for the information has no expiration date.

Under Rule 1.7 we may not represent one client in a matter directly adverse to another client. The Rule applies even if the representation is directly adverse to a client for whom we have never performed this type of work. For example, we cannot accept contract dispute representation against a client for whom we have only performed, e.g., personal injury defense work. This conflict is waivable, in writing, if we reasonably believe we can provide competent representation to both clients. It is not waivable if we would be representing both clients in the same litigation or same other proceeding before a tribunal.

Rule 1.9 states that we may not represent a client in a matter which is the "same as or substantially related to" a matter in which we had previously represented the interests of a former client. This type of conflict is also waivable, in writing. To a large extent, conflicts of this nature are imputed to all members of a firm.

And Rule 1.16 permits withdrawal from representing a client if, *inter alia*, the withdrawal can be accomplished without material adverse effect on the interests of the client.

Potential hot-potato situations arise when a firm has an opportunity to represent a client -- new or long-standing -- in a matter directly adverse to another client. When there is something especially attractive about the representation, or at least unattractive about referring it out, a firm may seek to terminate the other client. Such termination immediately converts the other client to a former client. Representation against a former client is acceptable under Rules 1.6, 1.7, and 1.9, provided no information relating to the former representation is revealed (Rule 1.6), and provided the new matter is not the same as or substantially related to the former representation (Rule 1.9). But the hot-potato rule may apply.

The hot-potato doctrine reaches beyond these Rules in that even if they are complied with, hot-potato proscribes certain representation based on policy considerations of protecting clients' confidence that they will not be unilaterally and prejudicially terminated, only to be sued the next day. It is a loyalty test of sorts one needs not be an afficiando of *Dr. Strangelove* to appreciate: "The rationale behind this rule is that a firm owes a client a duty of undivided loyalty." *Picker Int'l v. Varian Associates*, 670 F.Supp. 1363, 1366 (N.D. Ohio 1987), *aff'd*, 869 F.2d 578 (Fed. Cir. 1989).

Regardless of any application of the hot-potato rule, these situations may involve a direct violation of Rule 1.7 -- thou shalt not represent one client in a matter directly adverse to another client -- prior to the termination. For example, Aliph's disqualification motion alleges "Given that the litigation was filed only a few hours later, the conclusion is inescapable that Fish had begun providing adverse legal representation to Plantronics before it purported to drop its less lucrative client Aliph."

The upshot is that the hot-potato rule holds firms to a high standard of loyalty and may prevent them from unilaterally and precipitously "choosing sides." But courts are reluctant to deprive a party of its chosen counsel in situations where a firm handles the termination in a timely and professional manner, provided there is no significant risk of prejudice.

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