UNITED STATES DISTRICT COURT
MIDDLE DISTRICT OF FLORIDA
ORLANDO DIVISION

SUPERCOOLER TECHNOLOGIES, INC.,

Plaintiff,

v.

THE COCA COLA COMPANY; METALFRIO SOLUTIONS, INC.; METALFRIO SOLUTIONS, S.A.; COFCO COCA-COLA BEVERAGES (BEIJING) LTD.; HISENSE CO. LTD.; QINGDAO HISENSE COMMERCIAL COLD CHAIN CO. LTD.; HISENSE RONGSHENG (GUANGDONG) FREEZER CO. LTD.; HISENSE RONGSHENG (GUANGDONG) REFRIGERATOR CO. LTD.; HISENSE USA CORPORATION; SWIRE COCA-COLA LTD.; SWIRE COCA-COLA HK LTD.; SWIRE PACIFIC HOLDINGS, INC.; and SWIRE PACIFIC HOLDINGS, INC.,

Defendants.

Case No. 6:23-cv-187-CEM-RMN

ORDER

This cause comes before the Court for consideration on Defendant's, The Coca Cola Company ("Coca-Cola"), Motion to Disqualify The Paul Hastings Law Firm, Dkt. 39, filed on April 12, 2023. Paul Hastings responded in opposition, not Plaintiff SuperCooler Technologies, Inc., ("SuperCooler"), Dkt. 56. I held an evidentiary hearing and oral argument on May 31, 2023. Dkts. 75 (Hearing minutes), 77 (Hearing transcript).[1] At my direction, Coca-Cola and Paul Hastings submitted supplemental briefs. *See* Dkts. 81, 82. Having considered the applicable law, the parties' filings, and all evidence presented, I conclude that Defendant's Motion should be denied.

I. INTRODUCTION

Coca-Cola's motion and Paul Hastings' opposition frame a particular conflict that is more likely to occur as law firms get bigger. Larger law firms aggregate more work and more clients. And as firms take on more clients, it is more likely that a law firm's advocacy for one client will rub up against the firm's duty of loyalty to another. In some cases, as here, the client and law firm find themselves on opposite sides in litigation.

Common sense may lead one to believe that a lawyer cannot sue a client on another client's behalf.[2] But that is not so. The ethical rules governing the

---

[1] This Order uses "Hrg. Tr. XX:XX–XX" or "Hrg. Tr. XX:XX to XX:XX" to cite the page(s) and lines of the transcript lodged at docket number 77.

[2] An older legal treatise explains it this way: "Something seems radically out of place if a lawyer sues one of the lawyer's own present clients on behalf of another client." Wolfram, *Modern Legal Ethics* (1986 ed.) § 7.3.2, p. 350. This is so, according to the treatise, "[e]ven if the representations have nothing to do with each other" and "no confidential information is apparently jeopardized," because "the client who is sued can obviously claim that the lawyer's sense of loyalty is askew." *Id.*

practice of law sometimes allow a lawyer to sue a client if the lawyer obtains informed consent from all involved. Here, Paul Hasting believed it obtained a waiver from Coca-Cola of any future litigation conflicts that might arise in an engagement letter endorsed by Coca-Cola's legal representative. And because it obtained informed consent from SuperCooler too, the law firm sees nothing wrong with hiring attorneys who have appeared in this case on SuperCooler's behalf. Coca-Cola has a different view and moves for the disqualification of SuperCooler's counsel and Paul Hastings.

II. BACKGROUND[3]

A. Coca-Cola's Relationship With Paul Hastings

In 2021, Coca-Cola engaged Jonathan C. Drimmer ("Drimmer"), a partner at Paul Hastings, in connection with international human rights work in the Democratic Republic of Congo. Dkt. 56-3 at ¶ 3; Hrg. Tr. 118:4–19. Coca-Cola and Paul Hastings memorialized the terms of the engagement in a letter agreement, which was signed by Drimmer and one of Coca-Cola's in-house lawyers. Dkt. 56-3 at 2; Hrg. Tr. 118:4 to 119:1. The letter contains a provision titled "Waiver of Prospective Conflicts" that states:

> Because we represent a large number of clients in a wide variety of legal matters, it is possible that we will be asked to represent a

---

[3] The background section of this Order and portions of my analysis contain my findings of fact. My findings are based on all evidence presented, including my assessment of the credibility of the witnesses who testified at the May 31, 2023 hearing.

> client whose interests are actually or potentially adverse to your interests in matters that may include, without limitation, mergers, acquisitions, financing, restructuring, bankruptcy, litigation, or administrative, rulemaking or regulatory proceedings. We may also be asked to serve a subpoena or take other discovery of you on behalf of another client. In particular, the Firm has established relationships with clients engaged in a business in your industry or a related industry and may have represented such clients in connection with various aspects of their business, including, without limitation, mergers, acquisitions, financing, restructuring, bankruptcy, litigation, or administrative, rulemaking or regulatory proceedings.
>
> In any of these circumstances, we agree that we will not undertake any such representation if it is substantially related to a matter in which we have represented you. If the other representation is not substantially related to a matter in which we have represented you, however, then you agree to our accepting such representation and you waive any resulting actual or potential conflicts of interest that may arise, provided that (1) our effective representation of you and the discharge of our professional responsibilities to you are not prejudiced by our undertaking the other representation; (2) we protect your confidential information and implement ethical walls as necessary to screen the lawyers working on the other representation from involvement in your matters, and vice versa; and (3) the other client has consented to and waived potential and actual conflicts of interest.

Dkt. 89-3 at 5–6. The first paragraph of this provision informs Coca-Cola of types of conflicts that may arise in the future if the company agrees to engage Paul Hastings as counsel. *Id*. at 5. The second paragraph sets forth the terms of the agreed waiver and encourages Coca-Cola to "seek advice from independent counsel." *Id.* at 6.

After the engagement letter was executed, Drimmer worked for Coca-Cola on other matters, but never executed another engagement letter or modified the original letter in writing.[4] Dkt. 56-4 at ¶ 4; Hrg. Tr. 38:17 to 39:8, 41:15–24, 62:22 to 63:17, 68:17–23, 119:22 to 120:5, 121:8–10.

B. Bondi, Wheatley, And Kats' Relationships With SuperCooler And Paul Hastings

In the summer of 2022, SuperCooler retained Bradley Bondi, Michael Weiss, Michael Wheatley, and Vitaliy Kats of Cahill Gordon & Reindel, LLP, to develop legal strategies and claims against Coca-Cola. Dkt. 56-1 at ¶ 4; Hrg. Tr. 145:2–9, 146:20 to 147:4, 148:7–12. After months of pre-litigation work on behalf of SuperCooler, the Cahill Gordon team, spearheaded by Bondi, filed a complaint on February 1, 2023. Dkt. 1; Dkt. 56-1 at ¶ 7; Hrg. Tr. 145:10–24.

About this time, Paul Hastings approached Bondi about potentially joining the firm. Hr. Tr. 156:18 to 157:6. Those discussions progressed through late February or March 2023, when Paul Hastings asked Bondi to join it as a partner. Hrg. Tr. 157:11–12. Although Bondi accepted shortly after the offer was extended, he remained at Cahill Gordon throughout most of March. Hrg. Tr. 157:16–22. During this time, Bondi disclosed his intention to join Paul

[4] Coca-Cola argues that the engagement letter it executed was superseded by its guidelines for outside counsel, which state that Coca-Cola does not grant advance waivers of conflicts. Dkts. 56 at 12, 81 at 8. Notwithstanding Coca-Cola's general policy, I find that Coca-Cola knowingly executed an engagement letter with Paul Hastings that included a waiver of future conflicts. I also find that the engagement letter was not later modified by Paul Hastings' use of Coca-Cola's billing system because Coca-Cola agreed that the engagement letter could be modified only by a subsequent written agreement between it and Paul Hastings. *See* Dkt. 89-3 at 10.

Hasting to SuperCooler. Hrg. Tr. 149:20 to 150:15. The Company decided to keep this matter with Bondi as he changed firms. Hrg. Tr. 150:16–22.

Wheatley and Katz joined Paul Hastings on March 21, 2023. Dkt. 56-1 at ¶ 10; Hrg. Tr. 166:14–17. They notified Coca-Cola's counsel via email on March 27 that they had changed law firm affiliations and filed a notice to that effect with the Court. *See* Dkt. 28; Dkt. 39 at 56; Hrg. Tr. 166:18 to 167:13. On the evening of March 27, counsel for Coca-Cola responded via email and explained that they were not authorized to consent to Paul Hastings' representation of SuperCooler. Dkt. 39 at 58; *see also* Hrg. Tr. 56:21 to 57:3.

The next day, Jessica Lewis, in-house counsel for Coca-Cola, contacted Drimmer to discuss the conflicts issue with SuperCooler. *Id.* at 23–24; Hrg. Tr. 56:13 to 58:20. In a series of calls, Drimmer eventually communicated Paul Hastings' General Counsel's view that the firm could represent SuperCooler in this matter based on the waiver in the firm's engagement letter. *Id.* at 23–35; Hrg. Tr. 56:13 to 58:20; *see also* Hrg. Tr. 91:14 to 92:15.

Bondi joined Paul Hastings on April 3 and filed a notice with the Court on April 5. Dkt. 65-1, at ¶ 11; Dkt. 35.

C. Procedural History

SuperCooler launched this lawsuit against Coca-Cola in February 2023 and filed a Second Amended Complaint on July 7, 2023. Dkts. 1, 87.[5] The 187-page Second Amended Complaint asserts claims against Coca-Cola[6] for breaches of contracts (Dkt. 87 at 83–90), breach of fiduciary duty (*Id.* at 93–103), misappropriation of trade secrets under Florida law (*Id.* at 104–114), "correction of inventorship" pursuant to 35 U.S.C. § 256 (*Id.* at 114–119); fraud in the inducement (*Id.* at 119–122), unjust enrichment (*Id.* at 122–123), promissory estoppel (*Id.* at 124–125), a claim for declaratory relief (*Id.* at 125–127), a violation of Florida Deceptive and Unfair Trade Practices Act ("FDUTPA") (*Id.* at 127–129), and a Lanham Act violation (*Id.* at 129–130).

Coca-Cola moved to disqualify SuperCooler's counsel and Paul Hastings on April 12, 2023. Dkt. 39 at 1.

---

[5] Relevant to the pending motion to disqualify, the original Complaint was signed and filed by Bondi, Weiss, Wheatley, and Kats while they were at Cahill Gordon & Reindel, as well as co-counsel Paul Thanasides. Dkt. 1 at 1, 48. The Amended Complaint—filed *after* the disqualification motion—was signed and filed by Bondi, Wheatley, Kats, and Jeffrey Pade of Paul Hastings, as well as co-counsel Thanasides. Dkt. 52 at 1, 114. With the Court's leave, SuperCooler also filed a Second Amended Complaint, which was signed by the same counsel. *See* Dkt. 87 at 186–87.

[6] The Amended Complaint and Second Amended Complaint assert additional claims against other defendants. For purposes of this Order, the undersigned will only discuss the relevant claims against Coca-Cola. *See* Dkts. 52, 87.

III. LEGAL STANDARDS

The disqualification of counsel is an extraordinary remedy. *Gen. Cigar Holdings, Inc. v. Altadis, S.A.*, 144 F. Supp. 2d 1334, 1337 (S.D. Fla. 2001) (citations omitted). Although "it is true that there is a constitutionally based right to counsel of choice, it is also well established that the right is not absolute." *In re BellSouth Corp.*, 334 F.3d 941, 955 (11th Cir. 2003). Once a party becomes aware of "issues of conflict of interest or breach of ethical duties" of counsel who have appeared in a lawsuit, a "motion to disqualify counsel is the proper method" to raise the issue with a court. *Musicus v. Westinghouse Elec. Corp.*, 621 F.2d 742, 744 (5th Cir. 1980).[7]

Disqualification "is a harsh sanction" that "should be resorted to sparingly." *Norton v. Tallahassee Mem'l Hosp.*, 689 F.2d 938, 941 n.4 (11th Cir. 1982). When considering a motion to disqualify counsel, a court must "be conscious of its responsibility to preserve a reasonable balance between the need to ensure ethical conduct on the part of lawyers appearing before it and other social interests, which include the litigant's right to freely chosen counsel." *Armor Screen Corp. v. Storm Catcher, Inc.*, 709 F. Supp. 2d 1309,

[7] In *Bonner v. City of Prichard*, 661 F.2d 1206, 1209 (11th Cir. 1981) (en banc), the Eleventh Circuit adopted as binding precedent all decisions of the former Fifth Circuit handed down before October 1, 1981.

1317 (S.D. Fla. 2010) (quoting *Woods v. Covington Cnty. Bank*, 537 F.2d 804, 810 (5th Cir. 1976)).

The moving party bears the burden of proof. *In re BellSouth Corp.*, 334 F.3d at 961. "[T]he court may not simply rely on a general inherent power to admit and suspend attorneys," but must identify an ethical rule and find that counsel violated it. *Schlumberger Techs., Inc. v. Wiley*, 113 F.3d 1553, 1561 (11th Cir. 1997). Because a litigant is presumptively entitled to counsel of its choosing, only a compelling reason will justify disqualification. *In re BellSouth Corp.*, 334 F.3d at 961. And because a disqualification motion may be used to harass or for a tactical advantage, it should be viewed with caution. *Hermann v. GutterGuard, Inc.*, 199 F. App'x 745, 752 (11th Cir. 2006).[8]

IV. ANALYSIS

This Order first addresses the sources of authority that govern the ethical issues raised in Coca-Cola's motion. It then discusses whether there is a conflict of interest under the applicable law and whether any such conflict has been waived with informed consent.

---

[8] Although *Hermann* is not published and therefore not binding on the Court, I find the guidance provided in the panel's reasoning to be persuasive. *Bonilla v. Baker Concrete Const., Inc.*, 487 F.3d 1340, 1345 (11th Cir. 2007).

A. The Florida Rules Of Professional Conduct And Federal Common Law Apply.

The Court must first address what jurisdiction's ethical rules govern Coca-Cola's request. Motions to disqualify are governed by two sources of authority. *Hermann*, 199 F. App'x at 752. The first is the local rules adopted by the district court. *See id.* This Court's Local Rule 2.01(e) requires all members of the Court's bar and all attorneys granted special admission to appear to be familiar with and be bound by the Florida Rules of Professional Conduct (which modify and adopt the Model Rules of Professional Conduct of the American Bar Association). *See* Local Rule 2.01(e); *see also Clements v. Apac Partners LLP*, No. 2:20-cv-310, 2021 WL 1341389, at *2 (M.D. Fla. Jan. 13, 2021) (citing *Keane v. Jacksonville Police Fire & Pension Fund Bd. Of Trustees*, No. 3:13-CV-1595, 2017 WL 4102302, at *5 (M.D. Fla. Sept. 15, 2017)).

The second source of authority is federal common law. *Hermann*, 199 F. App'x at 752 (citing *Fed. Deposit Ins. Corp. v. U.S. Fire Ins. Co.*, 50 F.3d 1304, 1312 (5th Cir. 1995), and *Cole v. Ruidoso Mun. Sch.*, 43 F.3d 1373, 1383 (10th Cir. 1994)). This is so because requests to disqualify counsel are substantive in nature. *Id*. Federal common law includes the body of precedent from the Fifth Circuit that applies the ethical cannons promulgated by the American Bar Association ("ABA"). *See In re Dresser Indus., Inc.*, 972 F.2d 540, 543 (5th Cir.

1992) (recognizing that the former Fifth Circuit has looked to the "cannons of ethics developed by the American Bar Association" as "national standards of attorney conduct" when deciding disqualification motions).

Notwithstanding the Eleventh Circuit's clear articulation of the sources of authority that the Court should apply to disqualification motions, Coca-Cola argues for the first time in its supplemental brief that the Court should apply Georgia's ethical rules. *See* Dkt. 81 at 8–10. There are at least four problems with that argument. *First*, Coca-Cola waited far too long make it. Making an argument in a final brief is troublesome—late-submitted arguments create thorny problems such as denying opposing parties an opportunity to respond. Coca-Cola's tardiness is particularly problematic here because the parties were told at the evidentiary hearing that the supplemental briefs would be the last filings on the disqualification motion and that the Florida Rules of Professional Conduct govern the issue before the Court. *See* Hrg. Tr. at 199:7–17. If Coca-Cola believed the Georgia rules controlled, then it should have made that point at the hearing or in its motion. But it didn't. *See, e.g.*, *United States v. Dicter*, 198 F.3d 1284, 1289 (11th Cir.1999) (arguments raised for the first time in a reply brief are waived).

Second, Coca-Cola effectively elevates the Georgia rules above all others, arguing that Georgia's rules govern the disqualification issue.[9] Dkt. 81 at 8–9. Coca-Cola is mistaken. When ethical issues arise in litigation in federal court, courts look to their local rules and federal common law for the applicable standards, not state law. *Hermann*, 199 F. App'x at 752. This has long been the true. *See, e.g.*, *In re Finkelstein*, 901 F.2d 1560, 1564 (11th Cir. 1990) ("The state codes of professional responsibility do not by their own terms apply to sanctions in the federal courts and any standards imposed are a *matter of*

[9] Somewhat circuitously, Coca-Cola reasons that Georgia's rules control because the engagement contract was executed in Georgia and, under Florida's choice-of-law rules, Georgia supplies the substantive law for the contract. Dkt. 81 at 8–9. Coca-Cola cites *Prime Ins. Syndicate, Inc. v. B.J. Handley Trucking, Inc.*, 363 F.3d 1089, 1092 (11th Cir. 2004), in support. *Id*. at 9. That decision, however, sheds no light on what jurisdiction's ethical rules apply to counsel who appear before a tribunal. Rather, the case considers whether a party could recover attorney's fees under a Florida statute based on an insurance contract executed in Georgia. *Prime Ins. Syndicate*, 363 F.3d at 1092. The court found that the Florida statute did not abrogate the common law approach to determining what jurisdiction's law governs a party's substantive rights under an insurance contract. *Id*. By contrast, the Court's Local Rules govern here, and those rules unequivocally apply the Florida Rules. Thus, Coca-Cola's reliance on choice-of-law principles for contracts is misplaced.

Additionally, the Court is aware of no case from the former Fifth Circuit or the Eleventh Circuit that applied another jurisdiction's ethical rules based on the law that applies to an engagement letter rather than the ethical rules adopted by the district court in which a matter was litigated, even where it is clear the engagement letter was executed in another state. *See, e.g.*, *Am. Can Co. v. Citrus Feed Co.*, 436 F.2d 1125, 1129 (5th Cir. 1971) (applying Florida's ethical rules to an attorney-client relationship formed by an out-of-state litigant with an out-of-state law firm).

federal law." (emphasis added)); *see also In re Am. Airlines*, 972 F.2d 605, 610 (5th Cir. 1992).

Third, if the Georgia rules apply at all, it is only because those rules reflect "national standards of attorney conduct." *In re Dresser Indus.*, 972 F.2d at 543. Coca-Cola does not grasp this, reasoning instead that Georgia "unequivocally rejects the enforcement of these types of advance waivers." Dkt. 81 at 9; *see also* Hrg. Tr. 185:14–21 (arguing that Georgia law is "more adverse" than Florida law). Coca-Cola's reasoning thus turns on the assumption that Georgia's rules are not the same as (and, indeed, are more restrictive than) national norms. If that is so, then all cases applying the Georgia rules are distinguishable. *See Hermann*, 199 F. App'x at 752 (federal common law incorporates "national standards of attorney conduct").

Fourth, the Court cannot rely on Coca-Cola's counsel's bare assertions about where the engagement letter was signed and executed. *See Lehrfield v. Liberty Mut. Fire Ins. Co.*, 396 F. Supp. 3d 1178, 1183 (S.D. Fla. 2019) ("First of all, attorney argument is not evidence.") Coca-Cola cites no evidence in support of the assertion that the agreement was executed in Georgia, *see* Dkt. 81 at 8, and it presented no testimony about where the contract was executed. The Court is not inclined to fill in this evidentiary gap, especially where Coca-Cola has the burden. And indeed, even the case cited in Coca-Cola's brief explains the "determination of where a contract was executed is [a] fact-intensive" inquiry that "requires a determination of 'where the last act necessary to complete the contract [wa]s done.'" *Prime Ins. Syndicate, Inc.*, 363 F.3d at 1092–93. The Court declines to engage in such determination on this record.

In sum, the motion is governed by the Court's Local Rules, which incorporate the Florida Rules, and federal common law.

B. Paul Hastings' Representation Of Supercooler Here Is A Conflict Of Interest Under Florida Rule 4-1.7(a).

Next, the Court considers whether Paul Hastings' representation of SuperCooler in this case is a conflict of interest under the Florida Rules of Professional Conduct. Florida Rule 4-1.7 "concerns conflicts of interests with current clients." *Young v. Acenbauch*, 136 S. 3d 575, 581 (Fla. 2014). Subsection (a) of that rule prohibits a lawyer from representing a client if the representation of one client will be directly adverse to another client or if there is a substantial risk that the representation of one client will be materially limited by the lawyer's responsibilities to another client. Fla. Rule 4-1.7(a)(1)–(2). The comments to the Florida Rule summarize the prohibition in broad terms: "a lawyer ordinarily may not act as advocate against a person the lawyer represents in some other matter, even if it is wholly unrelated." Fla. Rule 4-1.7, Cmt. ("Loyalty to a client").

Rule 4-1.7 is based on two principles. "First, a client is entitled to his lawyer's undivided loyalty as his advocate and champion." *Hilton v. Barnett Banks, Inc.*, No. 94-1036-CIV, 1994 WL 776971, at *3 (M.D. Fla. Dec. 30, 1994) (internal quotation marks omitted); *see also* Fla. Rule 4-1.7, Cmt. ("Loyalty to a client") ("Loyalty and independent judgment are essential elements in the lawyer's relationship to a client."). "Second, a lawyer should never place himself in a position where a conflicting interest may, even inadvertently, affect the obligations of an ongoing professional relationship." *Hilton*, 1994 WL 776971, at *3. So the Rule and the principles animating it reflect the commonsense notion that a lawyer should not sue a client on another client's behalf.

Coca-Cola argues that Rule 4-1.7 is unambiguous, and that Paul Hastings cannot represent SuperCooler in this matter because its interests are directly adverse to Coca-Cola—another Paul Hastings client. Dkt. 39 at 11. Coca-Cola points out that the Florida Rule is meant to "protect clients from lawyers seeking to benefit by playing both sides of the field for monetary or personal reasons." *Id.* (citing Rule 4-1.7 cmt. ("The lawyer's own interests should not be permitted to have adverse effect on representation of a client.")). In response, Paul Hastings contends that it has not violated any Florida Rule and, among other arguments discussed below, that it can provide "competent and diligent representation" to both Coca-Cola and SuperCooler in their respective unrelated matters. Dkt. 56, at 9–11.

Coca-Cola is more persuasive here. Before the Court can determine whether Paul Hastings violated the Florida Rules, it must determine whether there is a conflict. Because it is undisputed that Coca-Cola is a current client of Paul Hastings, the Court finds that the firm's representation of SuperCooler here would violate Rule 4-1.7, if there is no effective and applicable waiver of future conflicts with informed consent.

C. Coca-Cola Waived This Specific Conflict Of Interest With Informed Consent.

Although Coca-Cola has shown there is a conflict of interest under Florida Rule 4-1.7(a), that conflict may be waived. First, this Order will review the guidance provided by the Florida Rules and the ABA on informed consent and waivers of future conflicts. Then, it will determine whether Coca-Cola gave informed consent when it agreed to waive future conflicts in the 2021 engagement letter.

i. Informed Consent And Waivers of Future Conflicts

Subsection (b) of Florida Rule 4.1-7 allows an attorney to represent a client even where there is an actual conflict of interest if: (1) counsel reasonably believe that they will be able to provide competent and diligent representation to each client; (2) the representation is not prohibited by law;

(3) the representation does not involve the assertion of a position adverse to another client when the lawyer represents both clients in the same proceeding before a tribunal; and (4) each client gives informed consent. Fla. Rule 4.1-7(b); *see also* ABA Model Rules Of Prof'l Conduct R. 1.7(b) (same).

The Florida Rules and ABA standards define informed consent as "denote[ing] the agreement by a person to a proposed course of conduct after the lawyer has communicated adequate information and explanation about the material risks of and reasonably available alternatives to the proposed course of conduct." Fla. R. Preamble, Terminology; ABA Model Rules Of Prof'l Conduct R. 1.0(e). Under both the Florida Rules and the ABA standards, a client's waiver of future conflicts is valid when the client gives informed consent. Fla. R. 4-1.7(b); ABA Model Rules Of Prof'l Conduct R. 1.0(e). These authorities and the comments associated with each outline several factors to consider in determining whether a client has given informed consent to waive future conflicts of interest.[10]

The ABA standards expressly recognize that a lawyer may properly request a client to waive future conflicts, subject to the four-part test in Rule 1.7(b). ABA Model Rules Of Prof'l Conduct R. 1.7, cmt. 22. The ABA notes

---

[10] Both the Florida Rules and the ABA standards recognize that comments associated with their respective rules serve as interpretative guides. *See* Fla. R. Preamble; ABA Model Rules Of Prof'l Conduct R. Preamble, cmt. 21.

that the "effectiveness of such waivers is generally determined by the extent to which the client reasonably understands the material risks that the waiver entails." *Id*. The ABA explains that the more detail given about the types of future representations and the "actual and reasonably foreseeable adverse consequences of those representations, the greater the likelihood that the client will have the requisite understanding." *Id*. If the client is familiar with a particular type of conflict, according to the ABA, "then the consent ordinarily will be effective with regard to that type of conflict." *Id*. Although "general and open-ended" consent "ordinarily will be ineffective, because it is not reasonably likely that the client will have understood the material risks involved," such "consent is more likely to be effective" if the client is "an experienced user of legal services" and "reasonably informed regarding the risk that a conflict may arise." *Id*. This is particularly so, in the ABA's view, if the client is independently represented by counsel when it provides consent. *Id*.

Although Florida Rule 4-1.7(b) is identical to the ABA rule, the comments to the Florida Rule do not expressly recognize that a client may consent to a future conflict. Yet Florida incorporates the ABA's explanation and guidance for informed consent. *Compare* Fla. R. Preamble, cmts. ("Informed Consent") *with* ABA Model Rules Of Prof'l Conduct R. 1.0, cmt. 6 (same). The comments to the preamble of the Florida Rules explain that the process of obtaining informed consent varies depending on the rule and the circumstances. Fla. R. Preamble, cmts. Ordinarily, this requires communication that includes a disclosure of the facts giving rise to the situation, any explanation reasonably necessary to inform the client or other person of the material advantages and disadvantages of the proposed course of conduct and a discussion of the client's or other person's options and alternatives. *Id*.; ABA Model Rules Of Prof'l Conduct R. 1.0, cmt. 6 (same). The more experienced the client is "in legal matters generally and in making decisions of the type involved," the less information and explanation is needed for consent to be informed. Fla. R. Preamble, cmts.; ABA Model Rules Of Prof'l Conduct R. 1.0, cmt. 6 (same). And if a client is independently represented by other counsel, generally the client "should be assumed to have given informed consent." Fla. R. Preamble, cmts.; ABA Model Rules Of Prof'l Conduct R. 1.0 (same), cmt. 6.

Thus, the relevant authorities underscore the fact-intensive nature of the informed consent inquiry. The effectiveness of a request to a client to waive future conflicts depends on what disclosure is needed to ensure that the client has reasonably adequate information to make an informed decision in view of the sophistication of the client and whether the client is represented by an independent lawyer.

ii. Did Coca-Cola Gave Informed Consent?

Coca-Cola and Paul Hastings hotly dispute the effectiveness of the waiver of future conflicts found in the 2021 engagement letter. This dispute turns on whether Paul Hastings provided reasonably adequate information for Coca-Cola to understand the material risks of waiving future conflicts of interest. *See* Fla. R. Preamble, cmts.; ABA Model Rules Of Prof'l Conduct R. 1.0 (same), cmt. 6. There are two parts of this inquiry. One, what information was provided, and two, was that information reasonably adequate for the client involved?

1. What Was The Disclosure?

Paul Hastings' disclosure is memorialized in the engagement letter. Dkt. 89-3 at 5. The engagement letter discloses that Paul Hastings is a large law firm that represents many other clients, some of which may have interests that are actually or potentially adverse to Coca-Cola in a wide range of matters, including among others finance, litigation, mergers, and regulatory matters. *Id*. The letter also explains that Paul Hastings may represent those clients in matters directly adverse to Coca-Cola. *Id*. The firm explains, however, that it will not agree represent another client in a matter if that matter is substantially related to one in which Paul Hastings has agreed to represent Coca-Cola. *Id*. The letter also discloses to Coca-Cola the potential risks, including that the firm "could be less zealous" in representing Coca-Cola, "favor the interests of another client," or "use [Coca-Cola's] confidential information in a manner adverse to [Coca-Cola's] interests." *Id.* at 6. The letter also advises Coca-Cola that it should seek advice of independent counsel before agreeing to the waiver. *Id.*

In short, the engagement letter includes a provision that gives Paul Hastings the freedom to represent a wide range of other clients in a wide range of matters, including litigation, that might conflict with the firm's duty of loyalty to Coca-Cola. Despite this, the letter contains an outer boundary—Paul Hastings will not represent other clients in matters substantially related to those in which it represents Coca-Cola or where the firm concludes any such representation would pose a "material risk."

Coca-Cola argues that the waiver provision is open-ended boilerplate that cannot be enforced. Dkt. 39 at 12–14. *First*, open-ended waivers are not per se unenforceable, as Coca-Cola suggests.[11] *See* ABA Model Rules Of Prof'l

[11] For this proposition, Coca-Cola relies in part on cases decided by California federal courts. Dkts. 39 at 13–14 (collecting cases), 81 at 6–7 (same). California is one of the few states that did not adopt the standards promulgated by the ABA. *See, e.g.*, *Walker v. Apple, Inc.*, 209 Cal. Rptr. 3d 319, 326 n.4 (Cal. App. 5th 2016) (quoting *City & Cty. of San Francisco v. Cobra Solutions, Inc.*, 135 P.3d 20, 29 (Cal. App. 4th 2006)). Although California courts sometimes rely on the ABA standards as persuasive authority, those standards do not apply if there is "on point California authority or a conflicting state public policy." *Id.* On the issue of advanced waivers, it appears that California has departed from the ABA standards, which reflect national norms and permit such waivers. *See* ABA Model Rules Of Prof'l Conduct R. 1.7(b); ABA Comm. on Ethics & Prof'l

Conduct R. 1.7, cmt. 22. *Second*, as determined above, the waiver provision is not open-ended. It is broad.[12] The provision delineates an outer boundary and discloses the types of other clients Paul Hastings might represent, including those in Coca-Cola's "industry or a related industry," like SuperCooler. Dkt. 89-3 at 5.

Pressing on, Coca-Cola argues that the waiver provision is not specific enough to be effective, either because Paul Hastings did not specifically identify its clients or that its other clients may accuse Coca-Cola of fraud. Dkt. 39 at 12–14; Dkt. 81 at 4–5. For the first argument, Coca-Cola relies on *Southern Visions, LLP v. Red Diamond, Inc.*, 370 F. Supp. 3d 1314 (N.D. Ala. 2019), and *Worldspan, L.P. v. Sabre Grp. Holdings, Inc.*, 5 F. Supp. 2d 1356

Responsibility, Formal Op. 05-436 (2005). The California cases cited by Coca-Cola are not on point.

Furthermore, as Paul Hastings points out, the comments to the ABA model rule do acknowledge the validity of open-ended waivers of future conflicts in some situations. *See* ABA Model Rules Of Prof'l Conduct R. 1.7, cmt. 22. And to leave no doubt about the validity of such waivers, the ABA withdrew an earlier, somewhat contrary ethics opinion because that opinion was "no longer consistent with the Model Rules." *See* ABA Comm. on Ethics & Prof'l Responsibility, Formal Op. 05-436 (2005).

[12] Coca-Cola's associate general counsel testified that litigation, as that term was used in the engagement letter, is very broad. Hrg. Tr. 45:16–21, 46:3 to 47:3.

(N.D. Ga. 1998).[13] The court in *Southern Visions* held that broad, open-ended advanced waivers are per se unenforceable. 370 F. Supp. 3d at 1326. In that court's view, no client can waive a broad range of conflicts in advance because the ethical rule requires consent "after consultation." *Id*. at 1326–28. But this reasoning misses the forest for the trees.[14] More specificity in a disclosure is desirable, not because it is required for consultation, but because specificity makes a particular future conflict more foreseeable. *See* ABA Model Rules Of Prof'l Conduct R. 1.7, cmt. 18 ("Informed consent requires that each affected client be aware of the relevant circumstances and of the material and reasonably foreseeable ways that the conflict could have adverse effects on the interests of that client.").

The *Worldspan* court refused to credit a "standing consent" provision contained in a "standard" engagement letter. 5 F. Supp. 2d at 1358. There, the

[13] Although the Court discusses each distinguishable case in detail, such a back-and-forth is unnecessary given the fact specific inquiry that is required for disqualification motions. In truth, the factual circumstances of other cases are entirely unhelpful in this context. *See Lanard Toys Ltd. v. Dolgencorp LLC*, No. 3:15-cv-849, 2016 WL 7326855, at *10 (M.D. Fla. Dec. 16, 2016) (noting that motions to disqualify are inherently a fact intensive inquiry and stating that "[g]iven the fact-specific nature of the balancing, discussion of all of the [cited] cases is unwarranted").

[14] It also conflicts with the very authorities cited by that court. *See* Restatement (Third) of the Law Governing Lawyers § 122, cmt. d (2000) ("Informed consent that reasonably contemplates later, conflicted representation by the lawyer has been approved and enforced.").

law firm disclosed in its engagement letter the firm's past work for certain airlines and sought the client's consent to represent clients that may have adverse interests. *Id.* at 1359. The court found the waiver ambiguous, noting the language used did not put the client on notice that the firm could represent another client against the first in litigation. *Id.* at 1359–60. But Paul Hastings' engagement letter is unambiguous, and so *Worldspan* is distinguishable.

The reasoning from *Worldspan* is also unconvincing. That court, like the court in *Southern Visions*, relied in part on the language found in Section 122 of the Restatement (Third) of the Law Governing Lawyers.[15] *Worldspan*, 5 F. Supp. 2d at 1360 (referring to sections of a draft); *see also Southern Visions*, 370 F. Supp. 3d at 1326. The Reporter's Notes to that section, however, make clear that the standard promoted in the restatement is consistent with the decisions of some courts that had "approved and enforced" prospective waivers of conflicts. Restatement (Third) of the Law Governing Lawyers § 122, cmt. d (2000). So notwithstanding the text of the Restatement, courts have enforced advanced waivers of future conflicts, even in the context of litigation. *See id.* (citing *City of Cleveland v. Cleveland Elec. Illuminating Co.*, 440 F. Supp. 193,

[15] Both courts seem to understand Section 122(2) of the restatement to prohibit an attorney from suing a current client even with the client's informed consent. *See, e.g.*, *S. Visions*, 370 F. Supp. at 1326. Yet that section addresses circumstances in which a law firm represents opposing parties in the same litigation. *See* Restatement (Third) of the Law Governing Lawyers § 122(2).

204 (N.D. Ohio 1976), *aff'd sub nom. City of Cleveland v. Cleveland Elec. Illuminating*, 573 F.2d 1310 (6th Cir. 1977)). And, in any event, the comments to Florida Rule 4-1.7 expressly contemplate that, at least in Florida, an attorney may sometimes "act as an advocate against a client." Fla. R. 4-1.7, cmt. Thus, the *Worldspan* court's reasoning, even if sound, appears contrary to Florida's interpretation of its ethical rule.

Next, Coca-Cola contends that the disclosure was inadequate because it did not explain that one of Paul Hastings' other clients might sue Coca-Cola for fraud. Dkt. 39 at 15–16; Dkt. 81 at 4–6. This argument moves Coca-Cola closer to the mark but does not take it all the way. True, the comments to the Florida Rule and dicta in *Gen. Cigar Holdings, Inc. v. Altadis, S.A.*, 144 F. Supp. 2d 1334, 1340–41 (S.D. Fla. 2001), indicate that allegations of fraud lobbed by one client against another can influence whether an advanced waiver is effective informed consent. *See* Fla. R. 4-1.7, cmt. ("The propriety of concurrent representation can depend on the nature of the litigation."). But the adequacy of a disclosure depends on the circumstances of each case. That SuperCooler has lodged allegations of unfair business practices against Coca-Cola is one factor to consider in the overall informed consent analysis, not a per se prohibition by itself.

2. Was The Disclosure Reasonably Adequate?

The second part of the informed consent analysis asks if the disclosure provided by Paul Hastings is reasonably adequate for a client like Coca-Cola. For its part, Coca-Cola generally ignores this half of the analysis. Paul Hastings does not.

The law firm points out that Coca-Cola is a sophisticated consumer of legal services that was represented by independent counsel when it gave its consent to future conflicts in the engagement letter. Dkt. 56 at 12; Dkt. 82 at 3. Coca-Cola's associate general counsel testified that he considers Coca-Cola to be "a sophisticated consumer of legal services." Hrg. Tr. 34:4–6. Cola employs between 150 and 200 in-house lawyers, depending on the entities counted, and spends "many millions of dollars" on legal services each year just on its in-house legal team. Hrg. Tr. 34:14–22. And in the last five years, it has retained more than 50—perhaps even more than 100—outside law firms, spending tens of millions of dollars. Hrg. Tr. 34:23 to 35:15. And it is undisputed that Coca-Cola was represented by an independent attorney who executed the agreement on Coca-Cola's behalf. Hrg. Tr. 36:9 to 37:11. On this record, I find that Coca-Cola is an experienced, frequent, and sophisticated consumer of legal services.

The question then is, given the disclosure in the engagement letter, was it reasonably foreseeable for Coca-Cola to understand that Paul Hastings may appear as counsel against it in litigation, considering Coca-Cola's experience with legal services and its familiarity with the conflicts that arise in litigation?

Think of it this way. A magician performing magic tricks is perceived differently by different people. A toddler in the audience might be surprised and delighted to see the magician pull a rabbit out of his hat. Teenagers and adults in the audience may respond differently based on the number and types of magic shows they have experienced. But the seasoned vaudeville actor lurking just off the stage won't be surprised.

Here, Coca-Cola is most like the jaundiced-eyed vaudeville actor. Coca-Cola knew what Paul Hastings is, what Paul Hastings does, and the types of clients Paul Hastings represents. Based on Coca-Cola's familiarity of the risks involved, its representation by independent counsel, and the disclosure provided, I find that Coca-Cola knowingly waived the specific conflict here—that is, it understood and consented to Paul Hastings serving as counsel to an opposing party in future litigation matters.

I also find that the requirements of Florida Rule 4.1-7(b) are satisfied and Paul Hastings' representation of SuperCooler does not violate Florida Rule 4-1.7.

V. CONCLUSION

For these reasons, and upon consideration of the applicable law, the parties' filings, and all evidence presented, Coca-Cola's Motion to Disqualify The Paul Hastings Law Firm (Dkt. 39) is **DENIED**.

DONE and **ORDERED** in Orlando, Florida, on July 17, 2023.

ROBERT M. NORWAY
United States Magistrate Judge

Copies to:

Counsel of Record

2023 WL 3902955
Only the Westlaw citation
is currently available.
United States District Court, S.D. New York.

IBM CORPORATION, Plaintiff,
v.
MICRO FOCUS (US), INC., Defendant.

22 CV 9910 (VB)
|
Signed May 30, 2023
|
Filed June 8, 2023

Synopsis
Background: Software manufacturer brought action against developer, asserting claims for copyright infringement and breach of contract. Developer filed motions to dismiss for failure to state claim and to disqualify manufacturer's counsel.

Holdings: The District Court, Vincent L. Briccetti, J., held that:

manufacturer sufficiently alleged that it held valid copyright registrations;

manufacturer sufficiently alleged that developer copied its software;

manufacturer sufficiently alleged its entitlement to statutory damages and attorney fees;

manufacturer's claim for breach of contract was preempted by Copyright Act; and

law firm was not barred from representing manufacturer under rule governing conflicts of interest.

Motion to dismiss granted in part and denied in part; motion to disqualify denied.

Procedural Posture(s): Motion to Dismiss for Failure to State a Claim; Motion for Attorney's Fees; Motion to Disqualify Counsel.

Attorneys and Law Firms

Dale Margaret Cendali, Joshua Levicoff Simmons, Kirkland & Ellis LLP, New York, NY, Eric Andrew Loverro, Long Island City, NY, James John Lomeo, Kirkland & Ellis LLP, Austin, TX, for Plaintiff.

Marcella Ballard, Jessie F. Beeber, Maria Rose Sinatra, Michael Matthew Agosta, Patrick John Boyle, Venable LLP, New York, NY, Manny Joseph Caixeiro, Venable LLP, Los Angeles, CA, Timothy J. Carroll, Venable LLP, Chicago, IL, for Defendant.

OPINION AND ORDER

Briccetti, United States District Judge:

***1** Plaintiff IBM Corporation brings this action against defendant Micro Focus (US), Inc., alleging Micro Focus, without authorization, copied and reverse engineered IBM's proprietary software to create derivative software applications, in violation of federal copyright law and in breach of its contracts with IBM.

Now pending are Micro Focus's motions to (i) dismiss the amended complaint pursuant to Rule 12(b)(6) (Doc. #56), and (ii) disqualify IBM's counsel, Kirkland and Ellis LLP ("Kirkland"), from representing IBM in this action. (Doc. #22). [1]

For the reasons set forth below, the motion to dismiss is GRANTED IN PART and DENIED IN PART, and the motion to disqualify is DENIED.

The Court has subject matter jurisdiction pursuant to 28 U.S.C. §§ 1331, 1338, and 1367.

BACKGROUND

I. Factual Allegations

For the purpose of ruling on the motion to dismiss, the Court accepts as true all well-pleaded factual allegations in the amended complaint, and draws all reasonable inferences in plaintiff's favor, as summarized below.

IBM alleges it provides mainframe computer systems to its clients, including banks, airlines, and government agencies. The mainframe systems include IBM's "proprietary computers and software." (Doc. #39 ("FAC") ¶ 2). IBM alleges this software, the CICS Transaction Server for z/OS software ("CICS TS") is "a general-purpose application server and transaction processing subsystem" that provides "services for running applications online, by request, at the same time as many other users are submitting requests to run the same applications, using the same programs and resources such as files and databases." (Id. ¶¶ 20, 21). Thus, the mainframe software represents "a collection of related programs that together perform a business operation, such as processing a travel request or preparing a company payroll." (Id. ¶ 21).

IBM further alleges CICS TS enables its customers' applications to work online and across mobile and networked devices through CICS TS Web Services, which "are part of the [CICS TS] computer program." (FAC ¶ 23). CICS TS Web Services uses a "web service binding file," also known as a WSBIND file, to enable networked devices to access CICS TS applications. (Id. ¶ 24).

IBM claims it holds the copyrights for CICS TS, including CICS TS Web Services and related components, and attaches to the amended complaint copies of copyright registration certificates for nine versions of the "IBM CICS TRANSACTION SERVER FOR z/OS." (Doc. #39-1 (the "Registrations")). [2]

Through the "IBM PartnerWorld program," IBM collaborates with third-party software developers to "improve, promote, and expand the digital products and services available to their mutual customers." (FAC ¶¶ 30, 32). Participants in the PartnerWorld program allegedly enter into an agreement with IBM called the "IBM PartnerWorld Agreement and Value Package Attachment" (the "PartnerWorld Agreement"), which provides participating developers with discounted access to IBM software but sets certain limits on the developers' use of the software. (Id.).

***2** Likewise, IBM alleges its "z/OPD Developer Discount Program" gives third-party developers discounted access to IBM's mainframe software, but requires them to enter into three agreements: (i) IBM's Client Relationship Agreement (the "CRA"); (ii) Attachment for Developer Discount – IBM Z (the "CRA Attachment"); and (iii) Addendum to the Attachment for Developer Discount for IBM Z (the "CRA Addendum"). (Id. ¶ 33).

Through these agreements, participating software developers agree to "use their access solely to develop or enhance software that runs on IBM's mainframe platform and otherwise only for the mutual benefit of the parties and their customers." (FAC ¶ 34). Thus, they promise not to "us[e] any of the elements of the Program or related licensed material separately from the Program" (id. (quoting CRA § 1.b.4)); " 'reverse assembl[e], reverse compil[e], translat[e], or reverse engineer[ ]' IBM's software" (id. (quoting CRA § 1.b.3 and citing CRA § 5.a.4)); or "use their preferred access and the IBM software licensed to them under the Developer Discount Program to undermine IBM's mainframe systems." (Id. (citing CRA Attachment §§ 2.f, 2.j, 5.b)).

According to IBM, Micro Focus participated in the PartnerWorld and Developer Discount programs, and agreed to the terms of the PartnerWorld Agreement, the CRA, the CRA Attachment, and the CRA Addendum. However, Micro Focus allegedly copied and reverse engineered parts of CICS TS to create competing software applications called Micro Focus Enterprise Server and Micro Focus Enterprise Developer (together, the "Micro Focus Enterprise Suite"), thereby violating its agreements with IBM.

Specifically, IBM claims the Micro Focus Enterprise Suite includes a "web services implementation" with a WSBIND file for mapping data that copies IBM's WSBIND file, and that "the numerous similarities in the file indicate that other portions of Micro Focus Enterprise Suite were copied from IBM as well." (FAC ¶ 38). The alleged similarities include:

- Micro Focus's WSBIND file contains near identical architecture and design to IBM's CICS® TS WSBIND file.
- Micro Focus's WSBIND file uses IBM internal structures that are not available outside of IBM.
- For a given input schema or data structure, the log file generated from the Micro Focus Enterprise LS2WS utility is nearly identical to the log file generated by IBM's CICS® TS LS2WS utility.
- The Micro Focus utility processing reflected in the log file exhibits the same configuration, program sequence, program elements, program optimizations, defects and missing features as the corresponding CICS® TS utility programs.
- Micro Focus's WSBIND file is encoded in EBCDIC [3] —like IBM's—yet, Micro Focus has no need for using that encoding as it uses an ASCII environment.

(Id.). IBM contends these similarities show Micro Focus copied elements of CICS TS to create the Micro Focus Enterprise Suite, because "[t]here is no way such extensive similarity could arise through attempts to meet similar functional requirements, or as a result of coincidence." (Id.).

***3** IBM allegedly terminated Micro Focus's involvement in the Developer Discount Program as of August 31, 2022, by sending a Notice of Non-Renewal on May 31, 2021.

II. Kirkland's Representation of Micro Focus

Micro Focus claims Kirkland—counsel to IBM in this action—is currently counsel to Micro Focus on United States matters such as IP-related transactions and agreements secured by IP, financing matters, and Micro Focus's pending acquisition by a third party, OpenText Corporation. Micro Focus contends Kirkland began representing it as early as 2016 and most recently provided advice to Micro Focus in September 2022.

Christopher Swiss, Micro Focus's Treasurer, attests Kirkland did not advise Micro Focus that Kirkland would be involved in this action and that Micro Focus has not consented to Kirkland's representation of IBM. (Doc. #24 ¶ 5).

There are two relevant agreements, each of which Kirkland contends was carefully negotiated. First, Micro Focus's international affiliate, Micro Focus International PLC, and Kirkland executed an engagement letter, which was signed by Micro Focus International PLC's Executive Chairman on August 12, 2016 (Doc. #67-1 (the "Engagement Letter")). Approximately five years later, Kirkland and Micro Focus LLC executed a Master Retention Agreement (Doc. #68-1 (the "Retention Agreement")).[4] An Associate General Counsel for Micro Focus LLC digitally signed the Retention Agreement on November 18, 2021. (Doc. #68 ¶ 3).

The Engagement Letter provides, in pertinent part:

> We may be requested to act for other current or future clients on other matters where the interests of those other clients may be adverse to you. And we may currently be involved in such representations. You agree that we may represent such other clients in any existing or future matters that are directly adverse to you provided such matters are not substantially related to the legal services that we are rendering or will render to you in the Engagement; and provided further that none of William Sorabella, David Feirstein, Dean Shulman, Ian John or Chris Butler would be involved in any way with regard to such matters (an "Allowed Adverse Representation"). By way of example, such Allowed Adverse Representations might take the form of, among other contexts: litigation (including arbitration, mediation and other forms of dispute resolution); transactional work (including consensual and non-consensual M&A transactions); counselling (including advising direct adversaries and competitors); and restructuring (including bankruptcy, insolvency, financial distress, recapitalization, equity and debt workouts, and other transactions or adversarial adjudicative proceedings related to any of the foregoing and similar matters).
>
> You will not assert that our representation of you is a basis to disqualify us from

> an Allowed Adverse Representation or that our work for another client breaches any duties to you. Nor will you assert that a matter is substantially related, and thus not an Allowed Adverse Representation, simply because during our work we came to possess confidential information (recognizing, of course, that we will abide by our legal and ethical duties to protect your confidences).
>
> ***4** You have considered the pros and cons of waiving conflicts of interests and recognize the inherent uncertainty about the array of potential matters and clients we might take on, but nonetheless have decided, with the opportunity to consult other counsel, that to secure our services instead of another firm, it is in your interest to waive conflicts of interest as described above.

(Engagement Letter at 2–3).

The Retention Agreement provides, in pertinent part: "The terms of the [Engagement Letter] shall govern regarding conflicts of interest (including which entities are clients) and shall supersede this [Section 11: Conflicts of Interest] to the extent there is any conflict." (Retention Agreement ¶ 11.1). It further provides Kirkland "will endeavor to disclose in writing any conflicts to Micro Focus Counsel to the extent permissible under the applicable rules of professional conduct and the Firm's confidentiality obligations to their other clients, in each case, before providing services to Micro Focus or signing any Engagement Letter [with Micro Focus] and as soon as the conflict is known to" Kirkland. (Id. ¶ 11.3).

Both parties submit declarations describing the scope of the work Kirkland performed for Micro Focus, as summarized below.

In 2014, Kirkland prepared a legal due diligence memorandum for Micro Focus in connection with a potential acquisition, assessing licensing and other agreements the target company had with IBM, (Doc. #84 ¶ 7).

In 2017 and 2018, Kirkland provided Micro Focus with transactional advice related to Micro Focus's 2017 acquisition of part of Hewlett Packard Enterprises (the "HPE Acquisition"), including significant diligence relating to the intellectual property in the HPE Acquisition. (Doc. #84 ¶ 8). Aaron Lorber, a Kirkland attorney who worked on those matters for Micro Focus, states "[n]either the complaint nor the motion [to disqualify Kirkland] suggests that the intellectual property at issue in [the instant case] was acquired by Micro Focus during the HPE transaction." (Doc. #70 ¶ 6). After the HPE Acquisition, Mr. Lorber worked on certain debt and security interest grants and releases, but he "never learned anything about the" Micro Focus Enterprise Suite. (Id. ¶ 7).

In July 2017, Stirling Adams, former Vice President and Associate General Counsel, Intellectual Property, at Micro Focus, "provided a list of all Micro Focus patents" to Kirkland attorney Mary Liz Brady, and helped her "to update lists of Micro Focus's trademarks, patents, and copyrights." (Doc. #82 ¶ 5). He also worked with Ms. Brady, Mr. Lorber, and Osaro Aifuwa, an attorney in Kirkland's Houston office, to "update lists of Micro Focus IP for disclosures to Micro Focus's lenders" in 2020, 2021, and 2022. (Id. ¶ 6).

Kirkland also represented Micro Focus in two federal securities class actions filed in 2018. (See Docs. ##24-1–24-4). Matthew Solum, the lead Kirkland partner for those actions, attests the litigation "stemmed from Micro Focus's issuance of American Depository Receipts in September 2017," and did not involve the intellectual property at issue in this action. (Doc. #68 ¶¶ 5, 8). Mr. Swiss, Micro Focus's treasurer, contends Kirkland received confidential information about Micro Focus's finances and corporate structure in connection with the securities litigation. (Doc. #24 ¶¶ 8, 10).

In 2018 and 2020, Kirkland represented Micro Focus in a restructuring, during which Mr. Swiss contends Kirkland received "confidential information relating to debt-related contractual provisions such as buy-back clauses" and provided "advice relating to internal intellectual property cross-licenses," which involved "a review of Micro Focus's entire intellectual property structure and licenses." (Doc. #24 ¶ 11).

***5** In 2019, Dale M. Cendali, a Kirkland attorney who represents IBM in this action, and other Kirkland attorneys (including Mr. Lorber) advised Micro Focus regarding intellectual property in a product Micro Focus acquired in the HPE Acquisition. According to Carolyn Adler, Micro Focus's Vice President and Associate General Counsel for Commercial Legal, Micro Focus provided Kirkland with confidential information in connection with that product, including "the identity of its customer, the customer's business dealings, the customer's use of the product, and information about advice received from Micro Focus's UK lawyers." (Doc. #83 ¶ 8).

In March 2021, Kirkland represented Micro Focus in a patent infringement lawsuit in the Eastern District of Texas involving Micro Focus products that enable mobile application developers to test their applications (the "Wapp Tech Action"). Mr. Swiss attests this litigation involved Micro Focus's "confidential business and technical information." (Doc. #24 ¶ 9). Mr. Solum, a Kirkland attorney, attests Kirkland's representation concerned Micro Focus's potential appeal of an adverse jury verdict. (Doc. #68 ¶ 9). However, Mr. Solum contends the matter was settled before an appeal was taken, and that the intellectual property involved in the instant action was not involved in the Wapp Tech Action.

Importantly, Micro Focus sought Kirkland's legal advice in 2021 after IBM accused Micro Focus of patent infringement. According to Mr. Adams, Kirkland attorney John O'Quinn informed Micro Focus that Kirkland could not provide such advice to Micro Focus due to "contemplated actual adversity with IBM." (Doc. #82 ¶ 7). However, Mr. Adams claims Mr. O'Quinn offered to "think it through as a 'hypothetical issue' " and "advised [Micro Focus] on responding to IBM's infringement accusations." (Id.).[5] Conversely, Mr. O'Quinn attests he spoke briefly with Mr. Adams as a "professional courtesy," summarizing certain "widely known and straightforward" principles without "apply[ing] these general principles to any particular facts." (Doc. # 91-1 ¶ 4). Mr. O'Quinn further attests "the Micro Focus lawyers did not provide [him] with any confidential information about the nature of any dispute," and that he did not bill Micro Focus for the call. (Id.).

In late 2021, Micro Focus sought advice from Kirkland "concerning the implications on [Micro Focus's] ... external credit agreement of a proposed internal restructuring of ... intellectual property" and provided Kirkland with "a high level explanation regarding the ownership rights and licensing rights of its intellectual property." (Doc. #85 ¶ 5). Jonathan Vine, Micro Focus's Director of Tax Strategy, attests Kirkland was party to correspondence with Micro Focus's United Kingdom counsel that disclosed the value of software connected to an unspecified contract.

Kirkland also advised Micro Focus "on a $100 million debt buy-back deal" in summer 2022, during which Kirkland gained knowledge of Micro Focus's "financial structure, business strategies, and market position." (Doc. #24 ¶ 12). Mr. Swiss also attests that "[a]s late as October 24, 2022, ... Kirkland invoiced Micro Focus for work advising on Micro Focus's senior debt, which included work by Kirkland's debt and finance team to prepare an intellectual property security package, which again necessitated identifying all of Micro Focus's IP." (Doc. #84 ¶ 10).

Finally, Micro Focus contends Kirkland has been advising Micro Focus in connection with the OpenText acquisition. Mr. Swiss attests that, on August 26, 2022, the day after the OpenText deal was publicly announced, he participated in a conference call with Mr. Aifuwu and another Kirkland attorney, Christopher Butler, to seek advice on how certain provisions in the deal could impact Micro Focus's debt and financial structuring. (Doc. #24 ¶ 21). Mr. Butler, however, claims Mr. Swiss's description of Kirkland's work on OpenText is inaccurate. He attests Kirkland only responded to a discrete legal question during that call, that Kirkland does not serve as Micro Focus's transaction counsel for the OpenText transaction, and that his work has not involved details about particular Micro Focus products or intellectual property. (Doc. #69 ¶¶ 4, 5).

***6** Separately, Joshua L. Simmons, the lead Kirkland attorney for IBM in the instant action, attests IBM is "a long-time Kirkland client that regularly hires Kirkland to perform a wide variety of legal work, including ... intellectual property litigations." (Doc. #71 ¶ 2). He states he and Ms. Cendali "each did a minimal amount of work for Micro Focus years ago" but this work "concerned issues entirely unrelated to the matters in this litigation." (Id. ¶ 10). In fact, Mr. Simmons attests he does not remember the prior work for Micro Focus. (Id.) Further, Mr. Simmons contends that, "[b]ased on Micro Focus's description [of Kirkland's prior work for Micro Focus], I do not see a connection between the IBM Matter and the work Kirkland has done for Micro Focus." (Id. ¶ 9).

Mr. Lorber attests Kirkland has "erected an ethical screen to ensure there is no exchange of information between the attorneys who represent Micro Focus and the attorneys who represent IBM in" this action. (Doc. #70 ¶ 13). Mr. Simmons says he "confirmed with each of the lawyers working with me on the IBM matter ... that no information Kirkland received in its representation of Micro Focus was used for the IBM case." (Doc. #70 ¶ 11).

DISCUSSION

I. Motion to Dismiss

A. Rule 12(b)(6) Legal Standard

In deciding a Rule 12(b)(6) motion, the Court evaluates the sufficiency of the operative complaint under "the two-pronged approach" articulated by the Supreme Court in Ashcroft v. Iqbal, 556 U.S. 662, 679, 129 S.Ct. 1937, 173 L.Ed.2d 868 (2009). First, a plaintiff's legal conclusions and "[t]hreadbare recitals of the elements of a cause of action, supported by mere conclusory statements," are not entitled to the assumption of truth and are thus not sufficient to withstand a motion to dismiss. Id. at 678, 129 S.Ct. 1937; Hayden v. Paterson, 594 F.3d 150, 161 (2d Cir. 2010). Second, "[w]hen there are well-pleaded factual allegations, a court should assume their veracity and then determine whether they plausibly give rise to an entitlement to relief." Ashcroft v. Iqbal, 556 U.S. at 679, 129 S.Ct. 1937.

To survive a Rule 12(b)(6) motion, the allegations in the complaint must meet a standard of "plausibility." Ashcroft v. Iqbal, 556 U.S. at 678, 129 S.Ct. 1937; Bell Atl. Corp. v. Twombly, 550 U.S. 544, 557, 127 S.Ct. 1955, 167 L.Ed.2d 929 (2007). A claim is facially plausible "when the plaintiff pleads factual content that allows the court to draw the reasonable inference that the defendant is liable for the misconduct alleged." Ashcroft v. Iqbal, 556 U.S. at 678, 129 S.Ct. 1937. "The plausibility standard is not akin to a 'probability requirement,' but it asks for more than a sheer possibility that a defendant has acted unlawfully." Id. (quoting Bell Atl. Corp. v. Twombly, 550 U.S. at 556, 127 S.Ct. 1955).

B. Copyright Infringement Claim

Micro Focus argues IBM's copyright infringement claim must be dismissed because IBM fails to allege the WSBIND file is covered by the Registrations. [6]

Micro Focus also argues IBM failed to plead its entitlement to statutory damages and attorneys' fees because the amended complaint does not state when the allegedly infringing conduct commenced.

The Court disagrees.

1. Legal Standard

To state a prima facie case of copyright infringement, a plaintiff must plausibly allege "(1) ownership of a valid copyright, and (2) copying of constituent elements of the work that are original." Abdin v. CBS Broad. Inc., 971 F.3d 57, 66 (2d Cir. 2020).

With respect to the first element, a plaintiff must show he "either hold[s] a valid copyright registration or [has] applied and been refused a registration as a prerequisite to" suing a defendant for infringing a copyright. Gattoni v. Tibi, LLC, 254 F. Supp. 3d 659, 663 (S.D.N.Y. 2017) (collecting cases). "A certificate of copyright registration is prima facie evidence of ownership of a valid copyright, but the alleged infringer may rebut that presumption." Scholz Design, Inc. v. Sard Custom Homes, LLC, 691 F.3d 182, 186 (2d Cir. 2012);

see also 17 U.S.C. § 410(c) ("the certificate of a registration made before or within five years after first publication of the work shall constitute prima facie evidence of the validity of the copyright and of the facts stated in the certificate").

"To satisfy the second element, a plaintiff must demonstrate that: (1) the defendant has actually copied the plaintiff's work; and (2) the copying is illegal because a substantial similarity exists between the defendant's work and the protectible elements of plaintiff's work." Abdin v. CBS Broad. Inc., 971 F.3d at 66. "Rather than proving direct copying of a work, plaintiffs may also establish copying circumstantially by demonstrating that the Defendant had access to the copyrighted work at the time of the alleged infringement." Klauber Brothers, Inc. v. QVC, Inc., 2020 WL 7029088, at *2 (S.D.N.Y. Nov. 30, 2020). As to substantial similarity, "[t]he standard test ... is whether an ordinary observer, unless he set out to detect the disparities, would be disposed to overlook them, and regard the aesthetic appeal as the same." Abdin v. CBS Broad. Inc., 971 F.3d at 66. "However, the ordinary observer standard has been called into question in evaluating claims of infringement of computer programs, which often involve 'highly complicated and technical subject matter that are likely to be somewhat impenetrable to lay observers' ... and therefore may require expert testimony for substantial similarity to be evaluated accurately." Automated Mgmt. Sys., Inc. v. Rappaport Hertz Cherson Rosenthal P.C., 2022 WL 991755, at *7 (S.D.N.Y. Mar. 31, 2022) (quoting Computer Assocs. Int'l. Inc. v. Altai. Inc., 982 F.2d 693, 713 (2d Cir. 1992)).

2. Analysis

***7** Here, IBM pleads sufficient facts to state a copyright infringement claim.

First, IBM has adequately alleged it holds valid copyright registrations for nine versions of the CICS TS "computer program," including the WSBIND component of the program. (FAC ¶¶ 23–25, 27; see Registrations at 18). "It is well-established that computer programs are protected by copyright law as literary works." Torah Soft Ltd. v. Drosnin, 136 F. Supp. 2d 276, 284 (S.D.N.Y. 2001) (citing Computer Assocs. Int'l, Inc. v. Altai, Inc., 982 F.2d at 702); see also 17 U.S.C. § 101 (defining a "computer program" as "a set of statements or instructions to be used directly or indirectly in a computer in order to bring about a certain result"). "At some later stage of the case, Plaintiff may be required specifically to prove that they possess copyrights on the [software] in question. However, at the pleading stage, inclusion of copyright certificates along with an assertion that they pertain to the [software] in question, is sufficient." Klauber Brothers. Inc. v. QVC, Inc., 2020 WL 7029088, at *3. Thus, at this early stage, IBM has sufficiently demonstrated it owns valid copyrights in the allegedly infringed works.

Second, IBM has adequately alleged Micro Focus copied the CICS TS computer program. Micro Focus allegedly had access to CICS TS for several years as a member of the PartnerWorld program and the Developer Discount Program. Further, IBM alleges several specific similarities between the CICS TS WSBIND file and Micro Focus Enterprise

Suite's WSBIND file, including that "Micro Focus's WSBIND file uses IBM internal structures that are not available outside of IBM" and Micro Focus's utility processing, as reflected in a log file generated from its LS2WS utility, "exhibits the same configuration, program sequence, program elements, program optimizations, defects and missing features as the corresponding CICS® TS utility programs." (FAC ¶ 38). And according to IBM, "[t]here is no way such extensive similarity could arise through attempts to meet similar functional requirements, or as a result of coincidence." (Id.). IBM further alleges the similarities between the parties' respective WSBIND files show Micro Focus copied other, related components of the CICS TS program. These allegations satisfy IBM's burden to plead actual copying and substantial similarity. See Yeda Rsch. & Dev. Co. v. iCAD, Inc., 2019 WL 4562409, at *4 (S.D.N. Y Sept. 5, 2019) (plaintiff stated copyright infringement claim when the defendant allegedly had access to plaintiff's source code through a license agreement and defendant's software had "the same intended use, fundamental scientific technology, and characteristics as" other programs using plaintiff's source code).

Accordingly, IBM has stated a copyright infringement claim.

3. Statutory Damages and Attorneys' Fees

The Copyright Act permits a copyright owner "to recover, instead of actual damages and profits, an award of statutory damages for all infringements involved in the action, with respect to any one work." 17 U.S.C. § 504(c)(1). A copyright owner pursuing a claim for copyright infringement may also recover costs and reasonable attorneys' fees. 17 U.S.C. § 505. However, statutory damages and attorneys' fees are not available to a copyright owner if: (i) the infringement "commenced before the effective date of ... registration" for an unpublished work; or (ii) the infringement "commenced after first publication of the work and before the effective date of its registration, unless such registration is made within three months after the first publication of the work." 17 U.S.C. § 412.

***8** IBM attached to the amended complaint registration certificates for nine versions of CICS TS, with effective dates of registration ranging from February 18, 2004, to July 2, 2014. The certificates indicate eight of these versions were registered within three months of publication. (See Registrations at ECF 2–8; 12–26). Thus, IBM may be entitled to attorneys' fees and statutory damages for copyright infringement as to those eight works, regardless of when the infringement occurred.

However, the ninth work at issue here, CICS TS Version 3.2, was first published on June 20, 2007, and registered nearly six months later, on December 3, 2007. (See Registrations at ECF 9–10). Thus, if Micro Focus began infringing IBM's copyright in Version 3.2 before December 3, 2007, IBM would not be entitled to statutory damages or attorneys' fees for any infringement of that version.

IBM does not allege precisely when the infringement occurred, only that Micro Focus allegedly "had access to IBM software for nearly the last two decades" and "copied at least the IBM CICS® TS software sometime within this access period." (FAC ¶ 35). It is plausible, drawing all reasonable inferences in IBM's favor, that Micro Focus's alleged infringement of Version 3.2 began on or after December 3, 2007. Thus, it would be premature to preclude IBM from seeking statutory damages and attorneys' fees before discovery could reveal when the alleged infringement of Version 3.2 began.

Accordingly, IBM has sufficiently pleaded its entitlement to statutory damages and attorneys' fees.

C. Breach of Contract Claim

Micro Focus argues IBM's breach of contract claim is preempted by the Copyright Act.

The Court agrees.

1. Legal Standard

"Section 301 of the Copyright Act expressly preempts a state law claim only if (i) the work at issue 'comes within the subject matter of copyright' and (ii) the right being asserted is 'equivalent to any of the exclusive rights within the general scope of copyright.' " Forest Park Pictures v. Universal Television Network. Inc., 683 F.3d 424, 429 (2d Cir. 2012) (quoting 17 U.S.C. § 301(a)). The first requirement is referred to as the "subject matter requirement." Id. at 429–30. The second is referred to as the "equivalency requirement," id. at 430–31, or the "general scope requirement." ML Genius Holdings LLC v. Google LLC, 2022 WL 710744, at *3 (2d Cir. Mar. 10, 2022) (summary order), petition for cert. filed, (U.S. filed Aug. 5, 2022).[7]

"[T]he subject matter requirement looks at the work that would be affected by the plaintiff's exercise of a state-created right, and requires (as an essential element of preemption) that the work come within the subject matter of copyright as specified by sections 102 and 103" of the Copyright Act. ML Genius Holdings LLC v. Google LLC, 2022 WL 710744, at *2. "Section 301's preemption scheme ... includes all works of a type covered by sections 102 and 103, even if federal law does not afford protection" to the entire work at issue. Forest Park Pictures v. Universal Television Network, Inc., 683 F.3d at 430.

For example, the Second Circuit has held that President Ford's memoirs were within the subject matter of copyright, even though they "contained uncopyrightable facts." Forest Park Pictures v. Universal Television Network, Inc., 683 F.3d at 429. Accordingly, "[a] work need not consist entirely of copyrightable material in order to meet the subject matter requirement, but instead need only fit into one of the copyrightable categories in a broad sense." Briarpatch Ltd. v. Phoenix Pictures. Inc., 373 F.3d 296, 305 (2d Cir. 2004). In analyzing the subject matter requirement, courts "focus on the gravamen of the claim and the allegations supporting it." ML Genius Holdings LLC v. Google LLC, 2022 WL 710744, at *2.

***9** For purposes of the equivalency requirement, "a state law right is equivalent to one of the exclusive rights of copyright if it may be abridged by an act which, in and of itself, would infringe one of the exclusive rights" afforded by the Copyright Act. Universal Instruments Corp. v Micro Sys. Eng'g, Inc., 924 F.3d 32, 48 (2d. Cir. 2019). Those exclusive rights are the rights "to reproduce the work, prepare derivative works, distribute the work to the public, perform the work, display the work, and perform the work by means of digital transmission." New London Assocs., LLC v. Kinetic Social LLC, 384 F. Supp. 3d 392, 406 (S.D.N.Y. 2019) (quoting John Wiley & Sons, Inc. v. DRK Photo, 882 F.3d 394, 402 (2d Cir. 2018)); see also 17 U.S.C. § 106.

However, "if an extra element is required instead of or in addition to the acts of reproduction, performance, distribution or display, in order to constitute a state-created cause of action, there is no preemption." Universal Instruments Corp. v Micro Sys. Eng'g, Inc., 924 F.3d at 48. To determine if the state law claim involves an extra element, courts examine "what the plaintiff seeks to protect, the theories in which the matter is thought to be protected and the rights sought to be enforced." Id.

The Second Circuit "take[s] a restrictive view of what extra elements transform an otherwise equivalent claim into one that is qualitatively different from a copyright infringement claim." Briarpatch Ltd. v. Phoenix Pictures, Inc., 373 F.3d at 306. "[I]f unauthorized publication is the gravamen of the plaintiffs' claim, then it is clear that the right they seek to protect is coextensive with an exclusive right already safeguarded by the Act—namely, control over reproduction and derivative use of copyrighted material." ML Genius Holdings LLC v. Google LLC, 2022 WL 710744, at *3.

For example, "[e]lements such as awareness or intent do not save a claim from preemption because they alter the action's scope but not its nature." ML Genius Holdings LLC v. Google LLC, 2022 WL 710744, at *3. But state law claims involving a breach of a fiduciary duty or breach of a contractual promise to pay for use of a work are not preempted. See id.; see also Universal Instruments Corp. v. Micro Sys. Eng'g, Inc., 924 F.3d at 49. In addition, the Second Circuit recently rejected "a per se rule that all breach of contract claims are exempt from preemption," instead instructing courts to evaluate "holistic[ally]" the nature of the rights sought to be enforced by the breach of contract claim when applying the equivalency requirement. ML Genius Holdings LLC v. Google LLC, 2022 WL 710744, at *4.

2. Analysis

Here, IBM's breach of contract claim is preempted by the Copyright Act.

First, the breach of contract claim meets the subject matter requirement because IBM alleges Micro Focus breached the parties' agreements by exceeding its license to use IBM's software. In particular, Micro Focus allegedly reverse engineered and "cop[ied] IBM's copyrighted software, create[ed] a derivative work, and then promot[ed] and profit[ed] from that pirated software." (FAC ¶ 46; see also id. ¶¶ 4, 38). As noted above, software is protected as a literary work under the Copyright Act. Therefore, the works at issue for the breach of contract claim—several versions of the CICS TS program—come within the subject matter of copyright.

IBM argues the subject matter requirement is not satisfied because Micro Focus allegedly breached a promise "not to undermine IBM's mainframe systems," which include non-copyrightable hardware. (Doc. #78 ("MTD Opp.") at 7). However, IBM does not claim Micro Focus reverse-engineered, copied, or reproduced IBM's hardware. The work that is the subject matter of IBM's claims is software, which falls squarely within "the broad ambit of the subject matter categories" of copyright. Briarpatch Ltd. v. Phoenix Pictures, Inc., 373 F.3d at 306; see also ML Genius Holdings LLC v. Google LLC, 2022 WL 710744, at *3 (breach of contract claim preempted when "the subject matter of [plaintiff's] claims is the content that appears on [plaintiff's] website ... because those are the works against which it claims rights"). Therefore, the subject matter requirement for preemption is met.

***10** Second, the rights IBM seeks to protect through its breach of contract claim are equivalent to exclusive rights protected by the Copyright Act. The gravamen of each contract provision IBM alleges Micro Focus breached—to "not us[e] any of the elements of the Program or related licensed material separately from the Program," not to "reverse assembl[e], reverse compil[e], translat[e], or reverse engineer[ ] the Program," "not to use [Micro Focus's] preferred access and the IBM software licensed to them ... to undermine IBM's mainframe systems, and instead use their access solely to develop or enhance the software" (FAC ¶¶ 63–65)—is to prohibit Micro Focus from infringing IBM's exclusive rights to copy and distribute its software. Thus, the breach of contract claim "is simply a restatement of [IBM's] claims under the Copyright Act for unlawful copying and distribution." New London Assocs., LLC v. Kinetic Soc. LLC, 384 F. Supp. 3d at 411 (conversion claims preempted when defendants allegedly "converted [plaintiff's] computer hardware, software, and intellectual property" for defendants' own use). In short, IBM's breach of contract claim is not "qualitatively different from a copyright infringement claim," In re Jackson, 972 F.3d 25, 53 (2d Cir. 2020), and the equivalency requirement for preemption is met.

Accordingly, IBM's breach of contract claim is preempted by the Copyright Act and must be dismissed. ML Genius Holdings LLC v. Google LLC, 2022 WL 710744, at *1 ("Once a district court determines that a state law claim has been completely preempted by the Copyright Act ... the court must then dismiss the claim for failing to state a cause of action.").

II. Motion to Disqualify Counsel

A. Legal Standard [8]

"The court has the inherent authority to supervise the professional conduct of attorneys appearing before it, including the power to disqualify an attorney from a representation." In re Fisker Auto. Holdings. Inc. S'holder Litig., 2018 WL 3991470, at *2 (D. Del. Aug. 9, 2018).

***11** Despite this inherent power, motions to disqualify counsel "are generally disfavored." Bos. Sci. Corp. v. Johnson & Johnson, Inc., 647 F. Supp. 2d 369, 373 (D. Del. 2009). "[D]isqualification is a severe sanction," and "is never automatic," even if a court determines an attorney's conduct violated an applicable disciplinary rule. Elonex LP. Holdings, Ltd. v. Apple Comput., Inc., 142 F. Supp. 2d 579, 583 (D. Del. 2001); see also In re Boy Scouts of Am., 35 F.4th 149, 160 (3d Cir. 2022) (collecting cases when district courts in the Third Circuit "den[ied] disqualification even when finding or assuming conflicts under the professional conduct rules," including violations of the applicable concurrent conflict rule). Thus, "[e]ven when an ethical conflict exists (or is assumed to exist), a court may conclude based on the facts before it that disqualification is not an appropriate remedy." Id.

Accordingly, in considering a motion to disqualify an attorney, "a district court has wide discretion," and "[t]he party seeking disqualification must clearly show that continued representation would be impermissible." Elonex I.P. Holdings, Ltd. v. Apple Comput., Inc., 142 F. Supp. 2d at 581, 583. "The court should disqualify an attorney only when it determines, on the facts of the particular case, that disqualification is an appropriate means of enforcing the applicable disciplinary rule." Bos. Sci. Corp. v. Johnson & Johnson, Inc., 647 F. Supp. 2d at 373 (quoting United States v. Miller, 624 F.2d 1198, 1201 (3d Cir. 1980)). Moreover, the court "should consider the ends that the disciplinary rule is designed to serve," which, in the case of an alleged concurrent conflict of interest, are "to prevent divided loyalties and to protect against the disclosure of client confidences." End of Road Tr. v. Terex Corp., 2002 WL 242464, at **2–3 (D. Del. Feb. 20, 2002).

B. Relevant Disciplinary Rule

Under Delaware law, "[a]ttorney conduct is governed by the ethical standards of the court before which the attorney appears." In re Fisker Auto. Holdings, Inc. S'holder Litig., 2018 WL 3991470, at *2. Likewise, Rule 8.5(b)(1) of the New York Rules of Professional Conduct provides the disciplinary rules "to be applied" for "conduct in connection with a proceeding in a court ... shall be the rules of the jurisdiction in which the court sits." Accordingly, the Court refers to the New York Rules of Professional Conduct (the "New York Rules").

New York Rule 1.7(a) provides: "Except as provided in paragraph (b), a lawyer shall not represent a client if a reasonable lawyer would conclude that ... the representation will involve the lawyer in representing differing interests." N.Y. Rules Prof'l Conduct 1.7(a). New York Rule 1.7(b) provides:

> Notwithstanding the existence of a concurrent conflict of interest under paragraph (a), a lawyer may represent a client if: (1) the lawyer reasonably believes that the lawyer will be able to provide competent and diligent representation to each affected client; (2) the representation is not prohibited by law; (3) the representation does not involve the assertion of a claim by one client against another client represented by the same lawyer in the same litigation or other proceeding

> before a tribunal; and (4) each affected client gives informed consent, confirmed in writing.

N.Y. Rules Prof'l Conduct 1.7(b).

Comment 22 to Rule 1.7 discusses advance waivers of future conflicts. It provides "[t]he effectiveness of advance waivers is generally determined by the extent to which the client reasonably understands the material risks that the waiver entails." N.Y. Rules Prof'l Conduct 1.7 cmt. 22. "The adequacy of the disclosure necessary' to obtain valid advance consent to conflicts may also depend on the sophistication and experience of the client." Id. "[I]f the client is an experienced user of the legal services involved and is reasonably informed regarding the risk that a conflict may arise, an advance waiver is more likely to be effective, particularly if, for example, the client is independently represented or advised by in-house or other counsel in giving consent." Id. "Thus, in some circumstances, even general and open-ended waivers by experienced users of legal services may be effective." Id.

C. Analysis

***12** Here, even assuming Kirkland's representation of Micro Focus and IBM constitutes a concurrent conflict, it is a consentable conflict to which Micro Focus, a sophisticated user of legal services, provided advance, informed consent in the Retention Agreement, and does not raise concerns about divided loyalty between clients or the breach of client confidences.

First, Kirkland has demonstrated it reasonably believes it can provide competent and diligent representation to each affected client because the services it provides to each client are largely distinct in scope and subject matter and it has taken measures to protect confidential information from being shared within the firm. See N.Y. Rules Prof'l Conduct 1.7(b)(1).

Kirkland attorney Mr. Simmons attests IBM is a "long-time Kirkland client that regularly hires Kirkland to perform a wide variety of legal work." (Doc. #71 ¶ 2). Conversely, Kirkland attorney Mr. Lorber attests "Micro Focus has for some time not engaged Kirkland for new projects and Kirkland's recent work for Micro Focus involves the continuation of legacy projects." (Doc. #70 ¶ 9). This is consistent with the way both parties describe the work Kirkland has performed for Micro Focus, which during the past two years, has focused primarily on debt or financing-related advice or counseling on litigations unrelated to the Micro Focus Enterprise Suite. Although some of Kirkland's advice to Micro Focus involved Micro Focus's intellectual property, the record does not reflect this advice involved the Micro Focus Enterprise Suite or Micro Focus's participation in IBM's PartnerWorld or Developer Discount programs. In fact, in 2021, when Micro Focus sought advice from a Kirkland attorney, who does not represent IBM in this matter, regarding a potential infringement action by IBM, Micro Focus was advised Kirkland represents IBM and such action would involve "actual adversity" with Micro Focus. (Doc. #82 ¶ 7). Therefore, here, "the risks present in most concurrent representation—that is, a risk of divided loyalty to each client or an imposition on the independent judgment on [Kirkland's] part, are not great in this case." In re Fisker Auto. Holdings, Inc. S'holder Litig., 2018 WL 3991470, at *4; see Elonex I.P. Holdings. Ltd. v. Apple Comput., Inc., 142 F. Supp. 2d at 582 (denying disqualification when the lawyer "could reasonably serve both client's interests" and "even assuming there is an impermissible conflict of interest," the objecting client waived it through a prospective waiver).

Moreover, Kirkland has erected an ethical screen to avoid exchanges of information between attorneys working for each client, and Mr. Simmons attests no information received during Kirkland's representation of Micro Focus was used in this case. (Doc. #71 ¶ 11); see In re Boy Scouts of Am., 630 B.R. 122, 137 (Bankr.D.Del. 2021) (affirming bankruptcy court's decision to deny disqualification when law firm erected an ethical screen because "the screen provided further assurance that confidential information regarding [the objecting client's] matters had not been and, importantly, would not be shared with" other lawyers in the firm). Accordingly, "the potential for breached confidences is minimal." End of Road Tr. v. Terex Corp., 2002 WL 242464, at **2, 3 (rejecting "vague and unsupported" allegations that an attorney's ethical screen would be ineffective). Thus, Kirkland has established it reasonably believes it can provide competent representation to Micro Focus and IBM.

***13** Second, Micro Focus agreed in writing that Kirkland may represent, or may already represent, parties in litigation directly adverse to Micro Focus, so long as such matters are not substantially related to Kirkland's representation of Micro Focus. "[T]he commonly acknowledged intent of such prospective waivers in the context of the legal representation of ... intellectual property matters ..., is to enable competitor clients to retain the services of a limited, select group of counsel with particular qualifications, expertise, and valuable accoutrements, to obtain the perceived advantage of such counsel's representation as to discrete (typically unrelated) products." Mylan v. Kirkland & Ellis LLP, 2015 WL 12733414, at *19 (W.D. Pa. June 9, 2015) (recommending Kirkland's disqualification when "the conflicting representation [was] not restricted to an unrelated discrete product but, much to the contrary, encompasse[d] a hostile, opposed acquisition of" another Kirkland client, including "the very products as to which K&E ha[d] received confidential and proprietary information" and the waiver provision in the complaining client's retainer agreement "ma[de] no mention of acquisitions").

Here, the language of the Retention Agreement is adequate to inform Micro Focus of the material risks that the waiver entailed, including that, by agreeing to that provision, Micro Focus was consenting to Kirkland representing a client directly adverse to Micro Focus in a litigation. See In re Fisker Auto. Holdings, Inc. S'holder Litig., 2018 WL 3991470, at *3 (denying disqualification when retainer agreement provided the firm "can continue to represent, or can in the future represent, existing or new clients in any matter, including litigation or other adversarial proceedings ... so long as the Other Matters are not substantially related to our work for you on the [specific matter], even if those other clients' interests are adverse to you in the Other Matters").

Moreover, the matters in which Kirkland represents or represented Micro Focus—in sum, diligence on a target Micro Focus potentially wanted to acquire in 2014; transactional advice in connection with the HPE Acquisition, including advice on HP intellectual property unrelated to the Micro Focus Enterprise Suites; securities class actions arising from the issuance of American Depository Receipts; debt-related buyback work in 2018 and 2020; a patent infringement action regarding separate intellectual property; and debt and financial structuring-related advice, including in connection with the OpenText deal—are not substantially related to IBM's claims that Micro Focus copied the CICS TS software because none of the matters in which Kirkland advised Micro Focus focused on, or perhaps even touched on, creation or distribution of the Micro Focus Enterprise Suite software. Therefore, there is a low possibility that "confidential information that might have been gained in the first representation may be used to the detriment of [Micro Focus] in" this lawsuit, Talecris Biotherapeutics, Inc. v. Baxter Int'l, Inc., 491 F. Supp. 2d 510, 515 (D. Del. 2007).

Further, Micro Focus is an international technology company and a sophisticated user of legal services, and the Retention Agreement —which incorporates by reference the advance waiver in the Engagement Letter—was signed by an in-house attorney of Micro Focus. See In re Fisker Auto. Holdings. Inc. S'holder Litig., 2018 WL 3991470, at *3 ("sophisticated users of legal services are held to a higher standard when giving consent regarding future conflicts unrelated to the subject of the representation").

For all these reasons, the Court concludes Micro Focus gave advance, informed consent, in writing, to the potential for this concurrent conflict. [9]

Accordingly, the motion to disqualify Kirkland as IBM's counsel is denied. [10]

CONCLUSION

***14** The motion to dismiss is GRANTED IN PART and DENIED IN PART.

IBM's copyright infringement claim shall proceed.

IBM's breach of contract claim is dismissed.

By June 13, 2023, Micro Focus shall file an answer.

The motion to disqualify IBM's counsel is DENIED.

Given that the Court has relied upon material that remains under seal, the Court is releasing this Opinion and Order under seal, pending review by the parties. In the unlikely event the parties believe that certain material in this Opinion and Order should be redacted, counsel should jointly submit a proposed redacted version by no later than June 9, 2023. After reviewing the parties' submission, the Court will subsequently issue a publicly available version of its Opinion and Order.

All Citations

--- F.Supp.3d ----, 2023 WL 3902955

Footnotes

1 Kirkland is represented by separate counsel, Williams & Connolly LLP, for purposes of the motion to disqualify.

2 One of the Registrations registers a version of the "IBM CICS Transaction Server." (Registrations at ECF 24).

3 The Court understands "EBCDIC" to mean "extended binary-coded decimal interchange code," which is a "data-encoding system, developed by IBM and used mostly on its computers. that uses a unique eight-bit binary code for each number and alphabetic character as well as punctuation marks and accented letters and nonalphabetic characters." EBCDIC, Britannica.com, https://www.britannica.com/topic/EBCDIC (last visited May 30, 2023).

4 The parties do not dispute that the Retention Agreement is binding on defendant Micro Focus (US), Inc.

5 IBM filed, under seal, an unredacted copy of the relevant email correspondence. (Doc. #89-2).

6 Micro Focus also claims IBM cannot state a copyright infringement claim because IBM failed to plead when the allegedly infringing conduct occurred. The Court disagrees; IBM's allegations of a continuing infringement (FAC ¶ 35) are sufficient, at this stage, to avoid dismissal. See, e.g., Blagman v. Apple Inc., 2013 WL 2181709, at *3 (S.D.N.Y. May 20, 2013) ("[C]opyright claims are not subject to particularity in pleading.").

7 On December 12, 2022, the Supreme Court invited the solicitor general to file a brief expressing the views of the United States in ML Genius Holdings LLC v. Google LLC, ––– U.S. ––––, 143 S. Ct. 522, 214 L.Ed.2d 299 (2022) (mem.).

8 The Retention Agreement provides it "will be governed by and construed in accordance with the laws of Delaware without regard to its conflict of law principles." (Retention Agreement ¶ 15.4). Because Micro Focus's motion to disqualify Kirkland arises from Kirkland's representation of Micro Focus pursuant to the Retention Agreement, and resolution of the motion requires interpreting the Retention Agreement, Delaware law applies to the instant motion. See Yak v.

BiggerPockets, L.L.C., 2022 WL 67740, at *3 (2d Cir. Jan. 7, 2022) (choice-of-law clauses that indicate "the contract will be governed by a certain body of law .... are not broad enough to reach claims that are only incidental to the contractual relationship" but do reach claims when "resolution ... relates to interpretation of the contract" or "the right asserted ... arise[s] from the contract"); see also Fin. One. Pub. Co. Ltd. v. Lehman Bros. Special Fin., Inc., 414 F.3d 325, 333 (2d Cir. 2005) ("New York courts decide the scope of [choice-of-law] clauses under New York law.").

Nevertheless, even if New York law applied, the Court would deny the motion to disqualify because, as Micro Focus notes, "there is no meaningful difference between New York and Delaware law on these issues." (Doc. #80 at 2 n.2); see Bd. of Educ. of N.Y. v. Nyquist, 590 F.2d 1241, 1246 (2d Cir. 1979) (disqualification only warranted under New York law if an "attorney's conduct tends to taint the underlying trial"); see also GSI Com. Sols., Inc. v. BabyCenter, L.L.C., 618 F.3d 204, 209 (2d Cir. 2010) ("Because concurrent representation is 'prima facie improper,' it is incumbent upon the attorney to show, at the very least, that there will be no actual or apparent conflict in loyalties or diminution in the vigor of his representation."); Goodwine v. City of New York, 2016 WL 379761, at *2 (S. DN.Y. Jan. 29, 2016) (In determining whether disqualification is appropriate, "a court may consult the disciplinary rules of the American Bar Association and New York State, but those rules are not binding authority," and "not every violation of a disciplinary rule will necessarily lead to disqualification."). The Court also notes "Kirkland has no objection to this Court resolving the [motion to disqualify] in this forum" pursuant to Delaware law. (Doc. #66 at 5 n.2).

9 Micro Focus does not argue Kirkland's representation of IBM is prohibited by law and this action does not involve Kirkland representing both IBM and Micro Focus in the same litigation. See N.Y. Rules Prof'l Conduct 1.7(b)(2), (3).

10 Both parties submitted declarations and opinions of legal ethics experts in support of their motion papers. The Court did not consider any of these submissions in rendering this decision. See Bernstein v. Bernstein Litowitz Berger & Grossmann LLP, 814 F.3d 132, 144 (2d Cir. 2016) ("the court was not compelled to accept a legal-ethics expert's declaration regarding whether an ethical duty had been triggered, because the question was for the court to decide" (quoting Amnesty Int'l USA v. Clapper, 638 F.3d 118, 128 n.12 (2d Cir. 2011), rev'd on other grounds, 568 U.S. 398, 133 S.Ct. 1138, 185 L.Ed.2d 264 (2013))).

End of Document

Published in ***Law Practice***
(January/February 2019) by the
American Bar Association.

ETHICS

Use Sharp Tools Carefully

By Lucian T. Pera

As with every profession or trade, we lawyers use all manner of tools.

One tool we all have in our toolboxes is the advance waiver of conflicts of interest—a current waiver of a conflict of interest that does not currently exist but may arise in the future.

In the right situation an advance waiver can serve well the interest of both lawyer and client. It may allow the lawyer to take on a new client or matter he or she might otherwise need to decline. It might allow the lawyer to protect his or her future ability to continue to represent, or remain available to represent, an existing client in future matters. And it may also allow that new client access to his or her lawyer of choice, or protect the free choice of counsel of the lawyer's existing or expected client.

But a recent California Supreme Court decision reminds us that many tools have to be used carefully, and for the right purpose, or the user may get hurt.

A BRIEF REFRESHER ON ADVANCE WAIVERS

The first—and pretty much only—principle governing advance waivers of conflicts of interest is simple. A client can generally waive a conflict of interest that may arise in the future if that particular conflict of interest to be waived can ethically be waived and if the lawyer and client together have in their minds the conflict of interest that actually does later arise. Yes, all they have to do is predict the future and get it right. And detail does matter.

Advance waivers are particularly effective in certain areas of law. They work well in niche practice areas, for example, where many clients need help only a few practitioners can offer or areas of law with repeat players or with clients with complex and overlapping relationships. Think tax law, entertainment law and health-care law.

The most common example may be the business lawyer being hired by a bank to close its loans who asks the bank to allow her to also represent borrowers negotiating loans with the bank. That common conversation often leads to an advance waiver, limited only by the bank's insistence that its new lawyer not sue the bank. All of this belies the notion that advance waivers are just a tool for BigLaw. That's just not true.

Now, back to California.

THE FACTS OF *SHEPPARD MULLIN*

In *Sheppard, Mullin, Richter & Hampton, LLP v. J-M Mfg. Co.*, 2018 WL 4137013 (Cal. Aug. 30, 2018), the court found a conflict of interest despite a firm's efforts to rely on an advance waiver. Worse yet, all of that law firm's fees for more than 10,000 hours of work on a complex *qui tam* case are now at risk. The firm billed more than $3 million and is still owed more than $1 million, and every dollar is still in play. Why?

Because the court found that the firm could not rely on what the firm thought was a valid conflict waiver, primarily because in obtaining a waiver from a second, later client—a client who was directly adverse to the first in an unrelated matter the firm was handling for the second client—the firm disclosed nothing about its representation of the first client.

PVC pipe manufacturer J-M Manufacturing hired the firm to defend a $1 billion whistleblower or *qui tam* suit. When J-M approached the firm, the firm's conflict check showed it had done unrelated employment law work for a governmental entity, South Tahoe Public Utility District. South Tahoe was one of the parties adverse to J-M in the qui tam suit, represented by other counsel. The firm had done nothing for South Tahoe on the *qui tam* suit and had no confidential information from South Tahoe about it.

Years before, South Tahoe had given the firm a broad advance conflict waiver as part of its original engagement agreement for "general employment matters," and the firm gave South Tahoe occasional employment law advice.

At the moment J-M approached the firm, the last work the firm had done for South Tahoe was five months before; South Tahoe called again with an issue several weeks later. Over the next year the firm did about 12 hours of employment law work for South Tahoe.

South Tahoe's advance waiver—similar to broad general waivers found in many retainer agreements—allowed the firm to represent "another client in a matter in which we do not represent [South Tahoe], even if the interests of the other client are adverse to [South Tahoe]," as long as "the other matter is not substantially related to our representation of [South Tahoe]." Significantly, the waiver did mention "litigation," though without mention of any case or type of case.

After reviewing this, the law firm agreed to represent J-M in the *qui tam* lawsuit. The firm decided that South Tahoe was a former client or, if not, they'd given an advance waiver.

J-M then signed an engagement agreement with the firm, including an advance waiver just like the one South Tahoe signed. But the firm didn't tell J-M anything about South Tahoe or the firm's representation of South Tahoe. And the firm didn't tell South Tahoe about taking on J-M's representation or seek South Tahoe's consent. So each client was ignorant of the firm's representation of the other.

The firm then did more than 10,000 hours of work for J-M on the *qui tam* lawsuit and ran up fees of more than $3 million—at least until South Tahoe became aware of the firm's representation of J-M.

Spirited discussions with the firm ensued; South Tahoe demanded the firm withdraw from representing J-M; the firm declined, citing the advance waiver; South Tahoe moved to disqualify the firm from the *qui tam* suit; the firm was disqualified; and then the firm sued J-M for its unpaid fees. As often happens, J-M not only opposed that claim, but counterclaimed, here claiming the conflict meant J-M owed no fee at all.

THE CALIFORNIA COURT'S DECISION

In an August 2018 decision, the California Supreme Court found the firm had had a conflict. South Tahoe was not a former client, as the firm argued, but a current client. (The firm had done nothing at all to disengage from South Tahoe—no file- or matter-closing letter or email, for example.) More importantly, the court harshly criticized the firm for not disclosing to J-M its representation of South Tahoe when it attempted to get informed consent from J-M to its conflict waiver. That failure meant that J-M's consent was not informed or effective.

That led the court to void the retainer agreement entirely, including an arbitration clause.

The majority did pass up the opportunity (seized on by two dissenting justices) to hold that the firm was, based on the conflict of interest, entitled to no fee at all. Instead, they remanded the case for a trial court to determine whether the equities weighed in favor or against the firm receiving something for its work in *quantum meruit*, and how much, leaving open even the possibility of the firm having to refund some fees. Still, where the client did not even allege injury from the conflict, the court's opinion suggests the firm has a good shot at some compensation.

TAKEAWAYS FROM THE CASE

Reading the *Sheppard Mullin* decision offers several lessons.

First, every advance waiver—even if brilliantly drafted, well presented to the client and understood by the client—must be freshly and fully evaluated in light of the facts that actually present themselves when a lawyer wants to rely on it. In retrospect, the law firm here should have made different and better disclosure to its second client—J-M—in seeking its waiver. That kind of informed consent would have supported waiver of a current conflict or an advance waiver.

Second, we all need to be clear and intentional about when our representations begin and end. Experience teaches that close questions about whether an attorney-client relationship exists or continues often get called for the client. Had the law firm here written a simple matter—or file-closing email to its first client—South Tahoe—you might not be reading this. Indeed, California case law even offers a concept of "framework" engagement agreements for on-again, off-again clients—but the firm didn't execute on this concept as well as the court demanded.

Third, informed consent has real meaning. It requires thorough disclosure of all material facts. Lawyer prudence may mandate even fuller disclosure. If the law firm had told its second client—J-M—that it occasionally did employment work for the first client—South Tahoe—even if the firm considered it "merely" a former client at that moment, the court probably would have recognized an advance (or current) waiver as effective.

Finally, while an advance waiver is a tool every lawyer should know, most lawyers would be wise to study up a bit on its use before asking a client to sign one. More importantly, if and when the time comes to dust it off and rely on it in taking on work for another client, get help. Your local ethics nerd is never more than a phone call away.

Lucian T. Pera is a partner in the Memphis, Tennessee, office of Adams and Reese LLP. He counsels lawyers, law firms, clients and those who do business with lawyers and law firms on ethics and professional responsibility issues. He's the current president of the Tennessee Bar Association and a past ABA treasurer. Lucian.Pera@arlaw.com.