

LITCHFORD & CHRISTOPHER

PROFESSIONAL ASSOCIATION

Attorneys and Counselors at Law

LEGAL NEWS FOR CLIENTS

Fall 2005

© 2005, Litchford & Christopher Professional Association, 390 North Orange Avenue, Post Office Box 1549, Orlando, FL 32802. All Rights Reserved.

Legal News for Clients is published periodically by Litchford & Christopher Professional Association. It contains summaries of court decisions and other materials in an effort to keep you abreast of recent developments in areas of the law in which the firm represents clients. Each edition, however, does not necessarily cover cases and information relevant to all of the firm's practice areas. The substantive areas covered in each edition are selected by the firm's lawyers at their discretion based on their views of the significance of the cases and the other information available at the time of publication. The material covered in *Legal News for Clients* is condensed and is not intended to provide legal advice. While the information set forth in each article is accurate, every situation presents unique factual and legal considerations. Accordingly, we encourage you to consult an attorney for proper legal advice before taking any action based on the information summarized in *Legal News for Clients*. The hiring of a lawyer is an important decision that should not be based solely upon advertisements. Before you decide, ask us to send you free written information about our qualifications and experience. You may write to us at the address listed above, call us at (407) 422-6600, fax us at (407) 841-0325, or contact us through our website at www.litchris.com.

In This Edition . . .

- Corporation's Counsel May At Times Also Represent Corporation's Major Shareholder.
- Where Will I Download "Free" Music Now?
- It Doesn't Matter How Much You Trust Your Spouse – Get It in Writing!
- You Might Never Learn What A Private Investigator Has Learned About You.

Hal K. Litchford * Donald E. Christopher * David G. Lerner * Alan B. Taylor * G. Steven Fender
Richard C. Swank * Paul E. DeHart * Jason W. Hill * Christine M. Ho * Hutch K. Hicken

Antitrust and Unfair Competition
Financial Fraud
Business Torts
Real Property Transactions
Corporate Control Disputes
Civil Litigation

Agreements Not To Compete
Patent, Trademark, Copyright Infringement
Employment Discrimination
Real Property Disputes
Motor Vehicle Dealership Relations
Commercial Litigation

Trade Secrets
Contract Disputes
Public Accommodations
Corporate Transactions
Partnership Disputes
Class Actions

CORPORATE COUNSEL MAY REPRESENT INDIVIDUAL DEFENDANT

Plaintiff and Defendant were 49% and 51% shareholders in three corporations (the “Corporations”). The parties had a falling out that led to the breakup of the Corporations. Plaintiff then sued the Defendant for embezzlement, breach of fiduciary duty and other torts. Plaintiff also named the Corporations as nominal defendants. Defendant retained the same attorney (the “Attorney”) to represent both himself and the Corporations. Plaintiff thereafter moved to disqualify the Attorney, arguing that the attorney’s representation of both the Defendant and the two Corporations amounted to a conflict of interest under Rules 4-1.7 and 4-1.13 of the Rules Regulating the Florida Bar. The trial court granted Plaintiff’s motion, and then Defendant sought certiorari review of the order on appeal.

Rule 4-1.13 permits a lawyer representing an organization to also represent its constituents, subject to the provisions of Rule 4-1.7. Rule 4-1.7 prohibits a lawyer from representing a client “if the representation of that client will be directly adverse to the interests of another client, unless: (1) the lawyer reasonably believes the representation will not adversely affect the lawyer’s responsibilities to and relationship with the other client; and (2) each client consents after consultation.” Thus, when a plaintiff sues an organization and one or more of its constituents, and alleges conduct by the constituent that is adverse to the organization, a single lawyer usually may not represent both the constituent and the organization. The lawyer need not be disqualified, however, if the action is patently frivolous or if the organization consents to the lawyer’s dual representation.

The trial court held in Campellone v. Cragan that because the Plaintiff had alleged the Corporations were harmed by the Defendant’s misconduct this disqualified the Attorney from representing both the Defendant and the Corporations. Despite Defendant’s insistence that the Plaintiff’s allegations were patently frivolous, the trial court found them sufficient to justify disqualification. The trial court recognized that, as majority shareholder of the Corporations, Defendant would have had authority to consent to the Attorney’s dual representation, if not for Defendant’s own direct role in the conflict. The trial court nevertheless disqualified the Attorney from representing even the Defendant. It reasoned that the Attorney’s prior access to information regarding the Corporations while serving as corporate counsel would give Defendant an unfair advantage against Plaintiff.

On review, the Florida Fifth District Court of Appeal held that the trial court did not abuse its discretion in disqualifying the Attorney from representing the Corporations or err in concluding that the Defendant could not consent on behalf of the Corporations to the dual representation. The trial court did abuse its discretion, however, in ruling that the Attorney could not continue to represent the Defendant. The Defendant had hired the Attorney after the Corporations were already defunct, and it did not appear from the record that the Attorney had ever had access to any confidential information that Defendant did not also have. The appellate court reasoned that, if the Defendant was forced to hire new counsel, the Defendant could still communicate to new counsel all of the same information known to the Attorney who had been disqualified.

THE UNITED STATES SUPREME COURT RULES THAT COMPANIES DISTRIBUTING PEER-TO-PEER DOWNLOADING SOFTWARE ARE CONTRIBUTORILY LIABLE FOR INFRINGEMENT OF COPYRIGHT

Napster, Inc. created free computer software that allowed users to share electronic files online through a central server. It is estimated that over 70 million users downloaded Napster, Inc. and used it to obtain free access to copyrighted songs and films. The record companies brought suit against Napster, Inc. As a result, the United States Court of Appeals for the Ninth Circuit forced Napster, Inc. to shut down in February 2001. The Court entered an injunction against Napster, Inc. finding that it was contributorily and vicariously liable for infringement of copyright.

After the downfall of Napster, Inc., other companies started distributing free software that allowed users to share electronic files through peer-to-peer networks. Users could thus connect directly with one another instead of through a central server. These companies, such as Grokster, Ltd. and StreamCast Networks, Inc. (hereinafter referred to as the “Companies”), felt that they were legally protected since their software did not have a central server. The Companies argued that through their use of the peer-to-peer networks, the users were the only parties infringing upon copyrights because the Companies maintained a “hands-off” approach. The District Court and the United States Court of Appeals for the Ninth Circuit agreed with the Companies.

In Metro-Goldwyn-Mayer Studios Inc., et al. v. Grokster, Ltd., et al., the United States Supreme Court reversed the decisions of the lower courts. In holding that the Companies were liable for infringement, the Court adopted the inducement rule. This rule states that one who distributes a device with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement, is liable for the resulting acts of infringement by third parties.

The Court distinguished Grokster’s case from Sony Corp. v. Universal City Studios, in which copyright holders sued Sony Corp., the manufacturer of the videocassette recorder (VCR). Universal City Studios and other copyright holders had argued that because Sony supplied the means to infringe and had constructive knowledge that the infringement would occur, Sony was contributorily liable for any infringement resulting from VCR owners taping copyrighted programs. The Court held that Sony Corp. was not liable because the VCR had substantial lawful uses and was not manufactured merely for infringement purposes.

On the other hand, in Metro-Goldwin-Mayer Studios, Inc., the Court held that the peer-to-peer sharing software was “good for nothing else” but infringement. It was undisputed that the majority of the users employed the software to download copyrighted files. The Companies argued, however, that legitimate legal uses did also exist for their software. For example, public domain works, such as Shakespeare, and works for which artists had given permission for free distribution, could also be downloaded. The Court found that this noninfringing use only accounted for at most 10% of the software’s use, and that the overwhelming majority of the use, the remaining 90%, was clearly unlawful.

The Supreme Court also held that the Companies had the intent to induce and promote infringement. Specifically, a proposed StreamCast advertisement stated, “Napster, Inc. has announced that it will soon begin charging you a fee. That’s if the courts don’t order it shut down first. What will you do to get around it?” The Companies also offered support to users, showing them how to play copyrighted movies once the users had downloaded them. The Court further noted that the Companies never attempted to develop filtering tools or other mechanisms to diminish the infringing activity resulting from their software.

The Court accordingly found the facts of this case to be sufficiently different from Sony Corp. so that the Companies were not merely passive facilitators of information that happened to be infringed. Rather, the Companies “clearly voiced the objective that recipients use [the software] to download copyrighted works, and [they] took active steps to encourage infringement.” The Companies could therefore be held liable for the resulting infringement.

**COURT HOLDS THAT POSTNUPTIAL AGREEMENT DOES NOT VOID
CORPORATE TRANSACTION UNLESS IT IS INCORPORATED INTO THE
CORPORATE BYLAWS OR ARTICLES OF INCORPORATION**

In 1992, Cecilio Padron (“Mr. Padron”) and Mary Angel Padron (“Ms. Padron”) were married. That same year, Mr. Padron incorporated Padron Warehouse Corp. (“PWC”). PWC’s sole corporate asset was a 207,000 square-foot warehouse located in Miami, Florida (the “warehouse”). In 1994, the Padrons divorced. To that end, Mr. and Ms. Padron executed a postnuptial agreement that allotted 68% of PWC’s shares to Mr. Padron, 30% to Ms. Padron, and 2% to a third party, Felix Padron. The postnuptial agreement contained a clause that precluded either spouse from selling or transferring PWC’s warehouse without the other’s written consent.

In or around March 1995, Mr. Padron sold PWC’s warehouse to Realty Associates Fund III, LP (“Realty”) without obtaining Ms. Padron’s written consent. Afterwards, Mr. Padron fled the county with the proceeds. PWC, in its corporate capacity, brought suit against Mr. Padron and Realty in Padron Warehouse Corp. v. The Realty Associates Fund III, LP. PWC sought the return of what was formerly its sole asset -- the warehouse. The lawsuit alleged that Mr. Padron and Realty conspired to sell the warehouse without informing the minority shareholders, specifically Ms. Padron. They engaged in this deception so that Mr. Padron could personally keep all the profits and Realty could buy the warehouse at a below-market price. Realty moved to have the lawsuit dismissed. The United States District Court for the Southern District of Florida ruled in favor of Realty.

The Court ruled that the postnuptial agreement, which restricted the sale or transfer of the warehouse, was insufficient to void the sale of the warehouse. There was no evidence that the postnuptial agreement was ever incorporated into PWC’s bylaws or articles of incorporation. As a result, the postnuptial agreement did not give PWC any rights against anyone. Mr. Padron’s violation of the postnuptial agreement only gave Ms. Padron, as an individual, the right to sue Mr. Padron. PWC, not being a party to the agreement, had no right to sue Mr. Padron for his violation of the postnuptial agreement with his wife.

In addition to the postnuptial agreement, Ms. Padron claimed that she and Mr. Padron had executed a shareholder agreement containing the same restriction. Ms. Padron, however, could not produce the original or a copy of the alleged shareholder agreement. Nothing was ever filed in the corporate records, and Ms. Padron claimed that Mr. Padron had lost the agreement. The Court therefore found that there was insufficient evidence that a shareholder agreement ever existed between the parties. The Court held that because there was no shareholder agreement, nothing restricted Mr. Padron's ability to sell the warehouse as an intra-corporate matter. In fact, the Court stated that Mr. Padron's sale of the warehouse was "perfectly proper," so far as the corporation was concerned.

The Court further stated that under Section 692.01, Florida Statutes, any corporation may convey its interest in its lands by instruments sealed with the corporate seal and signed by the president, vice president, or chief executive officer of the corporation. The Court explained that a conveyance made pursuant to Section 692.01 is valid even though the officer who conveyed the land was without authority to enter into the transaction. The only exception to the statute is if the person receiving the land knew of fraud in the transaction. In other words, if Realty had known that Mr. Padron was required to get Ms. Padron's written consent before selling the warehouse, then Realty would have been aware of potential fraud, and the transaction would not be valid. The Court held that PWC did not offer sufficient evidence to show that Realty had any knowledge of Mr. Padron's alleged fraud or of any intra-corporate dispute between the parties. Accordingly, the Court held that the transaction as between Realty and Mr. Padron was valid and binding on the parties.

PRIVATE INVESTIGATOR'S MATERIALS AND OBSERVATIONS CAN BE PROTECTIBLE WORK PRODUCT

After she sustained injuries in an automobile accident with Defendant, the Plaintiff sued him. Defendant admitted liability, and the sole issue for trial was damages. In preparation for trial, the Defendant had hired three private investigators to conduct surveillance on Plaintiff's activities. Defendant disclosed the investigators as witnesses, but later informed the Plaintiff of his intention not to call any investigators as witnesses to testify at trial. Plaintiff nevertheless scheduled depositions of all three investigators.

The Defendant moved the trial court for a protective order based on the work-product privilege doctrine. The Defendant claimed that the materials were generated by the investigators in anticipation of litigation and that he did not intend to use the materials at trial. The trial court denied Defendant's motion on the ground that the investigators were listed on Defendant's witness list. Thereafter, Defendant filed an amended witness list that omitted the investigators. When Plaintiff nevertheless re-noticed the deposition of the investigators, Defendant moved for an emergency rehearing of the denial of his motion for a protective order. The trial court denied the motion, so Defendant petitioned the Fifth District Court of Appeal for certiorari review.

In Huet v. Tromp, the Fifth District agreed with Defendant that information received by a party's attorneys from investigators in anticipation of litigation, but that is not intended to be used at trial, is protected by the work-product privilege. Although, the work product privilege is not applicable when an investigator's materials or testimony are intended for trial use, here

Defendant brought the investigators' reports and videotapes back within the protective scope of the privilege by submitting an amended witness list that did not include the investigators. The appellate court held the privilege is broad enough that the investigators could not even be required to answer questions at deposition that would reveal the contents of their reports or videotapes.

The Fifth District Court of Appeal recognized that Florida law affords lesser protection to fact work product than to opinion work product. At the same time, the law does not entitle a party to prepare his case through facts compiled by his adversary in anticipation of litigation, if the same or similar information is available through ordinary investigative techniques and discovery procedures. The court therefore held that, even if it assumed the investigators' observations were fact work product, Plaintiff could only discover those facts upon a showing of exceptional circumstances. Specifically, Plaintiff would need to show that the facts she sought to discover were unique, materially relevant to the cause's issues, and otherwise unobtainable without undue hardship. Accordingly, the appellate court quashed the trial court's order that had denied Defendant's motion for rehearing. The Plaintiff would still be able in the trial court to try to make the required showing of exceptional circumstances needed to overcome the work product privilege.