NOTE: This order is nonprecedential.

United States Court of Appeals for the Federal Circuit

TRIMBLE INC., INNOVATIVE SOFTWARE ENGINEERING, LLC,
Plaintiffs-Appellants

v.

PERDIEMCO LLC,
Defendant-Cross-Appellant

2019-2164, 2020-1157

Appeals from the United States District Court for the Northern District of California in No. 4:19-cv-00526-JSW, Judge Jeffrey S. White.

ON MOTION

Before REYNA, BRYSON, and TARANTO, *Circuit Judges*.

TARANTO, *Circuit Judge*.

O R D E R

Appellants Trimble Inc. and its subsidiary Innovative Software Engineering, LLC move to disqualify Davidson Berquist Jackson & Gowdey, LLP as counsel for PerDiemCo LLC. PerDiem opposes. Appellants reply.

BACKGROUND

Appellants brought this action in the United States District Court for the Northern District of California, seeking a declaration that products of Trimble Inc. and its subsidiaries do not infringe numerous patents owned by PerDiem. Trimble Transportation Enterprise Solutions, Inc. is a wholly owned subsidiary of appellant Trimble Inc. Although Trimble Transportation is not a named party, the complaint seeks a declaration that products of Trimble Inc. and its subsidiaries do not infringe.

In the district court, PerDiem was represented by attorneys from the law firm of Finnegan, Henderson, Farabow, Garrett & Dunner LLP. On appeal, two attorneys from the Davidson firm entered appearances on behalf of PerDiem. Soon thereafter, appellants moved to disqualify the Davidson firm. Appellants note that the Davidson firm executed an engagement letter with Trimble Transportation in 2016 and continued to perform intellectual property legal work until the motion was filed.

Appellants argue that Trimble Inc. and Trimble Transportation should be considered one client here. In support, appellants submit a declaration by Trimble Inc.'s Chief Intellectual Property Counsel, Aaron Brodsky. He states, among other things, that while he is formally a Trimble Inc. employee, he, like most other members of Trimble Inc.'s legal department, has responsibilities for Trimble Inc.'s subsidiaries, including supervising and managing outside counsel on all intellectual property matters and litigation.

Mr. Brodsky states that since mid-2018 he has "been the only Trimble patent attorney that Davidson . . . works with" and that he has "provided Davidson . . . substantive direction on patent prosecution," adding that "Davidson . . . has looked to me to make strategic decisions." Mr. Brodsky also states that he has directly managed the present litigation on behalf of appellants. He states that after

becoming aware of the Davidson firm's appearance he asked the firm to withdraw, but it refused.

Mr. Brodsky further states that after appellants filed this motion, the Davidson firm, when needing instruction on patent prosecution work for Trimble Transportation, began omitting Mr. Brodsky as an addressee when requesting instructions, instead sending requests to Trimble Transportation personnel only, even though those personnel are not patent attorneys and had not previously been points of contact. Mr. Brodsky additionally states that after he responded to a request for such instructions addressed to Trimble Transportation, counsel from the Davidson firm removed him from further communications. After the present motion was filed, the Davidson firm withdrew from any further representation of Trimble Inc. and its subsidiaries.

DISCUSSION

I

We follow regional circuit law on disqualification motions. *See Dr. Falk Pharma GmbH v. GeneriCo, LLC*, 916 F.3d 975, 981 (Fed. Cir. 2019). The Ninth Circuit generally follows applicable ethical rules and governing precedent from the State in which the case arose, here California. *See Reading Int'l, Inc. v. Malulani Grp., Ltd.*, 814 F.3d 1046, 1049 (9th Cir. 2016) (applying state law to motion to disqualify counsel before Ninth Circuit); *In re Cty. of L.A.*, 223 F.3d 990, 995 (9th Cir. 2000).

California law requires that the nature of the conflict here be judged at the outset of the filing of this motion, without regard to the Davidson firm's subsequent termination of its engagement with Trimble Transportation. *See Flatt v. Superior Court*, 885 P.2d 950, 957 (Cal. 1994) ("So inviolate is the duty of loyalty to an existing client that not even by withdrawing from the relationship can an attorney evade it."); *Truck Ins. Exch. v. Fireman's Fund Ins. Co.*, 8

Cal. Rptr. 2d 228, 232 (Cal. Ct. App. 1992) (holding that concurrent representation conflicts cannot be "avoided by unilaterally converting a present client into a former client prior to hearing on the motion for disqualification"); *see also Unified Sewerage Agency of Washington County, Or. v. Jelco Inc.*, 646 F.2d 1339, 1345 n.4 (9th Cir. 1981) (discussing Oregon law). The ethical rules on concurrent representation therefore apply to this motion.

The California Rules of Professional Conduct provide, in relevant part, that "[a] lawyer shall not, without informed written consent from each client . . ., represent a client if the representation is directly adverse to another client in the same or a separate matter." Cal. R. of Prof'l Conduct 1.7(a). That language, though new, reflects a standard that, as relevant here, is of long standing. *See Flatt*, 885 P.2d at 956–58; *Smiley v. Dir., Office of Workers Comp. Programs*, 984 F.2d 278, 282 (9th Cir. 1993).

Applying that standard, we ask whether Trimble Inc. is a "client" of the Davidson firm based on its corporate affiliation with the Davidson firm's formal corporate client, Trimble Transportation. In answering that question, we rely on decisions under the California Rules and the Model Rules of Professional Conduct calling for an inquiry into whether the corporate affiliates are sufficiently intertwined that the representation adverse to one would threaten harm to the other, diminishing the formal corporate client's (here, Trimble Transportation's) confidence and trust in counsel. *See, e.g., Morrison Knudsen Corp. v. Hancock, Rothert & Bunshoft, LLP*, 81 Cal. Rptr. 2d 425, 436 (Cal. Ct. App. 1999) (recognizing that parent and subsidiary corporations may be treated as one when there is a "unity of interests" between the two corporations); *Dr. Falk*, 916 F.3d at 984; *GSI Commerce Sols., Inc. v. BabyCenter, L.L.C.*, 618 F.3d 204, 210 (2d Cir. 2010). We conclude that this case comes under that principle, so that Trimble Inc. should be treated as the Davidson firm's client, creating a conflict.

A

The Ninth Circuit has not yet addressed what factors govern whether two affiliates should be treated as one client for purposes of assessing a concurrent representation conflict. But federal district courts in the Ninth Circuit applying California law have taken a common-sense approach to the issue, looking primarily at the degree of financial interdependence between the affiliates and the degree of overlap between the operations and management of the affiliated corporate entities. *See, e.g., Certain Underwriters at Lloyd's, London v. Argonaut Ins. Co.*, 264 F. Supp. 2d 914, 919, 921–24 (N.D. Cal. 2003); *Teradyne, Inc. v. Hewlett-Packard Co.*, No. C–91–0344, 1991 WL 239940 at *5 (N.D. Cal. June 6, 1991). California cases dealing with other types of representational conflicts have looked at the same factors. *See Morrison Knudsen*, 81 Cal. Rptr. 2d at 443 (noting that while integrated management and law departments may not justify a conclusion that two affiliates are alter egos, those same facts "go a long way toward establishing a conflict of interest").

Similarly, in *GSI*, the Second Circuit focused on: "(i) the degree of operational commonality between affiliated entities, and (ii) the extent to which one depends financially on the other." 618 F.3d at 210. As to the first factor, the Second Circuit noted the relevance of "the extent to which entities rely on a common infrastructure," including the sharing of "common personnel such as managers, officers, and directors," and in particular, "the extent to which affiliated entities share responsibility for both the provision and management of legal services." *Id.* at 210–11. As to the second factor, the Second Circuit noted that "several courts have considered the extent to which an adverse outcome in the matter at issue would result in substantial and measurable loss to the client or its affiliate." *Id.* at 211.

This court followed *GSI* in *Dr. Falk*, a situation where, as here, the motion to disqualify appellate counsel based

on concurrent conflicts of interest was filed in a case that arose from a regional circuit that had not addressed the issue of conflicts based on corporate affiliation. We explained that "[i]n the absence of evidence to the contrary, we conclude that the relevant regional circuits would likely find the Second Circuit's reasoning persuasive and would therefore adopt its factors here." 916 F.3d at 984. We concluded, in particular, that "they would agree that shared or dependent control over operational and legal matters between the affiliates is significant to the inquiry." *Id.* at 984–85. We see no basis to depart from that approach here.

PerDiem suggests that we should depart from the approach because, in *Morrison Knudsen,* the California Court of Appeal stated in its unity-of-interest analysis that if a relationship between the attorney and corporate family "may give the attorney a significant practical advantage in a case against an affiliate, then the attorney can be disqualified from taking the case." 81 Cal. Rptr. 2d at 444. But that statement does not restrict the bases for disqualification in the way PerDiem contends. In identifying one circumstance in which disqualification is appropriate, the statement does not indicate that disqualification would be inappropriate unless the Davidson firm actually received shared confidences from Trimble Transportation that would give the firm (and its client PerDiem) a significant advantage over the course of this litigation—an issue that is disputed by the parties. Indeed, as other courts have had occasion to explain, "the 'unity of interest' analysis in *Morrison Knudsen* was undertaken in the context of the conflict of interest claim based on the successive representation model—the focus was on the acquisition of confidential information from the parent which could be used against the subsidiary." *Argonaut*, 264 F. Supp. 2d at 922. But "[t]he concern in [the concurrent representation] context is not confidential information or other practical litigation advantage obtained against an affiliate, but the 'duty of undivided loyalty' owed to the affiliate." *Id.* (citations

omitted). We also see no basis to read *Morrison Knudsen* as holding that receipt of shared confidences is necessary to find a conflict in a concurrent representation situation.

B

When we turn to the facts of this case, we conclude that Trimble Inc. and Trimble Transportation are sufficiently intertwined to warrant treatment as one client.

Appellants have demonstrated a high degree of operational overlap between the affiliates. Even aside from legal work specifically, Mr. Brodsky notes that Trimble Inc. and its subsidiaries share their "voice-over-IP phone system, online training platform, employee recognition program, computer network, and Human Resources Information System"; "payroll and finance" services; and "office space." *See Dr. Falk*, 916 F.3d at 985 (considering same or similar aspects of common infrastructure). And as to legal work, appellants have shown significant overlap in the handling and management of legal matters particularly relevant to the case at hand. *See id.* (emphasizing importance of shared legal department and shared management of IP matters); *Morrison Knudsen*, 81 Cal. Rptr. 2d at 443. While PerDiem emphasizes that attorneys specifically employed by Trimble Transportation originally engaged the Davidson firm, it does not dispute that attorneys for Trimble entities share responsibilities among the various entities and, more particularly, that Trimble Inc.'s Chief Intellectual Property Counsel, Mr. Brodsky, has both worked with the firm regarding Trimble Transportation matters and overseen and managed the present lawsuit.

Appellants also have established that an adverse loss to Trimble Inc. here would have a direct adverse impact on Trimble Transportation. Trimble Transportation is a wholly owned subsidiary of Trimble Inc., and Mr. Brodsky notes that that "financial statements from each of Trimble [Inc.]'s businesses, including Trimble Transportation, are also combined . . . to report to investors in Trimble [Inc.]'s

overall corporate financial statements." *See Dr. Falk*, 916 F.3d at 985 (noting relevance of the fact that affiliate contributed to reported revenues).

II

The rest of the conflict analysis is not in question. It is not disputed that the Davidson firm was representing PerDiem and Trimble Transportation at the time the present motion was filed. There is also no dispute that Trimble Transportation has withheld consent to this representation as adverse to its own interests and the interests of Trimble Inc. Hence, the representation violates Rule 1.7(a).

Given that conclusion, we grant the motion to disqualify counsel. Long-standing California law characterizes a concurrent conflict of interest as a "mandatory rule of disqualification." *Flatt*, 885 P.2d at 956. PerDiem points to no California or Ninth Circuit law that would allow a firm to participate in a case despite a non-consensual concurrent conflict. Nor has it provided any reason to excuse the conflict, which does not impose any undue prejudice given the fact that Finnegan has continued to remain involved in the case. Finally, PerDiem offers no reason that the conflict should not be imputed to the entire Davidson law firm. *See* Cal. R. of Prof'l Conduct 1.10(a).

Accordingly,

IT IS ORDERED THAT:

(1) The motion to disqualify is granted. The Davidson firm must withdraw from representation in these appeals. A new principal attorney must enter an appearance for PerDiem within 30 days of the date of this order.

(2) The briefing stay is lifted. PerDiem's principal and response brief is due within 60 days of this order.

FOR THE COURT

January 28, 2020
Date

/s/ Peter R. Marksteiner
Peter R. Marksteiner
Clerk of Court

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