IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF NORTH CAROLINA
WESTERN DIVISION

NO. 5:10-CV-101-H

SAS INSTITUTE, INC.,	)	
	)	
Plaintiff,	)	
	)	
	)	
v.	)	**FINDINGS OF FACT, CONCLUSIONS OF LAW AND ORDER**
	)	
	)	
AKIN GUMP STRAUSS HAUER & FELD, LLP and MICHAEL L. KIKLIS,	)	
	)	
	)	
Defendants.	)	

This matter is before the court after a bench trial conducted during its civil term of court beginning December 15, 2014. Plaintiff, SAS Institute, Inc. ("SAS"), complains that it suffered injuries resulting from constructive fraud and breach of contract by defendants, Akin Gump Strauss Hauer & Feld ("Akin Gump") and Michael L. Kiklis. Mr. Paul K. Sun, Jr., Ms. Kelly Margolis Dagger, and Mr. Donald H. Beskind appeared on behalf of SAS. Mr. R. Daniel Boyce, Mr. William W. Wilkins, Ms. Kirsten Elena Small, and Mr. Andrew Mathias appeared on behalf of Akin Gump and Mr. Kiklis. Representatives from the corporate parties as well as Mr. Kiklis were present at the trial. After careful

review of the pleadings, pretrial order, stipulations, and the evidence, the court makes the following:

FINDINGS OF FACT

1. SAS is a privately held software corporation organized and existing under the laws of the State of North Carolina with its principal place of business in Cary, North Carolina.

2. Akin Gump is a limited liability partnership organized and existing under the laws of the State of Texas with its principal place of business in Dallas, Texas.

3. Mr. Kiklis is a citizen and resident of the Commonwealth of Virginia.

4. Mr. Kiklis is an attorney licensed to practice law in the State of Washington, the Commonwealth of Virginia, and Washington, D.C.

5. Mr. Kiklis was a capital partner at Akin Gump from February 2007 through June 2012, working in the firm's Washington, D.C. office.

6. SAS engaged Akin Gump in July 2006 to represent the company in government affairs and public policy matters ("government affairs") for which SAS agreed to pay Akin Gump a monthly retainer in the amount of fifteen thousand dollars ("$15,000.00").

7. Ms. Katherine Hahn, the Director of Federal Affairs at SAS, was responsible for engaging Akin Gump for the government affairs representation. Mr. Smith W. Davis, the responsible partner at Akin Gump for public policy representation, and Ms. Amita Poole were Ms. Hahn's primary contacts at Akin Gump during the course of its government affairs representation.

8. Upon request of Akin Gump and as a consequence to increasing work requests, SAS agreed to increase its monthly retainer payments to twenty thousand dollars ("$20,000.00") in January 2007.

9. Throughout the course of its government affairs representation of SAS, Akin Gump regularly solicited Ms. Hahn to secure more work for the law firm from SAS in other areas of practice.

10. In January 2007, Mr. Michael O'Shea, who was a partner at Akin Gump from November 2004 through July 2008, was contacted by a friend at General Patent Corporation, Inc. to solicit Akin Gump's representation of JuxtaComm Technologies, Inc. ("JuxtaComm") in a patent monetization matter.

11. JuxtaComm is a corporation organized and existing under the laws of Canada with its principal place of business in Calgary, Alberta, Canada. JuxtaComm is the owner of U.S. Patent No. 6,195,662 ("the '662 patent").

12. The '662 patent relates to technology that extracts data from disparate computer systems, transforms the data into a single format, and downloads the data to a computer system for analysis ("ETL").

13. Patent monetization generally refers to a patent-owner's efforts to realize financial benefit from: (1) the transfer of rights to the patent to third parties by licensing agreements or otherwise; or (2) the prosecution and enforcement of claims against potential patent infringers.

14. In February 2007, Mr. Kiklis was hired by Akin Gump as a capital partner in its Washington, D.C. office and assigned to the law firm's intellectual property practice group. In his representation of JuxtaComm, Mr. Kiklis acted as an agent of Akin Gump.

15. In early 2007, Akin Gump began a three-step process to determine the prospect of its representation of JuxtaComm in the company's patent monetization efforts.

16. Akin Gump's three-step evaluation process to determine the viability of a potential patent infringement claim is as follows:

a. Determine participants[1] in the market that the patent impacts;

[1] Although SAS argues that a significant distinction must be made between "market participants" and "targets" or "potential targets," the court is unpersuaded that "target" can only refer to actual infringers within the

b. Perform an internal conflicts check on the list of market participants to determine whether any of them have a current or past relationship with the law firm that would prevent the firm from becoming adverse to them; and

c. Analyze and compare market products to the patent to determine whether there is a good faith basis for a claim of patent infringement.

17. Although Mr. Larry Macon, a capital partner at Akin Gump who has practiced law over forty-four years and has significant litigation experience, was formally lead counsel in Akin Gump's representation of JuxtaComm, he assigned significant oversight and supervisory responsibilities to others, including Mr. Kiklis.

18. Mr. Kiklis was primarily responsible for performing and supervising the due diligence conducted by Akin Gump before entering into a retention agreement with JuxtaComm.

19. In March 2007, Mr. Kiklis retained the consulting firm Precedia Associates LLC ("Precedia") on behalf of Akin Gump to perform a patent study related to the '662 patent in conjunction with Akin Gump's internal three-step evaluation.

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crosshairs of litigation. Within the course of ordinary conversation, especially amongst law office colleagues and clients, it would be unfair to disregard the context and limit the definitional scope of "target" in casual conversation to the requested extent. Consequently, the court interprets "target" broadly to include either a market participant or an actual infringer subject to litigation as the context permits.

20. During the due diligence period, Mr. Kiklis supervised other attorneys, including Mr. Wes Ferrebee, at Akin Gump who conducted web-based research on market participants who could be potential '662 patent infringers.

21. Mr. Ferrebee's web-based research included an investigation, based upon public information, of products that were manufactured by the market participants to determine the scope of claims for possible infringement of the '662 patent.

22. On the morning of May 23, 2007, Mr. Kiklis was informed by Mr. Frank Jackson, a consultant, in a series of emails that SAS was the market share leader in the ETL technology market and should be considered a target. SAS revenues from ETL technology products or market share totaled two hundred twenty-four million dollars ("$224M") from 2003 through 2005.

23. On March 30, 2007, Ms. Julie Eichorn, a retained consultant, submitted a report to Akin Gump that identified SAS as a potential infringer of the '662 patent.

24. Akin Gump and Mr. Kiklis were made aware of specific SAS products that rely upon ETL technology. Although the extent of the research conducted on SAS products during the due diligence period by Akin Gump, Mr. Kiklis, and their agents is unclear, the investigation at least identified a particular

collection of SAS products that utilized ETL technology and may have been infringing the '662 patent.

25. SAS did not present sufficient evidence to warrant a finding that Akin Gump, Mr. Kiklis, or their agents performed a more extensive investigation into the operation and function of SAS products to allow a determination regarding actual infringement during the due diligence period in early 2007.

26. Akin Gump and Mr. Kiklis, however, possessed actual knowledge no later than May 23, 2007 that:

a. SAS was a current client of Akin Gump and had been since July 2006;

b. SAS was a significant participant in the ETL technology market; and

c. SAS manufactured products that potentially infringed the '662 patent.

27. One of these potentially infringing products was the subject of JuxtaComm's claims against SAS in JuxtaComm II.[2]

28. Later on May 23, 2007, Mr. Kiklis sent an email to Mr. Ferrebee that instructed him, "Please take SAS off the target list."

29. By the end of the due diligence period, Mr. Kiklis and Akin Gump had expended substantial resources in the analysis and

[2] JuxtaComm-Texas Software, LLC v. Axway, Inc., et al., No. 6:10-cv-359 (E.D. Tex. Filed Jan. 21, 2010).

identification of JuxtaComm's potential patent infringement claims. Akin Gump made a representation within its July 13, 2007 retention agreement with JuxtaComm ("JuxtaComm I[3] retention agreement") that the firm's legal fees, costs, and expenses expended as of June 30, 2007 approximately amounted to eight hundred thirty-five thousand dollars ("$835,000.00").

30. Before a formal retention agreement was executed, JuxtaComm made Akin Gump aware that it believed SAS was an infringer of the '662 patent.

31. In July 2007, Akin Gump was formally engaged to represent JuxtaComm in its '662 patent enforcement efforts, and the parties executed the JuxtaComm I retention agreement. Pursuant to the terms of the agreement, Akin Gump would receive an initial retainer of ten million dollars ("$10M") in addition to a contingency fee of twenty percent ("20%") of proceeds secured by efforts of Akin Gump during the course of its representation.

32. The JuxtaComm I retention agreement expressly excluded SAS, Sun Microsystems, and SAP from the scope of potential defendants that would be subject to the JuxtaComm I lawsuit. This kind of exclusionary provision was not commonly inserted in retention agreements drafted by Akin Gump.

[3] JuxtaComm Techs., Inc. v. Ascential Software Corp., et al., No. 2:07-cv-359 (E.D. Tex. Filed Aug. 17, 2007).

33. The JuxtaComm I retention agreement contemplated potential declaratory judgment actions that could be filed against JuxtaComm by the excepted parties.

34. The JuxtaComm I retention agreement reveals that Akin Gump and JuxtaComm understood that the JuxtaComm I litigation was "a necessary step in a larger program of enforcing and licensing the Patents[4] to realize their full economic potential." Further in accord, the parties understood that the litigation effort would "be the foundation and framework upon which JuxtaComm [could] embark on a program of enforcing the patents against other infringing parties..."

35. The JuxtaComm I retention agreement additionally provided that Akin Gump would be entitled to 20% of "all value received from any person or source which is derived from the Patents... even when Akin Gump is not directly involved with obtaining such value" ("20% provision").

36. Because Akin Gump knew at the time that its agent, Mr. Macon, executed the JuxtaComm I retention agreement containing the 20% provision that: (1) SAS was a current client of the firm; (2) SAS was a significant participant in the ETL market; (3) SAS manufactured particular products that may be infringing the '662 patent; (4) JuxtaComm believed that SAS was an

[4] "Patents" is defined in the JuxtaComm I retention agreement and includes "the '662 patent as well as any related patents..."

infringer of the '662 patent; and (5) the JuxtaComm I litigation was "a necessary step in a larger program of enforcing and licensing the ['662 patent] to realize [its] full economic potential," the possibility of receiving financial benefit at the expense of SAS was not remote and speculative but rather probable and reasonably foreseeable by Akin Gump when it executed the agreement.

37. Although Mr. Macon testified that the 20% provision was included in the JuxtaComm I retention agreement only as a disincentive for JuxtaComm to disengage Akin Gump and that "[Akin Gump] would never have taken any money from SAS," the court finds Mr. Macon's deposition testimony more fairly characterizes his true interpretation of the JuxtaComm I retention agreement: "the words mean exactly what they say, nothing more, nothing less. And so trying to expand it or change it is just not right."

38. The 20% provision, however, in addition to securing a pecuniary interest in favor of Akin Gump adverse to SAS, was a disincentive for JuxtaComm to retain other counsel in its litigation efforts after completing JuxtaComm I.

39. Mr. Macon, on behalf of Akin Gump, knowingly and intentionally secured a financial position adverse to SAS, a current client, when Mr. Macon executed the JuxtaComm I retention letter that contained the 20% provision.

40. Akin Gump did not disclose and transmit in writing to SAS the transaction and terms on which it acquired an adverse pecuniary interest to SAS in the JuxtaComm I retention agreement.

41. Akin Gump did not give SAS a reasonable opportunity to seek the advice of independent counsel regarding Akin Gump's intention to secure an adverse pecuniary interest in the JuxtaComm I retention agreement.

42. SAS did not give Akin Gump informed consent to acquire an adverse pecuniary interest by executing the JuxtaComm I retention agreement.

43. Rule 1.8 of the Rules of Professional Conduct[5] for Washington, D.C. provides: "A lawyer shall not... knowingly acquire... [a] pecuniary interest adverse to a client unless:

> (1) The transaction and terms on which the lawyer acquires the interest are fair and reasonable to the client and are fully disclosed and transmitted in writing to the client in a manner which can be reasonably understood by the client;
>
> (2) The client is given a reasonable opportunity to seek the advice of independent counsel in the transaction; and
>
> (3) The client gives informed consent in writing thereto.

[5] Although this Rule and others contained within the findings of fact are from the Rules of Professional Conduct for Washington, D.C., corresponding rules from the ABA Model Rules of Professional Conduct and the North Carolina Rules of Professional Conduct were presented as evidence by exhibit, testimony, reference, or otherwise and contain no material distinction.

44. Mr. Kiklis did not participate in the negotiation, drafting, or execution of the JuxtaComm I retention agreement.

45. Due to Akin Gump's failure to disclose an adverse pecuniary interest to SAS when it executed the JuxtaComm I retention agreement, SAS was foreclosed from making an informed decision regarding waiver of the conflict and the continued retention of Akin Gump for government affairs matters.

46. By the summer of 2007, IBM had contacted SAS to discuss the possibility of executing a cross-licensing agreement ("IBM cross-licensing matter"). IBM owns the rights to "tens of thousands" of patents.

47. Mr. Timothy Wilson is, and was at all times relevant to this action, Senior Intellectual Property Counsel at SAS.

48. In response to IBM's approach to SAS to discuss a cross-licensing agreement, Mr. Wilson immediately contacted Mr. Kiklis to discuss representation in the matter.

49. Although Mr. Wilson and Mr. Kiklis both attended law school at Syracuse University, Mr. Wilson was formally introduced to Mr. Kiklis around 2004 by a mutual friend, Mr. Sanjay Prasad who was the chief patent counsel at Oracle Corporation.

50. After learning about Mr. Kiklis from Mr. Prasad, Mr. Wilson contacted Mr. Kiklis at his former law firm in Washington, D.C. Although Mr. Wilson did not hire Mr. Kiklis to

perform any work for SAS as a result of their first communication and subsequent periodic correspondences, Mr. Wilson was pleased to meet Mr. Kiklis because Mr. Kiklis had experience representing companies in patent cross-licensing matters adverse to IBM.

51. When Mr. Kiklis transitioned to his new position at Akin Gump, he emailed Mr. Wilson to inform him about his new employment.

52. SAS did not have a formal retention agreement with Akin Gump related to the IBM cross-licensing matter during the summer of 2007 when Mr. Wilson and Mr. Kiklis were having significant conversations.

53. Mr. Kiklis often told Mr. Wilson during the summer 2007 conversations that SAS was already a client of Akin Gump and that he was SAS' lawyer.

54. During the course of conversations between Mr. Wilson and Mr. Kiklis throughout the summer of 2007, Mr. Wilson disclosed information related to SAS' use of prior art in its cross-licensing negotiations. SAS did not, however, present sufficient evidence related to the details of the prior art it disclosed to Mr. Kiklis or Akin Gump to warrant a finding that such disclosures materially related to the substance of JuxtaComm's claims in JuxtaComm II.

55. Despite the absence of a formal retention agreement during the summer of 2007, Mr. Wilson and Mr. Kiklis discussed the terms of a formal engagement. On July 14, 2007, Mr. Wilson notified Mr. Kiklis in an email that his manager requested a two-hour limitation on Akin Gump's representation of SAS in the IBM cross-licensing matter.

56. Upon learning of the two-hour limitation request, Mr. Kiklis emailed at least one partner at Akin Gump and commented, "What a joke," referring to his appraisal of the request. Mr. Kiklis testified that "two hours of work isn't enough to scratch the surface or really do anything."

57. In August 2007, Mr. Kiklis informed Wilson that he should monitor the news and look for a substantial patent infringement case that he was filing. Mr. Kiklis was referring to JuxtaComm I but did not expressly communicate the parties or case name to Mr. Wilson.

58. When Mr. Wilson was apprised of the forthcoming litigation, he expressed concern to Mr. Kiklis and inquired whether the lawsuit would have negative implications for SAS. Mr. Kiklis assured Mr. Wilson that "SAS was a client" and that "SAS had nothing to worry about with respect to that lawsuit." Mr. Wilson testified that he relied upon this representation by Mr. Kiklis.

59. Mr. Kiklis subsequently filed the JuxtaComm I patent infringement lawsuit on August 17, 2007 against twenty-one defendants who participated in the ETL market, but the lawsuit did not name SAS as a defendant.

60. Neither Mr. Wilson nor any other agent of SAS made further inquiry to Mr. Kiklis or Akin Gump related to an actual or potential conflict of interest created by Akin Gump's representation of JuxtaComm in JuxtaComm I until after its conclusion.

61. Later in August 2007, a SAS employee emailed a news article to Mr. Wilson regarding JuxtaComm I, and Mr. Wilson expressed relief that SAS had not been named a defendant.

62. SAS did not present sufficient evidence to warrant a finding that the subject matter of the JuxtaComm I litigation was materially related to the subject matter of Akin Gump's government affairs representation on behalf of SAS.

63. In August 2007, Mr. Wilson discussed IBM's initial demand regarding the IBM cross-licensing matter with Mr. Kiklis, and Mr. Kiklis rendered legal advice to Mr. Wilson about the demand based upon his prior experience representing clients adverse to IBM.

64. A formal retention agreement related to the IBM cross-licensing matter dated September 10, 2007 ("SAS/IBM retention

agreement") was drafted by SAS and executed by Mr. Kiklis on behalf of Akin Gump.

65. The SAS/IBM retention agreement established the terms of Akin Gump's representation of SAS for services related to the IBM cross-licensing matter.

66. Mr. Wilson was assigned to manage the IBM cross-licensing matter on behalf of SAS and, by the terms of the SAS/IBM retention agreement, retained case-management responsibilities to determine the extent of Mr. Kiklis' involvement.

67. The SAS/IBM retention agreement did not limit the scope of representation to a particular number of billable hours; rather, the representation would terminate at the completion of the matter. An exception provided that either party could terminate the relationship with or without cause before completion of the matter.

68. The SAS/IBM retention agreement required Mr. Kiklis "to conform to the highest ethical standards in performing services for [SAS]" and to "notify [Mr. Wilson] of any potential conflict of interest which becomes apparent" before or during the representation.

69. At the time that Mr. Kiklis executed the SAS/IBM retention agreement, Akin Gump knew and Mr. Kiklis knew or should have known that:

a. SAS was a current client of Akin Gump since July 2006; and

b. Akin Gump had secured a pecuniary interest, which was more than a remote or speculative interest, adverse to SAS when it executed the JuxtaComm I retention agreement.

70. Mr. Kiklis and Akin Gump did not notify Mr. Wilson or any other agent of SAS that a potential or current conflict of interest existed when Mr. Kiklis executed the SAS/IBM retention agreement on behalf of Akin Gump.

71. Mr. Kiklis and Akin Gump did not conform to the highest ethical standards in performing services for SAS when it failed to disclose its adverse pecuniary interest, which was secured by the JuxtaComm I retention agreement, before or after Mr. Kiklis' execution of the SAS/IBM retention agreement.

72. Due to Mr. Kiklis and Akin Gump's failure to disclose an adverse pecuniary interest to SAS before SAS executed the SAS/IBM retention agreement, SAS was foreclosed from making an informed decision regarding its retention of Akin Gump for the IBM cross-licensing matter.

73. In December 2007, Mr. Macon consulted Mr. Daniel Joseph, senior counsel at Akin Gump who was practicing at the firm's Washington, D.C. office, regarding an ethics matter that developed during the discovery phase of the JuxtaComm I

litigation. Mr. Macon asked Mr. Joseph whether it would be permissible for Akin Gump attorneys to review for privilege and produce in discovery JuxtaComm documents that discussed potential infringement by Sun Microsystems, SAP, and SAS.

74. Mr. Joseph advised Mr. Macon that Akin Gump attorneys could review the documents for privilege, but they could not conduct review "for substantive questions about... whether SAS' products might have infringed the ['662 patent]." Mr. Joseph opined further that the firm "could not either do analysis or make arguments that, if correct, would be harmful either to [SAS'] interests or JuxtaComm's."

75. SAS did not present sufficient evidence to warrant a finding that Akin Gump reviewed documents related to SAS provided by JuxtaComm for more than a determination regarding privilege.

76. In March 2008, Mark Evens, an attorney for Sybase, one of the defendants in JuxtaComm I, contacted Mr. Wilson to obtain prior art from SAS that could be used to support its defense that the '662 patent was invalid.

77. Mr. Wilson met with Mr. Evens at SAS on March 28, 2008, and provided materials that Sybase later submitted to Akin Gump in JuxtaComm I as prior art in support of its invalidity defense. Before the meeting was concluded, Mr. Wilson requested

Mr. Evens "to tell Mr. Kiklis hello" in expectation of their forthcoming meeting.

78. Although Akin Gump and SAS hoped for divergent results in the JuxtaComm I litigation while SAS was a current client of Akin Gump, SAS was never a defendant in JuxtaComm I.

79. Rule 1.7 of the Rules of Professional Conduct for Washington, D.C. states, "A lawyer shall not advance two or more adverse positions in the same matter." The rule continues by prohibiting a lawyer from representing a client with respect to a matter if:

> (1) That matter involves a specific party or parties and a position to be taken by that client in that matter is adverse to a position taken or to be taken by another client in the same matter even though that client is unrepresented or represented by a different lawyer;
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> (2) Such representation will be or is likely to be adversely affected by representation of another client;
>
> (3) Representation of another client will be or is likely to be adversely affected by such representation; and
>
> (4) The lawyer's professional judgment on behalf of the client will be or reasonably may be adversely affected by the lawyer's responsibilities to or interests in a third party or the lawyer's own financial, business, property, or personal interests.

This rule is subject to an exception if:

> (1) Each potentially affected client provides informed consent to such representation after

> full disclosure of the existence and nature of the possible conflict and the possible adverse consequences of such representation; and
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> (2) The lawyer reasonably believes that the lawyer will be able to provide competent and diligent representation to each affected client.

80. Comment 13 to Rule 1.7 of the Professional Rules of Conduct for Washington, D.C. states, "The mere fact that advocating a legal position on behalf of one client might create precedent adverse to the interests of a client represented by the lawyer in an unrelated matter does not, without more, create a conflict of interest." A conflict may exist in this situation if the "lawyer's action on behalf of one client in a given matter... will adversely affect the lawyer's effectiveness in representing another client in the same or different matter."

81. SAS did not present sufficient evidence to warrant a finding that Mr. Kiklis or Akin Gump's action on behalf of JuxtaComm in JuxtaComm I adversely affected their representation of SAS in the government affairs matter or the IBM cross-licensing matter.

82. A short time before Mr. Wilson's meeting with Mr. Evens, he contacted Mr. Kiklis on March 10, 2008 to discuss the progress of the IBM cross-licensing matter. Mr. Wilson told Mr. Kiklis that IBM was demanding a total of twenty-four million dollars ($24M) over ten years and asked Mr. Kiklis for his

advice regarding a counteroffer. Mr. Wilson and Mr. Kiklis arranged a telephone conference for March 14, 2008.

83. After conversing with Mr. Wilson, Mr. Kiklis was optimistic that Akin Gump would become more substantially involved in the IBM cross-licensing matter. In an email that Mr. Kiklis sent to his partner, Mr. Davis, he disclosed that if SAS went forward with the project, it "could be substantial." Mr. Davis responded, "Congratulations! Touchdown."

84. In March 2008, Mr. Wilson believed that SAS would need Mr. Kiklis to perform significant work in the preparation of proof packages and the analysis of SAS' patent portfolio to satisfactorily respond to IBM's demands and resolve the IBM cross-licensing matter. Despite Mr. Wilson's belief and subsequent conversations with Mr. Kiklis regarding the scope of Akin Gump's potential increased role in the representation, Mr. Kiklis and Akin Gump were not asked to provide analysis or create proof packages on behalf of SAS in its effort to resolve the IBM cross-licensing matter.

85. On March 31, 2008, Mr. Kiklis completed his last billed work on behalf of SAS in the IBM cross-licensing matter. The total billed time amounted to 2.4 hours, and SAS paid Akin Gump one thousand, five hundred nineteen and 14/100 dollars ("$1,519.14") in legal fees and expenses for representation related to the IBM cross-licensing matter.

86. In April 2008, defendants in the JuxtaComm I litigation asserted two SAS products as prior art as part of their invalidity defense, including SAS Warehouse Administrator, which was identified by JuxtaComm and Akin Gump or its agents as one of the potential infringing products during Akin Gump's due diligence period in early 2007.

87. Consultants for Mr. Kiklis and Akin Gump analyzed the SAS products which were asserted by JuxtaComm I defendants as prior art in order to assist Mr. Kiklis and Akin Gump in their response to the invalidity assertions.

88. On April 23, 2008, Mr. Kiklis asked in an email to Mr. Wilson, "What's the status?" in reference to the IBM cross-licensing matter. Mr. Wilson responded later that day, "We are pushing some other buttons before taking any additional steps on portfolio review. I don't expect anything new in the near term."

89. On May 30, 2008, SAS terminated Akin Gump from its government affairs representation which had continued uninterrupted from July 2006.

90. For services rendered by Akin Gump to SAS related to government affairs representation from July 13, 2007 through May 30, 2008, SAS paid Akin Gump two hundred twelve thousand, two hundred fifty-eight and 06/100 dollars ("$212,258.06")[6].

[6] This figure was calculated based upon the amount of money paid by SAS to Akin Gump for the government affairs representation over the dates specified at

91. On August 21, 2008, the IBM cross-licensing matter was still ongoing, and Mr. Kiklis sent an email to Mr. Wilson. In the email he stated, "Hi Tim, I hope you are well and that the IBM situation worked out for you. I'm reaching out to you because I would like to talk with you about what opportunities there may be for us to work together..." Mr. Wilson responded the next day,

> Hi Mike, we are still actively working on the IBM situation. I hope that we will be able to resolve the situation without significant issues arising, but that depends on how reasonable IBM remains. I suspect that at some point, we may need your help again - even if it is only during the agreement phase.
>
> I would be happy to speak with you about opportunities for working together. Nothing has really changed since the last time we spoke about it, but I appreciate you thinking of me. I have been pretty limited in new things that I can do here...

92. On October 15, 2008, Mr. Kiklis submitted a business plan to Steve Zager, a superior within the intellectual property practice group at Akin Gump. In the business plan, Mr. Kiklis stated, "Other clients include... SAS" and "I have begun working with SAS on a pre-litigation matter that is adverse to IBM. SAS expects this to heat up by the end of the year, and this may turn into a full blown litigation in '09. If it does, the

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the rate of $15,000.00 per month including a *pro rata* share for the month of July 2007.

billings to SAS in '09 could reach well in excess of $1.5 million."

93. Although Mr. Kiklis testified his "belief that there would be any further work from SAS was really starting to dwindle" and that he was instructed to discuss even remote prospects in the business plan, his statements nonetheless reveal he knew that SAS was a current client on October 15, 2008.

94. On December 23, 2008, SAS and IBM executed a cross-licensing agreement ("SAS/IBM cross-licensing agreement"). Although Mr. Wilson did not advise Mr. Kiklis or Akin Gump that the SAS/IBM cross-licensing agreement had been executed, the evidence was not sufficient to warrant a finding that Mr. Wilson attempted to conceal that fact from Mr. Kiklis or Akin Gump.

95. The execution of a cross-licensing agreement by SAS and IBM resolved and completed the IBM cross-licensing matter.

96. Akin Gump's representation of SAS in the IBM cross-licensing matter, as governed by the SAS/IBM retention agreement, concluded no later than December 23, 2008 because the matter was complete.

97. On February 9, 2009, Mr. Kiklis completed his "2009 Capital Partner Self-Assessment" in which he stated,

> SAS is an existing client of the firm. I know the chief IP counsel there very well. We have made a pitch for their patent litigation work,

> and have been retained to advise them on a major patent battle that they are having with IBM. If and when this battle heats up, we will handle any preligiation/litigation work on it.

98. Mr. Kiklis had not been made aware that SAS had executed the SAS/IBM cross-licensing agreement when he drafted his 2009 Capital Partner Self-Assessment.

99. In the same month, Akin Gump finalized the first of a series of settlement agreements ("JuxtaComm I settlement agreements") and license agreements with the JuxatComm I defendants.

100. Attached to the JuxtaComm I settlement agreements was a list of excepted parties produced by JuxtaComm. SAS was identified as an excepted party, and JuxtaComm consequently preserved the right to pursue a potential claim for patent infringement against SAS related to the '662 patent.

101. In March 2009, Mr. Evens contacted Mr. Wilson again and informed him, "Based on our conversations, SAS may be a future target" of a patent infringement claim by JuxtaComm. Mr. Wilson did not contact Mr. Kiklis or Akin Gump to discuss a potential conflict of interest as a result of that conversation.

102. In April 2009, Akin Gump administratively closed the IBM cross-licensing matter due to the absence of recent billing activity. According to Akin Gump standard practice and procedure, administrative closure of a client's file at Akin

Gump can occur when no billing activity is recorded for a period in excess of thirteen months.

103. Akin Gump's administrative closure policy does not require notification to be delivered to clients whose files are closed as a consequence thereto. No correspondence was sent by Mr. Kiklis or Akin Gump to SAS to notify SAS of the administrative closure of its file related to the IBM cross-licensing matter.

104. Rule 1.4 of the Rules of Professional Conduct for Washington, D.C. states in part,

> (a) A lawyer shall keep a client reasonably informed about the status of a matter and promptly comply with reasonable requests for information.
>
> (b) A lawyer shall explain a matter to the extent knownably necessary to permit the client to make informed decisions regarding the representation.

105. SAS is a sophisticated client that employs over forty in-house attorneys and has regularly engaged outside counsel for complicated matters before retaining Akin Gump on government affairs and the IBM cross-licensing matters.

106. Although Mr. Kiklis and Akin Gump did not execute best practice when they failed to issue a closing letter or other communication to SAS after administrative closure of its file related to the SAS/IBM cross-licensing matter, SAS is a sophisticated client and was sufficiently informed by the

SAS/IBM retention agreement that Akin Gump's representation was complete no later than December 23, 2008 when the SAS/IBM cross-licensing agreement was executed. SAS became a former client of Akin Gump when it executed the SAS/IBM cross-licensing agreement.

107. Rule 1.9 of the Rules of Professional Conduct for Washington, D.C. states, "A lawyer who has formerly represented a client in a matter shall not thereafter represent another person in the same or a substantially related matter in which that person's interests are materially adverse to the interests of the former client unless the former client gives informed consent."

108. Comment 3 to Rule 1.9 states that matters are "substantially related" if they "involve the same transaction or legal dispute of if there otherwise is a substantial risk that confidential factual information as would normally have been obtained in the prior representation would materially advance the client's position in the subsequent matter."

109. Akin Gump finalized the last of the settlement agreements with the JuxtaComm I defendants in October 2009. The aggregate settlement amount was seventy-nine million dollars ("$79M"), and Akin Gump received forty-nine million dollars ("$49M") in compensation for the matter.

110. On October 2, 2009, Mr. Kiklis sent an email to Mr. Wilson that included an attached amicus brief that Mr. Kiklis had co-authored with a partner that related to the "Bilski" case.

111. On October 2, 2009 and October 13, 2009, Ms. Hahn and Mr. Ladd Wiley, an attorney at Akin Gump, exchanged emails in an attempt to schedule a meeting to discuss a matter related to fraud.

112. On October 26, 2009, Akin Gump began checking conflicts in anticipation of initiating a second patent infringement lawsuit on behalf of JuxtaComm against the excepted parties from the JuxtaComm I settlement agreements. Ms. Melanie Cowart, Senior Counsel at Akin Gump's San Antonio, Texas office, was responsible for conducting the conflicts investigation. SAS was an excepted party and subject to the conflicts investigation.

113. No further investigation into the products of the excepted parties had been conducted before Akin Gump performed the conflicts investigation in October 2009.

114. On November 5, 2009, Ms. Hahn contacted Mr. Wiley to discuss the possibility of retaining the law firm to represent SAS for new public policy matters. Ms. Hahn requested that any representation be conducted on an hourly basis without the requirement of a retainer.

115. Mr. Wiley contacted Mr. Davis on the same day to obtain approval for the representation, but Mr. Davis responded that Akin Gump could only accept representation in a public policy matter if SAS paid a monthly retainer in the amount of $15,000.00.

116. As a result of the conflicts investigation conducted by Ms. Cowart, she identified SAS as either a current or former client of the law firm. She subsequently contacted Mr. Kiklis to determine the status of Akin Gump's representation of SAS.

117. On November 6, 2009, Mr. Kiklis sent an email to Mr. Wilson and stated, "Hi Tim, I haven't heard from you in quite some time about [the IBM cross-licensing matter]. I would therefore like to close it out. Would that be ok?" Mr. Wilson responded, "Yes."

118. Mr. Kiklis sent the November 6, 2009 email to Mr. Wilson because he wished to confirm his reasonable understanding that the IBM cross-licensing matter was closed. At that time, Akin Gump and Mr. Kiklis had not performed work related to the matter for approximately nineteen months. Additionally, Mr. Kiklis sought to prevent Mr. Wilson from continuing any search for additional work to give to Akin Gump.

119. After receiving Mr. Wilson's response, Mr. Kiklis sent an email to Mr. Davis three minutes later. In the email, Mr. Kiklis asked, "Is your work for SAS done? We're thinking about

taking on a matter that is adverse to them." Mr. Davis responded "Yes. Am I right Ladd?" and copied Mr. Wiley to the email thread. Mr. Wiley responded that SAS was requesting Akin Gump to represent the company in additional public policy matters but did not "want to pay [Akin Gump's] price."

120. Later that day, Mr. Kiklis informed Ms. Cowart that the IBM cross-licensing matter was complete and that he would contact Mr. Davis to inquire about the status of the government affairs matter. After contacting Mr. Davis, Mr. Kiklis informed Ms. Cowart that both matters had been concluded.

121. On November 9, 2009, Mr. Kiklis forwarded Mr. Wilson's response email from November 6, 2009 to an office assistant and asked her to "close the IBM matter for SAS." Within minutes, Mr. Kiklis contacted Mr. Davis and Mr. Wiley and stated, "We'd like to now move forward with a case against SAS. Would this be a problem?" Mr. Wiley responded, "should not be a problem - but let me just close the loop with them."

122. On November 9, 2009, Mr. Wiley emailed Ms. Hahn. In the email, he notified Ms. Hahn that Akin Gump could only represent SAS on the additional public policy matters if it paid a retainer in the amount of $15,000.00. In the last of a series of replies, Ms. Hahn asked, "Can you recommend someone else?"

123. Despite proving a distinct swell in correspondences between SAS and Akin Gump from October 2009 until early November

2009, SAS did not present sufficient evidence to warrant the finding that an attorney-client relationship developed during this time that required Akin Gump to afford SAS fiduciary and ethical duties more than those owed to a former and prospective client.

124. The October and November 2009 communications reveal that SAS was hopeful that it could retain Akin Gump for additional public policy matters on favorable terms, but such representation was never secured.

125. Mr. Barry Cohen provided expert testimony on behalf of Akin Gump and Mr. Kiklis related to the Rules of Professional Conduct for Washington, D.C. Mr. Cohen is a partner at Crowell and Moring in Washington, D.C. He is the former chair of his firm's professional responsibility committee and is currently in his second term as the chair of the committee on admissions and grievances of the U.S. Court of Appeals for the D.C. Circuit.

126. Mr. Cohen testified that Rules 1.7 and 1.9 of the Rules of Professional Conduct set the same standard of care as the common law fiduciary duty of loyalty to current clients and former clients, respectively.

127. In Mr. Cohen's opinion:

a. Mr. Kiklis and Akin Gump complied with Rule 1.7 with respect to representation of SAS and JuxtaComm.

b. Mr. Kiklis and Akin Gump complied with Rule 1.9 with respect to SAS as a former client.

c. Mr. Kiklis and Akin Gump did not take a position adverse to SAS at any time during their representation of SAS.

d. The 20% provision does not violate Rule 1.7.

128. From November 2009 until filing the JuxtaComm II lawsuit against SAS and other excepted parties from JuxtaComm I, Mr. Kiklis and Akin Gump conducted due diligence to determine if JuxtaComm had a good-faith basis to file a patent infringement lawsuit against the excepted parties.

129. Although Akin Gump ordinarily employs a three-step process to determine whether a good-faith basis exists to file a patent infringement lawsuit, the market analysis had already been completed regarding the JuxtaComm II defendants before November 2009. Market analysis refers to step one of the three-step process in which Akin Gump and its agents determined the participants in the ETL market without conducting a more detailed analysis of suspected infringing products.

130. Mr. Macon, on behalf of Akin Gump, advised JuxtaComm to form JuxtaComm-Texas Software, LLC ("JuxtaComm-Texas"). The creation of JuxtaComm-Texas allowed JuxtaComm II to be filed in what Akin Gump considered to be a more friendly patent enforcement jurisdiction and forum.

131. JuxtaComm-Texas is a limited liability corporation organized and existing under the laws of the State of Texas with a principal place of business in Tyler, Texas. JuxtaComm-Texas is a wholly owned subsidiary of JuxtaComm and a licensee of the '662 patent.

132. On January 20, 2010, Akin Gump executed a retention agreement with JuxtaComm and JuxtaComm-Texas setting forth the terms of its representation in JuxtaComm II ("JuxtaComm II retention agreement").

133. Upon execution of the JuxtaComm II retention agreement, the JuxtaComm I retention agreement was terminated on January 20, 2010. Until that day, the JuxtaComm I retention agreement remained in full effect.

134. Although Akin Gump and Mr. Kiklis alleged upon information and belief in the answer that JuxtaComm could not proceed in JuxtaComm II without Akin Gump as counsel, JuxtaComm maintained its freedom to hire new counsel subject to its fulfillment of contract obligations to Akin Gump and despite financial disincentives.

135. On January 21, 2010, Mr. Kiklis on behalf of Akin Gump filed JuxtaComm II against SAS and twenty-one other defendants for alleged infringement of the '662 patent.

136. Akin Gump and Mr. Kiklis relied in part upon their work in JuxtaComm I to develop JuxtaComm's case against SAS and

other defendants in JuxtaComm II. The former work that Akin Gump and Mr. Kiklis relied upon related primarily to market analysis and a '662 patent study.

137. After SAS was served with the JuxtaComm II lawsuit, Mr. John Boswell, General Counsel for SAS, thought, "this must be a mistake. These are our lawyers." Mr. Boswell knew that Mr. Kiklis had "represented SAS on patent matters." Mr. Boswell contacted Mr. Wilson and requested that he call Mr. Kiklis to discuss the matter.

138. Although Mr. Boswell subjectively believed that Mr. Kiklis and Akin Gump still represented SAS in January 2010 because Mr. Kiklis had represented SAS on patent matters in the past, his belief was unreasonable.

139. SAS retained Jones Day, a law firm that it had retained in the past on unrelated matters, to represent the company in defense of the claims presented by JuxtaComm in JuxtaComm II.

140. SAS filed a motion to disqualify Akin Gump and Mr. Kiklis from representing JuxtaComm against SAS in JuxtaComm II.

141. On August 5, 2010, the United States District Court for the Eastern District of Texas ("federal district court") issued a discovery order requiring the parties, inter alia, to produce all relevant documents without a requirement for the parties to make a formal request.

142. Akin Gump and Mr. Kiklis did not timely produce the JuxtaComm I retention agreement before the federal district court entered an order to deny SAS' motion to disqualify.

143. Akin Gump produced the JuxtaComm I retention agreement for SAS' review after the federal district court issued its order denying the motion to disqualify.

144. After reviewing the JuxtaComm I retention agreement, SAS filed a motion to reconsider its former motion to disqualify in part on the basis of the newly discovered document. The federal district court did not reach the merits of SAS' motion to reconsider because it granted summary judgment in favor of the defendants.

145. JuxtaComm appealed the decision issued by the federal district court to the United States Court of Appeals for the Federal Circuit ("federal appellate court"). Akin Gump prosecuted the appeal on behalf of JuxtaComm. SAS filed a cross-appeal from the federal district court's denial of its motion to reconsider.

146. The federal appellate court affirmed the decision and dismissed as moot the cross-appeal filed by SAS. JuxtaComm-Tex. Software, LLC v. TIBCO Software, Inc., 532 F.App'x 911, 912 (Fed. Cir. 2013). In its denial of SAS' cross-appeal, the federal appellate court stated that the issues regarding the JuxtaComm I retention agreement "were not adjudicated" in the

federal district court's order denying the motion to disqualify. Id.

147. The federal district court awarded SAS its costs because it was a prevailing party, but SAS was unable to collect its costs from JuxtaComm-Texas, which had only eight hundred dollars ($800.00) in assets.

148. SAS paid eight million, six hundred seventeen thousand, four hundred ninety-four and 24/100 dollars ("$8,617,494.24") in legal fees and costs to defend the JuxtaComm II lawsuit. Of that, only seven hundred fifty-five thousand, seventy-one and 77/100 dollars ("$755,071.77") was expended by SAS for legal fees and costs before entry of the federal district court's order denying its motion to disqualify.

149. Akin Gump and Mr. Kiklis relied upon the federal district court's order denying SAS' motion to disqualify in JuxtaComm II in the continuation of its representation of JuxtaComm in that matter.

CONCLUSIONS OF LAW

1. The parties are properly before the court, and this court has jurisdiction over the claims presented.

2. North Carolina law applies to all substantive claims in this matter.

3. Mr. Kiklis acted as an agent of Akin Gump in his representation of JuxtaComm.

4. Mr. Kiklis acted as an agent of Akin Gump in his representation of SAS.

5. Mr. Macon acted as an agent of Akin Gump when he executed the JuxtaComm I retention agreement on behalf of Akin Gump.

I. BURDEN OF PROOF

6. SAS bears the burden to prove its claims for constructive fraud and breach of contract by a preponderance of the evidence. See Gosai v. Abeers Realty & Dev. Mkting., Inc., 605 S.E.2d 5, 8-9 (N.C. Ct. App. 2004) (plaintiff must prove by a preponderance of the evidence its claim of constructive fraud against defendant); Federated Mut. Ins. Co. v. Williams Trull Co., 838 F.Supp.2d 370, 420 (M.D.N.C. 2011) (plaintiff must prove breach of contract by defendants by preponderance of the evidence). The burden shifts applicable to a constructive fraud claim are set forth infra.

II. CONSTRUCTIVE FRAUD CLAIM

7. To prevail on its claim for constructive fraud, SAS must prove by a preponderance of the evidence: (1) a relationship of trust and confidence; (2) the defendant took advantage of that position of trust in order to benefit himself; and (3) the plaintiff was, as a result, injured. White v. Consol. Planning, Inc., 603 S.E.2d 147, 156 (N.C. Ct. App. 2004) (internal citations omitted).

8. If the plaintiff presents a prima facie case, a presumption of constructive fraud arises. Watts v. Cumberland County Hosp. System, Inc., 317 N.C. 110, 116 (1986). The burden then shifts to the defendant to rebut the presumption by proving[7]: (1) "the confidence reposed in him was not abused, but that the [plaintiff] acted on independent advice," Id.; (2) he "acted in an 'open, fair and honest' manner, so that no breach of fiduciary duty occurred," Estate of Smith, 487 S.E.2d at 812; or (3) "no fraud was committed, and no undue influence or moral duress exerted," Lee v. Pearce, 68 N.C. 76, 81 (1873).

9. If the defendant rebuts the presumption of fraud, the plaintiff must "shoulder the burden of producing actual evidence of fraud." Watts, 317 N.C. at 116.

A. Relationship of Trust and Confidence

10. A lawyer is necessarily in a position of trust and confidence as to his client. For that reason, North Carolina law has long recognized that the attorney-client relationship is a fiduciary one. See, e.g., Fox v. Wilson, 354 S.E.2d 737, 742 (N.C. Ct. App. 1987).

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[7] Although defendants submit their burden is only "one of production, not proof," [D.E. #319 at 24, ¶5], North Carolina courts have consistently characterized the burden as one of proof. See Estate of Smith ex rel. Smith v. Underwood, 487 S.E.2d 807, 812 (N.C. Ct. App. 1997) ("Once a plaintiff established a prima facie case of the existence of a fiduciary duty, and its breach, the burden shifts to the defendant to *prove* he acted in an 'open, fair and honest' manner...") (citing HAJMM Co. v. House of Raeford Farms, 379 S.E.2d 868, 874 (1989)) (emphasis added).

11. An attorney-client relationship existed between Akin Gump and SAS as to government affairs matters between July 2006 and May 2008.

12. An attorney-client relationship between Akin Gump and SAS as to the IBM cross-licensing matter began no later than August 2007 and continued until no later than December 23, 2008 when the SAS/IBM cross-licensing agreement was executed.

B. Breach of Fiduciary Duty

13. A violation of the Rules of Professional Conduct is not, by itself, sufficient to establish liability. See, e.g., Laws v. Priority Trustee Servs. of N.C., LLC, 610 F.Supp.2d 528, 530 (W.D.N.C. 2009); aff'd, 375 Fed.Appx. 345 (4th Cir. 2010) (per curiam). Nevertheless, the Rules are "evidence of an attorney's duty to his client." Booher v. Frue, 394 S.E.2d 816, 821-22 (N.C. Ct. App. 1990); see also Restatement (Third) of the Law Governing Lawyers § 52 cmt. f ("[T]he trier of fact may consider the content and construction of... a rule of professional conduct" because "[s]uch a provision is relevant to whether a lawyer... has violated a fiduciary duty.")

14. An attorney's "basic fiduciary obligations" of "undivided loyalty and confidentiality... predate codified ethical standards and exist independently" of them. Ronald E. Mallen & Jeffrey M. Smith, Legal Malpractice § 15:1 (Westlaw Feb. 2015) (hereinafter "Mallen & Smith"). Nevertheless, "the

disciplinary rules often reasonably reflect accurate statements of the common law concerning fiduciary obligations." Mallen & Smith § 15:11. With particular respect to the fiduciary duty of loyalty, "the standard of care is essentially uniform throughout the country, in light of the near universal acceptance of the basic norms as recapitulated in both the Model Rules of Professional Conduct and the Restatement of the Law Governing Lawyers." Geoffrey C. Hazard, Jr. and W. William Hodes, The Law of Lawyering § 4.5 (3d ed. 2007) (hereinafter "Hazard & Hodes").

15. North Carolina common law sets forth the following fiduciary duties that are owed by those who are invested with qualifying confidence:

a. The duty of loyalty, see In re Estate of Armfield, 439 S.E.2d 216, 220 (N.C. Ct. App. 1994);

b. The duty to avoid conflicts of interest, see In re Estate of Moore, 212 S.E.2d 184, 187 (N.C. Ct. App. 1975);

c. The duty to make full disclosure, see Link v. Link, 278 N.C. 181, 192 (1971); and

d. The duty to put the client's interests ahead of his own, see Miller v. McLean, 252 N.C. 171, 174 (1960).

16. Although the rules of professional responsibility set forth supra and presented or referred to at trial are helpful for determining the standard of care owed by fiduciaries, such

rules are not dispositive for determining civil liability because they are derived from ethical rather than legal principles. McGee v. Eubanks, 335 S.E.2d 178, 181-82 (N.C. Ct. App. 1985); see Booher, 358 S.E.2d at 821-22.

17. SAS alleged that defendants breached their fiduciary duties in five ways, [D.E. 291 at 8-15], which this court now addresses in turn:

i. Investigation of SAS in 2007

18. Although Akin Gump, Mr. Kiklis, and their agents researched ETL market participants, including SAS, during the first step of its three-step process to determine whether they would represent JuxtaComm in its '662 patent monetization efforts, Mr. Kiklis promptly and effectively excluded SAS from further investigation and subsequently excepted SAS from the scope of JuxtaComm I litigation efforts. Therefore, Akin Gump and Mr. Kiklis did not breach their fiduciary duties owed to SAS during the due diligence period.

ii. 2007 Retention Agreement

19. A lawyer breaches his fiduciary duties owed to a current client, including the North Carolina common law duties of loyalty, to avoid conflict of interest, to make full disclosure, and to put the client's interests ahead of his own when he knowingly acquires an adverse pecuniary interest against

the client without making full disclosure of such interest and before obtaining the informed consent of that client.

20. Akin Gump breached its fiduciary duties owed to SAS in regard to loyalty, to avoid conflict of interest, to make full disclosure, and to put SAS' interest ahead of its own when it executed the JuxtaComm I retention agreement and knowingly acquired an adverse pecuniary interest, namely the 20% provision, against SAS without making full disclosure of such interest and obtaining the informed consent of SAS.

21. Mr. Kiklis did not breach his fiduciary duties owed to SAS in regard to loyalty, to avoid conflict of interest, to make full disclosure, and to put the SAS' interests ahead of his own insofar as such claims relate to his alleged acquisition of an adverse pecuniary interest against SAS because he neither contributed to the drafting or execution of the JuxtaComm I retention agreement nor acquired a personal financial interest as a consequence of its execution.

iii. Litigation and Settlement of JuxtaComm I

22. A lawyer does not breach his fiduciary duties owed to a current client, including the North Carolina common law duties of loyalty, to avoid conflict of interest, to make full disclosure, and to put the client's interests ahead of his own, when he asserts a position for one client that, if successful, could create precedent that is unfavorable to another client

that the firm represents in an unrelated matter. An exception exists when the lawyer's representation on behalf of the first client adversely affects the lawyer's effectiveness in representing the second client on the same or an unrelated matter.

23. Akin Gump and Mr. Kiklis did not breach their fiduciary duties owed to SAS when they litigated JuxtaComm's claims in JuxtaComm I and "strengthened" the '662 patent by securing settlement agreements because even the creation of adverse precedent is insufficient to support a breach absent proof that such efforts adversely impacted the effectiveness of Mr. Kiklis and Akin Gump's representation of SAS in the unrelated matters.

24. Akin Gump and Mr. Kiklis did not breach their fiduciary duties owed to SAS when they examined prior art submitted by defendants in JuxtaComm I related to SAS products because SAS was not an adverse party to the litigation and could not suffer harm as a consequence of the review.

25. Akin Gump and Mr. Kiklis did not breach their fiduciary duties owed to SAS when they attached a list of excepted parties, including SAS, to the JuxtaComm I settlement agreements. The incorporation of the list of excepted parties did not preserve an existing claim; rather it preserved JuxtaComm's right to pursue a future claim should one be found.

iv. Mr. Kiklis' November 6, 2009 Email

26. A lawyer does not breach his fiduciary duties owed to a former client, including the North Carolina common law duties of loyalty, to avoid conflict of interest, to make full disclosure, and to put the client's interests ahead of his own, when he does not act adverse to that client in the same or substantially related matter.

27. When Mr. Kiklis sent the November 6, 2009 email to Mr. Wilson, SAS was a former client of Akin Gump. The matters for which Mr. Kiklis and Akin Gump had been retained to represent SAS had concluded no later than December 23, 2008.

28. Akin Gump and Mr. Kiklis did not have a duty to disclose JuxtaComm's intention to file a patent infringement claim to SAS when Mr. Kiklis sent the November 6, 2009 email because their representation of SAS was complete nearly eleven months earlier. "[S]ilence is fraudulent only when there is a duty to speak." Pearson v. Gardere Wynne Sewell LLP, 814 F.Supp.2d 592, 605 (M.D.N.C. 2011).

29. Akin Gump and Mr. Kiklis did not breach their fiduciary duties owed to SAS when Mr. Kiklis sent an email to Mr. Wilson on November 6, 2009 that stated, "Hi Tim, I haven't heard from you in quite some time about [the IBM cross-licensing matter]. I would therefore like to close it out. Would that be

ok?" and did not inform SAS about their intention to investigate a patent infringement claim against SAS on behalf of JuxtaComm.

v. JuxtaComm II Retention Agreement and Case

30. When Akin Gump executed the JuxtaComm II retention agreement, SAS was a former client of the firm. The matters for which Mr. Kiklis and Akin Gump had been retained to represent SAS had concluded no later than December 23, 2008.

31. For the reason set forth in section II(B)(iv), paragraph 26 of the Conclusions of Law supra, Mr. Kiklis and Akin Gump were only precluded from being adverse to SAS in the same or a substantially related matter.

32. The subject matter of JuxtaComm II was neither the same nor substantially related to the IBM cross-licensing matter of the government affairs work for which Akin Gump represented SAS.

33. Akin Gump and Mr. Kiklis did not breach their fiduciary duties owed to SAS when they executed the JuxtaComm II retention agreement and represented JuxtaComm in JuxtaComm II.

C. Benefit to Akin Gump

34. To prove a claim for constructive fraud, the plaintiff must prove that defendant sought to benefit himself by taking advantage of the plaintiff. See, e.g., Barger v. McCoy Hillard & Parks, 346 N.C. 650, 666 ("In order to maintain a claim for constructive fraud... the defendant must seek to benefit

himself."). The plaintiff must show that "the benefit sought was more than a continued relationship with the plaintiff or payment of a fee to a defendant for work it actually performed." White, 603 S.E.2d at 156.

35. When Akin Gump executed the JuxtaComm I retention agreement, it acquired a pecuniary interest in 20% of "all value received from any person or source which is derived from the ['662 patent]... even when Akin Gump is not directly involved with obtaining such value." The acquisition of the 20% interest was a breach of Akin Gump's fiduciary duties to SAS that secured for Akin Gump a valuable benefit. The asset could have been assigned or, as it did in the instant case, provide an incentive for JuxtaComm to retain Akin Gump in subsequent litigation. JuxtaComm retained Akin Gump to represent the company in JuxtaComm II and remitted compensation to Akin Gump for their services.

D. Damages to SAS

36. In order to recover damages, the plaintiff must prove that the defendant's conduct proximately caused its damages. See Jay Grp., Ltd. v. Glasgow, 534 S.E.2d 233, 237 (N.C. Ct. App. 2000).

37. As a result of Akin Gump's acquisition of an adverse pecuniary interest against SAS when it executed the JuxtaComm I retention agreement on July 13, 2007 without having disclosed

the 20% provision or obtained SAS' informed consent, SAS suffered continuing proximate harm from the breach of fiduciary duties insofar as it was foreclosed from making an informed decision regarding its continued retention of Akin Gump, its consent or refusal thereof to Akin Gump's acquisition of an adverse pecuniary interest, and other matters related to the representation.

38. Consequently, SAS was proximately harmed by Akin Gump's breach of fiduciary duty in the amount of $212,258.06, the amount that SAS tendered to Akin Gump for services rendered from July 13, 2007, the date of execution of the JuxtaComm I retention agreement, through May 30, 2008 as compensation for its government affairs representation.

39. Monies expended by SAS for the defense of JuxtaComm II were not a proximate damage suffered as a consequence of Akin Gump's acquisition of a pecuniary interest adverse to SAS in breach of its fiduciary duties.

E. Establishment of Prima Facie Case by SAS

40. SAS presented sufficient evidence to establish a prima facie case of constructive fraud by Akin Gump and Mr. Kiklis and breach of contract by Akin Gump.

41. Once SAS established a prima facie case, the burden shifted to Akin Gump and Mr. Kiklis to prove that they were "open, fair and honest" during the course of the relationship

with SAS as set forth in section II, paragraph 8 in the Conclusions of Law supra.

F. Open, Fair, and Honest Burden

42. With respect to the constructive fraud claim, Mr. Kiklis presented sufficient evidence to prove that he was open, fair, and honest throughout his relationship with SAS.

43. Akin Gump did not present sufficient evidence to prove that it was open, fair, and honest in particular regard to its acquisition of a pecuniary interest adverse to SAS, namely the 20% provision, without first making full disclosure to SAS and affording SAS the opportunity to give informed consent to the acquisition while it was a current client of the firm.

44. With respect to the constructive fraud claim, Akin Gump presented sufficient evidence to prove that it was open, fair, and honest in regard to each of SAS' remaining assertions.

G. Actual Fraud

45. Once Mr. Kiklis and Akin Gump presented sufficient evidence to prove that they had been open, fair, and honest throughout their relationship with SAS, with the exception set forth in section II(F), paragraph 43 of the Conclusions of Law supra, the burden shifted to SAS to prove that Akin Gump and Mr. Kiklis committed actual fraud.

46. To prove actual fraud, a plaintiff must show that the defendant made: (1) a false representation or concealment of a

material fact; (2) reasonably calculated to deceive; (3) with intent to deceive; (4) which does in fact deceive; (5) resulting in damage to the injured party to state a claim for fraud. Allen v. Simmons, 394 S.E.2d 478, 482 (N.C. Ct. App. 1990) (internal citation omitted).

47. SAS did not present sufficient evidence to prove that the remaining actions of Mr. Kiklis and Akin Gump, for which they rebutted the presumption of fraud, satisfied the elements of actual fraud.

III. BREACH OF CONTRACT CLAIM

48. To prevail on its breach of contract claim against a defendant, the plaintiff must prove (1) the existence of a valid contract; and (2) breach of the terms of the contract. Poor v. Hill, 530 S.E.2d 838, 843 (N.C. Ct. App. 2000).

49. SAS and Akin Gump entered into a valid contract on September 10, 2007 when they executed the SAS/IBM retention agreement. [Pl.'s Tr. Ex. 25]. The agreement is unambiguous on its face and subject to interpretation as a matter of law.

50. Akin Gump promised, inter alia, to notify SAS of any potential conflict of interest and "to conform to the highest ethical standards in performing services for [SAS]" in exchange for SAS' retention of Akin Gump to represent the company in the IBM cross-licensing matter.

51. Akin Gump failed to perform the contract because it did not conform to the highest ethical standards in performing services for SAS when it did not disclose its adverse pecuniary interest to SAS at any time during the course of its representation of SAS in the IBM cross-licensing matter.

52. Akin Gump failed to perform the contract because it did not notify SAS of a potential conflict of interest during either its pre-engagement review or the course of its representation.

53. Akin Gump's breach of contract caused SAS to incur $1,519.40 in damages. This is the amount of fees SAS paid to Akin Gump for representation in the IBM cross-licensing matter pursuant to the SAS/IBM retention agreement.

IV. DAMAGES

A. Compensatory Damages

54. SAS is entitled to an award of $212,258.06 from Akin Gump for compensatory damages suffered as a consequence of Akin Gump's constructive fraud.

55. SAS is entitled to an award of $1,519.40 from Akin Gump for compensatory damages suffered as a consequence of Akin Gump's breach of the SAS/IBM retention agreement.

B. Statutory Double Damages and Punitive Damages

56. Any attorney who is proven to have committed a "fraudulent practice" shall be liable to the plaintiff for

double damages. N.C. Gen. Stat. § 84-13 (2007). This statute applies to a defendant who is liable for constructive fraud. See Booher, 394 S.E.2d at 823.

57. Punitive damages may be awarded if the plaintiff proves that the defendant is liable for compensatory damages and that one of the statutory aggravating factors - fraud, malice, or willful or wanton conduct - is present. N.C. Gen. Stat. § 1D-15(a). The plaintiff must prove an aggravating factor by clear and convincing evidence. N.C. Gen. Stat. § 1D-15(b).

58. "Fraud" in N.C. Gen. Stat. 1D-15(a) does not include constructive fraud unless an element of intent is present. N.C. Gen. Stat. § 1D-5(4).

59. North Carolina courts have justified punitive damages "in cases of constructive fraud as long as some compensatory damages have been shown with reasonable certainty." Compton v. Kirby, 577 S.E.2d 905, 917-18 (N.C. Ct. App. 2003); Bogovich v. Embassy Club of Sedgefield, Inc., 712 S.E.2d 257, 267 (N.C. Ct. App. 2011).

60. A law firm operates through its agents. Mr. Macon is an attorney and acted as an agent of Akin Gump when he executed the JuxtaComm I retention agreement and acquired a pecuniary interest adverse to SAS on Akin Gump's behalf in violation of fiduciary duties owed to SAS. Consequently, Akin Gump committed

a fraudulent practice. By imputation, Akin Gump is liable for double damages to SAS pursuant to N.C. Gen. Stat § 84-13.

61. Therefore, SAS is entitled to an award from Akin Gump in the amount of double its compensatory damages set forth in section IV(A), paragraph 54. The total amount for which Akin Gump is liable to SAS as a consequence of its constructive fraud is four hundred twenty-four thousand, five hundred sixteen and 12/100 dollars ("$424,516.12").

62. SAS is not entitled to an award for punitive damages because this court assessed statutory double damages against Akin Gump pursuant to N.C. Gen. Stat. § 84-13.

63. However, even if Akin Gump were found to not be a qualifying party for which statutory double damages may be assessed, this court concludes from clear and convincing evidence that Akin Gump acted with sufficient intent to justify punitive damages on the constructive fraud claim equal to double the amount of compensatory damages. Akin Gump's willful or wanton conduct is evidenced by what it knew when Mr. Macon executed the JuxtaComm I retention agreement. Akin Gump knew that:

a. SAS was a current client of the firm;

b. SAS was a significant participant in the ETL market;

c. SAS manufactured particular products that may be infringing the '662 patent

d. JuxtaComm believed that SAS was an infringer of the '662 patent; and

e. The JuxtaComm I litigation was "a necessary step in a larger program of enforcing and licensing the ['662 patent] to realize [its] full economic potential."

64. North Carolina law prohibits punitive damages awards for breach of contract. N.C. Gen. Stat. §1D-15(d). SAS is not entitled to an award for punitive damages in regard to Akin Gump's breach of contract.

C. Akin Gump's Aggregate Liability to SAS

65. Akin Gump's total liability to SAS for its constructive fraud ($424,516.12) and breach of contract ($1,519.40) is: four hundred twenty-six thousand, thirty-five and 52/100 dollars ("$426,035.52").

V. Mr. Kiklis and Akin Gump's Rule 52(c) Oral Motions

66. SAS presented sufficient evidence in its case-in-chief from which the Court could find in SAS' favor on its constructive fraud and breach of contract claims. Therefore, the defendants' motion for judgment on partial findings at the close of SAS' evidence is hereby DENIED.

67. At the close of all evidence, there was sufficient evidence from which the court could find in SAS' favor on its

constructive fraud and breach of contract claims. Therefore, the defendants' motion for judgment on partial findings at the close of all evidence is DENIED.

VI. Mr. Kiklis and Akin Gump's Motion to Amend the Pleadings

68. For reasons set forth in defendants' motion for leave to amend the pleadings [D.E. #310] and their reply in support thereof [D.E. #324], the court GRANTS their motion to amend the pleadings and hereby orders that paragraph nine of defendants' answer, captioned "Ninth Defense," be stricken.

ORDER AND JUDGMENT

THEREFORE, based on the foregoing FINDINGS OF FACT and CONCLUSIONS OF LAW, the court hereby declares that:

1. Akin Gump committed an act constituting constructive fraud by a preponderance of the evidence causing damage to SAS in the amount of $212,258.06. By statute, the damage amount is doubled to $424,516.12, for which Akin Gump is liable to SAS.

2. Akin Gump breached a contract by a preponderance of the evidence causing damage to SAS in the amount of $1,519.40, for which Akin Gump is liable to SAS.

3. Akin Gump's aggregate liability to SAS based upon its act of constructive fraud and breach of contract is $426,035.52.

4. SAS did not prove by a preponderance of the evidence that Mr. Kiklis committed an act constituting constructive fraud.

IT IS THEREFORE ORDERED that Akin Gump remit $426,035.52 to SAS. Any motion regarding a claim for attorney's fees must comply with Rule 54(d) of the Federal Rules of Civil Procedure. Such motion(s) must be filed no later than fourteen (14) days after the entry of judgment. The clerk is directed to enter judgment accordingly.

This 6TH day of February, 2015.

MALCOLM J. HOWARD
Senior United States District Judge

At Greenville, NC
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