AN INTERESTING CONFLICT: CANADIAN FEDERAL COURT OF APPEAL REFUSES TO SEE CONFLICT OF INTEREST IN PATENT CASE

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On February 17th, 2017, the Federal Court of Appeal refused an appeal from appellants C. Steven Sikes, Aquero, LLc and Aquial, LLC ("Sikes"), who were seeking the removal of the solicitors for Respondents Encana Corporation, Cenovus FCCL LTD., FCCL Partnership and Cenovus Energy Inc. ("Encana"), due to an alleged conflict of interest. Counsel for Encana had previously "sat down" with Sikes to discuss the patent infringement matter that was at issue, prior to an action being taken. This case serves as an interesting study of the solicitor-client relationship in patent cases, and how the courts evaluate the potential for a conflict of interest. [Sike v. Encana Corporation, 2017 FCA 37].

FACTS

In June 2008, Sikes was seeking to retain counsel to discuss the patent rights it was looking to assert. More specifically, Sikes contacted eight different law firms to discuss infringement issues arising from the issuance of a pending patent in Canada. Mr. Garland, a professional working for the firm that is acting as Counsel for Encana, was amongst those consulted.

Sikes and Mr. Garland spent 15 minutes discussing "a Canadian patent pending and a possible infringement situation pertaining to water clarification chemicals and processes in the oil-sands region". Mr Garland took information from Sikes and opened a general file entitled "Aquero Company", as per his firms internal conflict check process. During this check, there were ongoing exchanges between Mr. Garland and Sikes, up until Sikes was informed, at the end of June 2008, that Mr. Garland could not take the file due to a conflict of interest. He then provided recommendations as to other law firms that could be contacted.

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Years later, in 2014, Mr. Garland's firm was appointed as solicitors for Encana in the underlying infringement action against Sikes that was already ongoing. More than a year after that, Sikes moved to have Mr. Garland's firm removed from the file based on Sikes prior meeting with Mr. Garland in 2008.

Conflicted views

Sikes alleged that during their first meeting, confidential information was provided to Mr. Garland and that Mr. Garland had also given legal advice to Sikes regarding the infringement matter at hand.

The initial motion was presented before the Prothonotary who was presiding as Case Management Judge for the file. It was dismissed. The Prothonotary held that Mr. Garland's evidence, which was unchallenged, established that the information that was communicated by Sikes was general, not confidential, and that no legal advice had been provided. The Prothonotary found that while the conversation between Sikes and Mr. Garland was held over seven years ago, Mr. Garland's notes helped corroborate his evidence and affirm that he did not stray from his firm's conflict of interest review procedure.

An appeal was filed by Sikes before the Federal Court of Canada, which was dismissed. In referring to the Prothonotary's conclusions, the Federal Court found that there was no basis supporting the allegation that a solicitor-client relationship existed. It is interesting to note the high level of deference that was given by the Federal Court to the Prothonotary in its decision. The Prothonotary was acting as the Case management judge for the underlying infringement action and therefore, had a mastery of the issues and facts at bar. Therefore, the Federal Court found that the Prothonotary's decision was discretionary and factual. It saw no need to intervene.

The Federal Court of Appeal

Sikes appealed the Federal Court`s decision. On Appeal, the Court reminds us that discretionary decisions rendered by Prothonotaries are indeed reviewable, if the Prothonotary erred in law or made a palpable and overriding error.

Two grounds were advanced by the Prothonotary to dismiss the motion: one, that Sikes failed in demonstrating that a client-solicitor relationship existed and two, that there was no risk that the use of any confidential information would prejudice Sikes.

Sikes alleged that the Prothonotary misunderstood the test that needed to be applied. According to Sikes, the following questions needed to be answered in order to determine if there is a conflict of interest or not: 1) Did the lawyer receive relevant confidential information that is attributable to a solicitor client relationship and 2) is there a risk that use of this information will prejudice the client?

More specifically, Sikes main ground for appeal was that, under the relevant caselaw, the information that was given to Mr. Garland is presumed confidential and that the Prothonotary did not give any effect to this presumption. The Federal Court of Appeal accepted that information was exchanged as part of an exploratory and eventual solicitor-client relationship and that the presumption of confidentiality could therefore extend to this information. The Federal Court of Appeal therefore agreed that an argument could be made that with regards to the two questions advanced by Sikes above, that they could apply even when in a situation where a solicitor-client relationship was not created.

Nevertheless, the Federal Court of Appeal found that the Prothonotary, in its decision, used language suggesting that he did in fact consider this presumption (“ I find that the [appellants] have failed to discharge their burden”) but that in any event, the Prothonotary`s decision did not “hinge on who had the burden or who benefited from the presumption”.

Furthermore, the Prothonotary’s decision was also based on his appreciation of the contradictory evidence that was placed before him. On one hand, there was clear and unchallenged evidence provided by Mr. Garland: Mr. Garland’s written notes corroborated his position, that no legal advice was given, and that the information conveyed was general and not confidential. On the other, Sikes produced evidence stemming from affidavits. In light of the cross examinations that ensued, misstatements and embellishments by Sikes were brought to light despite the fact that Mr. Garland was unable to recall the detail of the over seven-year-old conversation.

The Federal Court of Appeal agreed that if confidential information “comes to the knowledge of members of a legal firm targeted by a motion to disqualify, it becomes almost impossible to show that such information will not be used in a prejudicial fashion”. However, the it also re-established that there may be cases where “no information was imparted which could be relevant” to the underlying dispute. This is what the Prothonotary found in its decision and the Federal Court of Appeal found no reason to intervene. In other words, simply because counsel was consulted for a patent matter, prior to a conflict check, does not automatically preclude them from acting for the other party in an infringement matter. There is no automatic presumption of a conflict of interest.

Conclusion

This case is a good reminder of the roles and responsibilities that are entrusted to intellectual property professionals the minute a prospective client steps through the door. Discussions regarding the ambit of a client’s intellectual property portfolio is not sufficient to determine whether a solicitor-client relationship exists, even if no client file is opened or no retainer is paid. Furthermore, the disclosure of information necessary for a lawyer to conduct and complete a conflict check does not automatically create this

solicitor client relationship, even if the information that was discussed could be presumed confidential. Lastly, even if the information is in fact confidential, one cannot always presume that this information can automatically be used against a prospective client if no mandate is granted.

While it was clear in this case that Sikes met with Mr. Garland to discuss possible patent infringement, the Court found that a mere meeting is not sufficient to disqualify counsel from representing an opposing party to this case. The Court also reminds us that while a presumption of confidentiality could apply to any information given during such a meeting, whether a solicitor-client privilege exists or not, it is the relevancy of this information to the matter at hand that could help tip the scale.

In IP matters, counsel is often privy to many aspects of a potential client`s business. It is therefore prudent to keep questioning general and to not give any advice of a legal nature until a conflict check has cleared. This should not automatically preclude counsel from refusing the file and representing another party concerned with the same matter. Furthermore, this serves as a clear example of the importance of taking good notes before and after meetings with potential clients!