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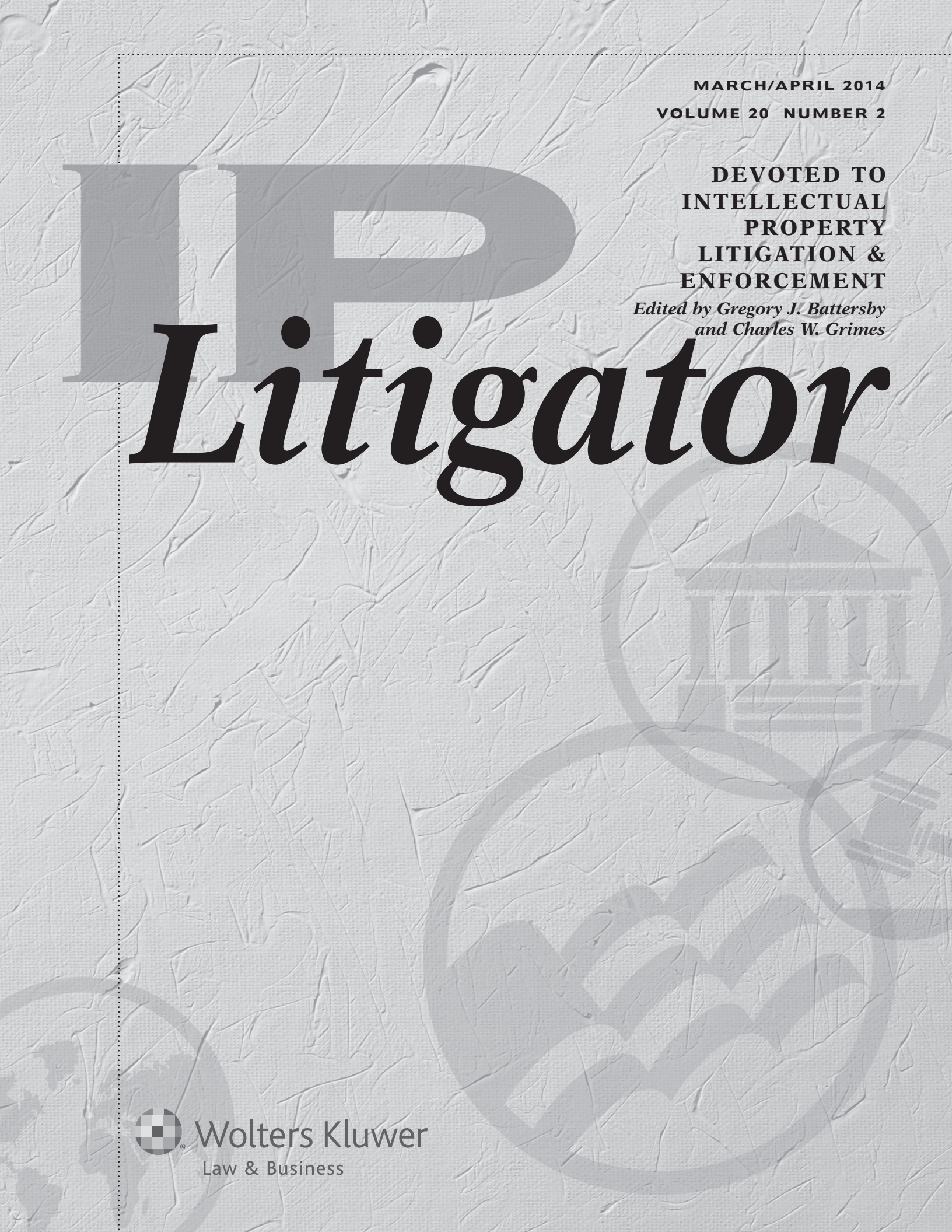

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An Ounce of Prevention: Managing Disqualification Risks through Advance Conflict Waivers

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Firms that practice intellectual property law frequently find themselves in disqualification proceedings, many of which make the front page of legal newspapers. This is partly a result of lawyer mobility and the high premiums firms are willing to pay to bring in experienced laterals, which often bring with them a complex web of potential conflicts of interest. A second factor that contributes to the disqualification risk for IP firms is that as lawyers focus their practice on particular industries or areas of technology, the risk of conflicts among clients escalates. Other circumstances also heighten the possibility that conflicts will develop, including that significant amounts of money may be involved in a dispute, making the expense of a motion to disqualify more justifiable. Likewise, the fact that many large companies now use a number of law firms to handle their intellectual property and other matters, spreading the work among a diverse group of national and regional firms, all of whom (necessarily) represent other clients, brings an enhanced probability of conflicts arising among the ever-more diverse group of firm clients.

Disqualification brings more than just unwelcome publicity. Lawyers and law firms that have been disqualified can lose (significant) legal fees they otherwise would have earned, may have to refund fees already paid by affected clients, can face potential discipline, and may experience a loss of client loyalty and trust. This article examines the use of advance conflict waivers to manage conflicts of interest, and steps to take to enhance the enforceability of an advance waiver in the face of a motion to disqualify.

Conflicts of Interest

The conflicts of interest that are asserted as the basis of motions to disqualify lawyers and law firms are either concurrent conflicts—involving conflicts of interest between two current clients of the law firm; or conflicts of interest between a current client and a former client of the firm. Different ethical rules and principles apply to each. Concurrent conflicts are governed in most jurisdictions by some form of Model Rule 1.7.[1] Model Rule 1.7 defines a concurrent conflict as a situation in which "the representation of one client will be directly adverse to another client," or when there is a "significant risk that the representation of one or more clients will be materially limited by the lawyer's responsibilities to another client, a former client or a third person…." In either situation, a lawyer may not commence (or continue) the representation absent informed written consent of both clients.

Former client conflicts are governed by Model Rule 1.9. That rule provides that "[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."

Of course, in all jurisdictions, a conflict preventing one lawyer in a firm from re- presenting a client in a matter is imputed to all others in the law firm.[2]

Advance Conflicts Waivers

Many firms have tried to minimize the risk of disqualification through the use of advance conflict waivers.[3]

Advance waivers may vary in terms of their specific provisions, but in order to be enforceable, generally must contain sufficient information to constitute a full disclosure to the client of the intended conduct, an explanation of the material risks to the client of that conduct, and an explanation of reasonably available alternatives.[4]

In *Celgene*, a US Magistrate Judge disqualified Buchanan Ingersoll & Rooney P.C. from representing an adverse party in a patent dispute against a current firm client, despite the fact that the client had executed two advance waivers. Those waivers provided in part that the client consented that the firm's "representation of the Company will not preclude us from accepting an engagement from a new or existing client, including litigation or other matters that may involve the Company."[5] The court held that the law firm's disclosure was not reasonably adequate and should have more specifically advised the client of the risks of the waiver, including the fact that other generic pharmaceutical companies could become clients, and identifying patent disputes as a potential matter in which the law firm might become adverse to the client.[6]

More recently, a US District Court case from Texas, *Galderma Laboratories, L.P. v. Actavis Mid Atlantic LLC*,[7] denied a motion to disqualify and upheld an advance waiver that was slightly more detailed than the one in *Celgene*, in part because of what the court regarded as the sophistication of the client. In this case, the law firm of Vinson & Elkins (V&E) was retained in 2003 to represent Galderma in employment law matters, providing employment and benefits advice to the company. The company, as described by the court in its decision on the motion to disqualify, "is a worldwide leader in the research, development, and manufacturing of branded dermatological products … [with] operations around the world, employing thousands of people and reporting worldwide sales of 1.4 billion euros for the year 2011 alone."[8]

The advance waiver the client had signed in 2003 provided, in critical part:

> We understand and agree that this is not an exclusive agreement, and you are free to retain any other counsel of your choosing. We recognize that we shall be disqualified from representing any other client with interest materially and directly adverse to yours (i) in any matter which is substantially related to our representation of you and (ii) with respect to any matter in which there is a reasonable probability that confidential information you furnished to us could be used to your disadvantage. **You understand and agree that, with those exceptions, we are free to represent other clients, including clients whose interests may conflict with ours [sic] in litigation, business transactions, or other legal matters.** You agree that our representing you in this matter will not prevent or disqualify us from representing clients adverse to you in other matters and that you consent in advance to our undertaking such adverse representations.[9]

The court in its decision identified what it saw as the key issue to determine whether to uphold the waiver: "whether or not [the client], a sophisticated client, represented by in-house counsel gave informed written consent when it agreed to a general, open-ended waiver of future conflicts of interest in [the law firm's] 2003 engagement letter."[10] Analyzing the waiver, and applying both the ABA Model Rules and Texas Rules of Professional Conduct, the court noted the adequacy of the disclosure: The waiver identified when the law firm would not represent other clients adverse to Galderma; the waiver explained "the material risk of waiving future conflicts of interest" in the form of adverse representation; and informed the client of "reasonably available alternatives to the proposed course," including the fact that the company could retain other counsel of its choosing instead of V&E.[11] Accordingly, "the waiver in the 2003 engagement letter is reasonably adequate to allow clients in some circumstances to understand the material risk of waiving future conflicts of interest."[12]

The backdrop of the court's decision, however, was the sophistication of the client, including the fact that "[a]s a complex, global company, [Galderma] routinely encounters legal issues and the legal system."[13] The court noted that the company had an in-house legal department headed by an experienced attorney, and had engaged outside counsel to assist with a number of issues. The court also observed that in the last 10 years, the company had hired at least three large law firms to represent it, along with a number of smaller law firms. The role of in-house counsel was an important factor, the court held: "When a client has their own lawyer who reviews the waiver, the client does not need the same type of explanation from the lawyer seeking a waiver because the client's own lawyer can review what the language of the waiver plainly says and advise the client accordingly."[14]

Galderma has been widely hailed as representing an emerging consensus by courts willing to uphold advance waivers against large, corporate clients. It is certainly the case that large, national law firms routinely use advance waivers with their large clients. In fact, law firms maintain that without such waivers, they would not be in a position to take on many smaller clients or matters.

The willingness to uphold waivers may go to extremes. In a recent (anomalous) case, an appellate court in New York state upheld an advance waiver that had not even been signed. In that case, Jones Day represented

J.C. Penney in certain intellectual property matters in Asia. The representation agreement contained a waiver that provided that the firm may represent clients whose interests "are or potentially may become adverse" to J.C. Penney's.[15] The agreement also provided that the client's "instructing us or continuing to instruct us on this matter will constitute your full acceptance of the terms" of the agreement.[16] Despite the fact that J.C. Penney never signed the waiver, the court upheld it to deny the company's motion to disqualify Jones Day from being adverse to it in the hotly-contested dispute involving Martha Stewart products. This case is interesting for its extreme result, and is unlikely to be widely followed. It does help to demonstrate the relative unpredictability of how courts regard advance waivers and what terms they may be willing to uphold.

Best Practices for Ensuring Enforceability of an Advance Waiver

Looking to *Galderma* and other recent cases from around the country, it is possible to derive a set of tips that may enhance the likelihood that a court will uphold the use of an advance waiver to deny a motion to disqualify. Of course, judicial determinations involving conflicts of interest are necessarily fact-intensive, and specific rules and case law vary from jurisdiction to jurisdiction. Unless you have a sufficient waiver already in place, you may face conflicts issues in connection with your present and former clients. Nevertheless, here is a set of working principles:

1. Involve in-house counsel. The more experience a client has with law firms and legal matters, the more likely that client will be regarded as "sophisticated" by a court. In-house counsel should review all waivers prior to execution, and outside counsel should confirm (and indeed encourage) participation by the in-house lawyer.
2. The more eyes the better. Recommend review by an independent attorney, and facilitate the likelihood that such review will take place.
3. Be as detailed as reasonably possible. Include a detailed disclosure that identifies specific adverse parties where known,[17] as well as any known conflicts, and specifically identify the types of clients and matters the law firm may take on that are adverse to the waiving client. If the law firm intends to include litigation within the scope of the waiver that should be called out in clear, express terms so that there is no confusion on the part of the client. At the same time, if certain matters are not intended to come within the scope of the waiver, specifically identify those as well.
4. Don't overreach. Following V&E's lead in *Galderma*, exclude from the waiver matters that are substantially related to the law firm's representation of the client providing the waiver, and matters that potentially involve any confidential information that the law firm obtained from the client. Make sure that all of the lawyers in your firm understand these limitations.
5. Spell out the alternatives. If the client's acceptance of the waiver is a necessary prerequisite for the law firm to accept the representation, say that. Also make clear that the client has the option to not proceed with the representation.
6. Identify the risks to the client. The possible risks to the client of granting an advance waiver include the fact that the law firm could end up on the other side of a matter, notwithstanding the fact that the adverse party remains a current client of the firm. While not the only possible downside, this is a big one, and should not be hidden in the middle of a lengthy conflicts waiver. Rather, this and other risks should be clearly set forth, preferably in the waiver itself.

Conclusion

In today's environment, IP litigators face increasing risk of conflicts of interest that could lead to disqualification. Advance waivers provide an important tool for managing conflicts, but only if done with an eye towards full disclosure, supporting a knowing consent by the client.

1. California still has not adopted the Model Rules. In California, conflicts of interest are governed by California Rule of Professional Conduct 3-300 and 3-310.
2. *See* Model Rule 1.10.
3. Another tool available in many jurisdictions to manage conflicts is the use of ethical screens. Model Rule 1.10 permits the use of an ethical screen in certain instances, including [ ]. A number of states permit screening in a former client conflict scenario, but only where the "tainted" lawyer was not directly and substantially involved in the prior representation. *See, e.g.,* Arizona (ARPC 1.10(d)), Colorado (CRPC 1.10(e)), and New Jersey (NJRPC 1.10(c)). Others allow screening even when the tainted lawyer participated substantially in the prior matter giving rise to the conflict. *See, e.g.,* Connecticut (CRPC 1.10(a)(2)), Idaho (IRPC 1.10(a)(2)), Illinois (IRPC 1.10(e)), and Washington (WRPC 1.10(e)). The California Rules of Professional Conduct do not expressly permit the use of ethical screens, although courts have approved their use in certain instances. *See* Kirk v. First American Title Ins. Co., 183 Cal. App. 4th 776, 891 (2010). No states expressly allow the use of an ethical screen to cure a concurrent conflict, where the primary duty implicated is that of loyalty, rather than confidentiality. Ethical screens often are used in conjunction with advance waivers, as a way to protect against the transmission of the former client's confidential information to the attorneys involved in the new adverse matter.
4. *See, e.g.,* Celgene Corp. v. KV Pharmaceutical Co., 2008 U.S. Dist. LEXIS 58735 (D.N.J., July 29, 2008).

5. *Id.* at*5.
6. *Id.* at*30-*31.
7. Galderma Labs., L.P. v. Actavis Mid Atlantic LLC, 927 F. Supp. 2d 390 (N.D. Tex. 2013).
8. *Id.* at 393.
9. *Id.* (emphasis added.)
10. *Id.* at 394.
11. *Id.* at 399-400.
12. *Id* at 401.
13. *Id* at 393.
14. *Id.* at 405.
15. Macy's Inc. v. J.C. Penney Corp., 968 N.Y.S. 2d 64, 65 (2013).
16. *Id.*
17. Visa U.S.A., Inc. v. First Data Corp., 241 F. Supp. 2d 1100, 1105-1110 (N.D. Cal. 2003).