FILE

MPT-1: *Phoenix Corporation v. Biogenesis, Inc.*

FORBES, BURDICK & WASHINGTON LLP
777 Fifth Avenue
Lakewood City, Franklin 33905

MEMORANDUM

To: Applicant

From: Ann Buckner

Date: February 24, 2009

Subject: *Phoenix Corporation v. Biogenesis, Inc.*

Yesterday, we were retained by the law firm of Amberg & Lewis LLP to consult on a motion for disqualification filed against it.

Amberg & Lewis represents Biogenesis, Inc., in a breach-of-contract action brought by Phoenix Corporation seeking $80 million in damages. The lawsuit has been winding its way through state court for almost six years. Phoenix is represented by the Collins Law Firm. There have been extensive discovery, motion practice, and several interlocutory appeals over the years, but the matter is now set for jury trial in a month and is expected to last six weeks. Two weeks ago, however, Phoenix filed a disqualification motion after Amberg & Lewis obtained one of Phoenix's attorney-client privileged documents—a letter from Phoenix's former president to one of its attorneys. Yesterday, I interviewed Carole Ravel, an Amberg & Lewis partner. During the interview, I learned some background facts; I also obtained a copy of the letter and Phoenix's brief in support of its disqualification motion.

Please prepare a memorandum evaluating the merits of Phoenix's argument for Amberg & Lewis's disqualification, bringing to bear the applicable legal authorities and the relevant facts as described to me by Ms. Ravel. Do not draft a separate statement of facts, but instead use the facts as appropriate in conducting your evaluation.

Transcript of Client Interview (February 23, 2009)

Buckner: Good to see you, Carole.

Ravel: Good to see you too, Ann. Thanks for seeing me on such short notice.

Buckner: My pleasure. What's the problem?

Ravel: The problem is a motion for disqualification. Here's the supporting brief.

Buckner: Thanks. Let me take a quick look. I'm unacquainted with the science, but the law is familiar. How can I help?

Ravel: To be candid, we've made a few mistakes, and I thought it would be prudent to consult with someone like you with substantial experience in representing lawyers in professional liability and ethics matters.

Buckner: Tell me what happened.

Ravel: Sure. Six years ago, Phoenix Corporation sued Biogenesis for breach of contract in state court, seeking about $80 million in damages. Phoenix is a medical research company; the Collins Law Firm represents it. Our client Biogenesis is one of the largest biotechnology companies in the world. Phoenix claims that Biogenesis breached a contract they entered into in 1978. There's a lot about this case that's enormously complicated and technical—all that science that you said you're unacquainted with—but the dispute is fairly simple. Under the agreement, Phoenix granted a license to Biogenesis to use a process that Phoenix invented for genetically engineering human proteins. In exchange, Biogenesis was obliged to pay Phoenix royalties on sales of certain categories of pharmaceuticals that were made using the licensed engineering process. Here is the dispute: While Biogenesis has taken the position that its royalty obligation is limited to the categories of pharmaceuticals specified, Phoenix claims that it extends to other categories of pharmaceuticals as well. If the jury agrees with Biogenesis, it owes nothing more. If the jury agrees with Phoenix, Biogenesis owes about $80 million beyond what it has already paid in royalties.

Buckner: That's how the brief sums it up, too.

Ravel: Right. The factual background and procedural history set out in the brief are accurate—but of course we disagree with Phoenix's argument about Biogenesis's royalty obligation.

Buckner: Fine. But what about this Phoenix letter that's allegedly protected by the attorney-client privilege?

Ravel: Here it is, a letter to Peter Horvitz, a Collins partner, from Gordon Schetina, who was then Phoenix's president.

Buckner: Thanks. It certainly looks privileged.

Ravel: It is. I can't deny it. But it's important. Let me go back to the 1978 agreement. Discovery in Phoenix's breach-of-contract action has established to our satisfaction that, by their conduct from 1978 to 1998, Biogenesis and Phoenix revealed that they understood that Biogenesis's royalty obligation was limited to the categories of pharmaceuticals specified in the agreement. During that period, Biogenesis made a lot of money and paid Phoenix a great deal in royalties. It was only in 1998 that Phoenix began to claim that Biogenesis's royalty obligation extended to other categories of pharmaceuticals—when it saw how much more in royalties it could obtain and became greedy to get them.

Buckner: And the Schetina letter . . .

Ravel: And the Schetina letter amounts to an admission by Phoenix that Biogenesis was correct in its understanding of its limited royalty obligation.

Buckner: So how did you get it?

Ravel: Phoenix's lawyers assume that the Schetina letter was disclosed to us inadvertently during discovery, but they're wrong. The letter arrived on February 2, 2009, by itself, in an envelope with the Collins Law Firm's return address. My assistant opened the envelope and discovered the letter all by itself, with a note reading "From a 'friend' at the Collins Law Firm."

Buckner: Do you know who the "friend" was?

Ravel: No. But it's not hard to guess. Collins is in the process of laying off staff in an effort to increase profits. The letter was obviously sent by a disgruntled employee.

Buckner: That makes sense. But what happened next?

Ravel: When the letter arrived, my team and I were in full trial-preparation mode. Of course, I recognized that the letter appeared privileged on its face; it's a classic confidential communication from a client to an attorney. In our eyes, the letter was a smoking gun. It made our case and we wanted to use it.

Buckner: So what happened?

Ravel: We were pretty sure that we were within the ethical rules. But that same day, two of the associates on my team went out for lunch. As they were discussing the impact of the Schetina letter in what turned out to be too much detail, a man at a neighboring table asked whether they knew who he was. They said no, and the man said he was Peter Horvitz and stormed out. Horvitz called me within minutes, and he was furious. He demanded return of the letter and I refused. A few days later, he filed the disqualification motion.

Buckner: I see. And precisely what is it you'd like us to do for you?

Ravel: Ann, I'd like you to evaluate the merits of Phoenix's argument that we should be disqualified. Trial is only a month away, and Biogenesis would have to incur tremendous costs if it were forced to substitute new attorneys if we were disqualified. And let's be candid, we've been charged with a violation of an ethical obligation and might face some exposure as a consequence.

Buckner: I understand, Carole. Let me do some research, and I'll get back to you.

Ravel: Thanks so much.

PHOENIX CORPORATION

1500 Rosa Road
Lakewood City, Franklin 33905

January 2, 1998

CONFIDENTIAL

Peter Horvitz, Esq.
Collins Law Firm
9700 Laurel Boulevard
Lakewood City, Franklin 33905

Dear Peter:

I am writing with some questions I'd like you to consider before our meeting next Tuesday so that I can get your legal advice on a matter I think is important. I have always understood our agreement with Biogenesis to require it to pay royalties on specified categories of pharmaceuticals. I learned recently how much money Biogenesis is making from other categories of pharmaceuticals. Why can't we get a share of that? Can't we interpret the agreement to require Biogenesis to pay royalties on other categories, not only the specified ones? Let me know your thoughts when we meet.

Very truly yours,

Gordon Schetina

Gordon Schetina
President

IN THE DISTRICT COURT OF THE STATE OF FRANKLIN
FOR THE COUNTY OF LANCASTER

PHOENIX CORPORATION, Plaintiff, v. BIOGENESIS, INC., Defendant.	**No. Civ. 041033** **PLAINTIFF'S BRIEF IN SUPPORT OF MOTION TO DISQUALIFY COUNSEL FOR DEFENDANT**

I. Introduction

The rule governing this motion is plain: A trial court may—and, indeed, must—disqualify an attorney who has violated an ethical obligation by his or her handling of an opposing party's attorney-client privileged material and has thereby threatened that party with incurable prejudice. Just as plain is the result that the rule compels here: Defendant's attorneys obtained one of plaintiff's attorney-client privileged documents evidently by inadvertent disclosure. In violation of their ethical obligation, they chose to examine the document, failed to notify plaintiff's attorneys, and then refused to return the document at the latter's demand. By acting as they did, they have threatened plaintiff with incurable prejudice. Since this Court cannot otherwise prevent this prejudice, it must disqualify them to guarantee plaintiff a fair trial.

II. Factual Background and Procedural History

In 1977, Phoenix Corporation, a medical research company, invented a process for genetically engineering human proteins—a process essential to the development of entirely new categories of pharmaceuticals capable of managing or curing the most serious conditions and diseases afflicting human beings, including diabetes and cancer.

In 1978, Phoenix entered into an agreement with Biogenesis, Inc., one of the pioneers in the field of biotechnology: Phoenix licensed its invention to Biogenesis, and Biogenesis obligated itself to pay Phoenix royalties on its sales of various categories of pharmaceuticals.

Between 1979 and 1997, Biogenesis produced dozens of pharmaceuticals and generated billions of dollars in revenue as a result of their sale. To be sure, Biogenesis paid Phoenix substantial royalties—but, as it turns out, far less than it was obligated to.

In 1998, Phoenix learned that Biogenesis had not been paying royalties on its sales of all the categories of pharmaceuticals in question, but only categories specified in the 1978 agreement. For the first time, Biogenesis stated its position that the agreement so limited its obligation. Phoenix rejected any such limitation.

Between 1999 and 2002, Phoenix attempted to resolve its dispute with Biogenesis. Each and every one of its efforts, however, proved unsuccessful.

In 2003, Phoenix brought this action against Biogenesis for breach of the 1978 agreement, seeking $80 million in damages for royalties Biogenesis owed but failed to pay. Between 2003 and 2009, Phoenix and Biogenesis have been engaged in extensive discovery and motion practice and in several interlocutory appeals as they have prepared for a jury trial, set to begin on March 30, 2009, and expected to last six weeks.

On February 2, 2009, Phoenix learned, fortuitously, that Biogenesis's attorneys, Amberg & Lewis LLP, had obtained a document evidently through inadvertent disclosure by Phoenix's attorneys, the Collins Law Firm, in the course of discovery. On its face, the document showed itself to be protected by the attorney-client privilege, reflecting a confidential communication from Phoenix, by its then president Gordon Schetina, to one of its attorneys, Peter Horvitz, seeking legal advice, and clearly the document was not intended for the Amberg firm. Nevertheless, the Amberg firm failed to notify Collins about its receipt of the Schetina letter. As soon as it learned what had transpired, Collins instructed the Amberg firm to return the letter, but the Amberg firm refused.

III. Argument

A. This Court Should Disqualify Amberg & Lewis from Representing Biogenesis Because It Has Violated an Ethical Obligation Threatening Phoenix with Incurable Prejudice in Its Handling of Phoenix's Attorney-Client Privileged Document.

The law applicable to Phoenix's motion to disqualify Amberg & Lewis from representing Biogenesis in this action is clear.

A trial court may, in the exercise of its inherent power, disqualify an attorney in the interests of justice. *Indigo v. Luna Motors Corp.* (Fr. Ct. App. 1998). The court may—and, indeed, must—disqualify an attorney who has violated an ethical obligation by his or her handling of an opposing party's attorney-client privileged material and has thereby threatened that party with incurable prejudice. *Id.* Although the party represented by the disqualified attorney may be said to enjoy an "important right" to representation by an attorney of its own choosing, any such "right" "must yield to ethical considerations that affect the fundamental principles of our judicial process." *Id*. As the court said, "The paramount concern, however, must be to preserve public trust in the scrupulous administration of justice and the integrity of the bar." *Id*.

As will be demonstrated, the law compels the disqualification of Amberg & Lewis.

1. Phoenix's Document Is Protected by the Attorney-Client Privilege.

To begin with, the Schetina letter is protected by the attorney-client privilege. Under Franklin Evidence Code § 954, the "client . . . has a privilege to refuse to disclose, and to prevent another from disclosing, a confidential communication between client and attorney. . . ." On its face, the Schetina letter reflects a confidential communication from Phoenix's then president, Schetina, to one of its attorneys, Horvitz, seeking legal advice.

2. Amberg & Lewis Has Violated an Ethical Obligation.

Next, Amberg & Lewis has violated an ethical obligation by handling the Schetina letter as it did. In the face of the inadvertent disclosure of attorney-client privileged material, such as evidently occurred in this case, the ethical obligation is plain under Franklin Rule of Professional Conduct 4.4: "An attorney who receives a document relating to the representation of the attorney's client and knows or reasonably should know that the document was inadvertently sent shall promptly notify the sender."

Because on its face the Schetina letter reflects a confidential communication from Phoenix's then president, Schetina, to its attorney, Horvitz, seeking legal advice, and is therefore protected by the attorney-client privilege, Amberg & Lewis should surely have known that the letter was not intended for it. The Amberg firm was at the very least obligated to notify Collins that it had received the letter. It should also have refrained from examining the letter, and should have abided by our instructions. On each point, the Amberg firm acted to the contrary, choosing to examine the letter, failing to notify Collins, and then refusing to return it at Collins's demand.

Even if it should turn out that Amberg & Lewis obtained the Schetina letter as a result of unauthorized disclosure as opposed to inadvertent disclosure, the outcome would be the same. In *Mead v. Conley Machinery Co.* (Fr. Ct. App. 1999) the Court of Appeal imposed an ethical obligation similar to that of Rule 4.4 to govern cases of unauthorized disclosure. It follows that the misconduct of the Amberg firm, as described above, would amount to an ethical violation if the letter's disclosure were unauthorized and not inadvertent.

3. Amberg & Lewis Has Threatened Phoenix with Incurable Prejudice.

Finally, by its unethical actions, Amberg & Lewis has threatened Phoenix with incurable prejudice. The Schetina letter could well prejudice the jury in the midst of a long and complex trial, especially if it were cleverly exploited by Biogenesis. Whether or not any *direct* harm could be prevented by the exclusion of the letter from evidence—which Phoenix intends to seek in the coming days—the *indirect* harm that might arise from its use in trial preparation cannot be dealt with so simply: The bell has been rung, and can hardly be unrung, except by disqualification of Amberg & Lewis—an action that is necessary in order to guarantee Phoenix a fair trial.

Even if it should turn out that Amberg & Lewis obtained the Schetina letter by *unauthorized* disclosure as opposed to *inadvertent* disclosure, the result would not change. It is true that in *Mead v. Conley Machinery Co.*, the Court of Appeal suggested in a footnote that, in cases of unauthorized disclosure, the "threat of 'incurable prejudice'. . . is neither a necessary nor a sufficient condition for disqualification." But that suggestion is mere dictum, inasmuch as *Mead* did not involve the threat of *any* prejudice, incurable or otherwise.

IV. Conclusion

For the reasons stated above, this Court should grant Phoenix's motion and disqualify Amberg & Lewis from representing Biogenesis in this action.

Respectfully submitted,

Kimberly Block

Date: February 9, 2009

Kimberly Block
COLLINS LAW FIRM LLP
Attorneys for Plaintiff Phoenix Corporation