NO. A07-0358

State of Minnesota
In Court of Appeals

Dorsey & Whitney LLP,

Lien Claimant/Respondent,

v.

Andrew C. Grossman and ABCO Research, LLC,

Appellants.

BRIEF OF APPELLANTS

KELLY & BERENS, P.A.
Timothy D. Kelly (#54926)
Carrie L. Zochert (#291778)
3720 IDS Center
80 South Eighth Street
Minneapolis, Minnesota 55402
(612) 349-6171

Attorneys for Appellants

DORSEY & WHITNEY LLP
Perry M. Wilson, III (#12302X)
50 South Sixth Street
Suite 1500
Minneapolis, Minnesota 55402-1498
(612) 340-2600

Attorneys for Lien Claimant/Respondent

2007 – BACHMAN LEGAL PRINTING – FAX (612) 337-8053 – PHONE (612) 339-9518 or 1-800-715-3582

TABLE OF CONTENTS

TABLE OF AUTHORITIES

State Cases

State Statutes

STATEMENT OF ISSUES

A. Contract Issues.

1. Whether the written agreement between the parties is an agreement of joint venture that precludes the attorneys from obtaining a lien through the summary procedure of the Minnesota attorneys' lien statute, Minn. Stat. § 481.13?

   Authority:

   - Duxbury v. Spex Feeds, Inc., 681 N.W.2d 380 (Minn. Ct. App. 2004), review denied (Minn. Aug. 25, 2004);
   - Powell v. Trans Global Tours, Inc., 594 N.W.2d 252 (Minn. Ct. App. 1999);
   - Thomton, Sperry & Jensen, Ltd. v. Anderson, 352 N.W.2d 467 (Minn. Ct. App. 1984);
   - Thomas A. Foster Assocs., Ltd. v. Paulson, 699 N.W.2d 1 (Minn. Ct. App. 2005);
   - Minn. Stat. § 481.13 (2006).

2. Whether the written agreement between the parties permitted the client to deduct: (a) the client's out-of-pocket expenses (not just the attorney's out-of-pocket expenses); and (b) an award of attorneys' fees to a party opponent in a litigation matter, before calculation of the share of patent proceeds to be paid to the attorneys?

   Authority:

   - Untiedt v. Grand Labs, Inc., 552 N.W.2d 571 (Minn. Ct. App. 1996), review denied (Minn. Oct. 15, 1996).

3. Whether the written agreement between the parties included the outstanding charges by the lawyers for certain pre-agreement patent prosecution work in the payments to be made to the attorneys under the subject agreement, or whether the lawyers had a right to an attorneys' lien for the patent prosecution work because it was outside the subject agreement?

   Authority:

   - Untiedt v. Grand Labs, Inc., 552 N.W.2d 571 (Minn. Ct. App. 1996), review denied (Minn. Oct. 15, 1996).

4. Is Andrew Grossman a party to the written agreement between the parties in the sense of being legally bound to pay Dorsey's fees and expenses?

Authority:

- Rob Gass Const., Inc. v. Dropps, No. A03-88, 2003 WL 22889811(Minn. Ct. App. Dec. 9, 2003).

B. Attorneys' Lien Issues.

1. Whether the summary proceeding set forth in the Minnesota attorneys' lien statute, Minn. Stat. § 481.13, may give rise to an *in personam* judgment against either respondent, or only an *in rem* judgment against property or property rights?

Authority:

- Minn. Stat. § 481.13 (2006);
- St. Cloud Nat'l Bank & Trust Co. v. Brutger, 488 N.W.2d 852 (Minn. Ct. App. 1992), review denied (Minn. Nov. 17, 1992);
- Rob Gass Const., Inc. v. Dropps, No. A03-88, 2003 WL 22889811(Minn. Ct. App. Dec. 9, 2003).

2. Whether the common law of Minn. Stat. § 481.13, which prohibits a defense or counterclaim of legal malpractice by the client in a summary lien proceeding, also bars an *in personam* judgment against the client?

Authority:

- Thomas A. Foster & Assoc. v. Paulson, 699 N.W.2d 1 (Minn. Ct. App. 2005).

STATEMENT OF THE CASE

This action arises out of a 1999 agreement between the Appellants, ABCO Research, LLC, and Andrew C. Grossman, and Respondent and Lien Claimant Dorsey & Whitney, LLP ("Dorsey"), whereby Dorsey received a percentage of the profits generated by certain patents in return for licensing, litigation, and patent prosecution services. Dorsey's compensation was not contingent on obtaining a successful result in any particular legal proceeding. Instead, the agreement entitled Dorsey to 40% of the profit generated by the patents regardless of whether the profits were attributable to Dorsey's efforts or Appellants' efforts.

Because of the expensive nature of the patent litigation actions, in August 2002, Dorsey notified Appellants that the firm was unwilling to continue under the terms of the 1999 agreement and in November 2005, Dorsey initiated a proceeding against Appellants pursuant to Minn. Stat. § 481.13, seeking an attorneys' lien on certain patents owned by appellant ABCO Research, LLC and personal judgments against Appellants.

Appellants opposed the motion on the grounds that the 1999 agreement was a joint venture, not a fee arrangement, and therefore Dorsey was precluded from obtaining a lien through the "summary procedure" set forth in Minn. Stat. § 481.13.

On January 8, 2007, the Honorable John Q. McShane signed an Order and Memorandum granting attorneys' liens on the proceeds of the patents and ordering a personal judgment against ABCO in the amount of $126,236.23 and against Appellants jointly and severally in the amount of $586,312.20. Final judgment was entered on January 11, 2007.

On February 9, 2007, Judge McShane issued an Amended Order stating that the judgment against ABCO and Grossman, jointly and severally, for "$586,313.20 [sic] is a lien limited to the proceeds from the Hasel Patents," but that the judgment against ABCO for $126,236.23 is "not limited to the proceeds from the Hasel Patents or in any other way."

On February 14, 2007, ABCO and Grossman filed a timely appeal from both judgments.

STATEMENT OF FACTS

The Relationship Between ABCO and Dorsey

Respondents are Andrew C. Grossman ("Grossman") and ABCO Research, LLC ("ABCO"). ABCO owns United States Patents No. 5,547,379; No. 5,944,427; No. 6,315,567 and U.S. Pending Continuation Patent No. 10/346,193 (collectively, the "Patents") which relate to an innovative method for restoring teeth.[1] The inventor of this method for restoring teeth is Dr. Robert Hasel, who is a shareholder in ABCO.[2] ABCO obtained these patents from Dr. Hasel when it formed in November 1988.[3]

At the time ABCO purchased these Patents, approximately 15 dental suppliers were distributing products in the United States dentistry market that infringed on the Patents.[4] The Patent holder was confronted with the age-old problem of the expense and difficulty of challenging many infringers. There was also non-litigation legal work that was necessary to continue the Patents in force and there was considerable licensing work to be completed on the Patents, assuming infringers agreed to pay royalties.[5]

---

[1] Dorsey & Whitney, LLP v. Grossman, No. 27-CV-05-017623 (Minn. Dist. Ct. Jan. 8, 2007) (January 8, 2007 Order and Memorandum Re: Attorneys' Liens and Judgment ("Jan. 2007 Order & Mem."), p. 3, Appellants' Appendix ("AA") 195.

[2] Id.

[3] Id.

[4] January 20, 2006 Affidavit of Andrew C. Grossman ("Grossman Jan. 2006 Aff."), ¶ 3, AA 57.

[5] Id., ¶ 3, AA 57-8.

Accordingly, ABCO's 1998 business plan recognized that significant resources would have to be expended on attorneys' fees and expenses to litigate against infringers and to license the Patents to users of the technology.[6]

Beginning in October 1997, Dorsey represented ABCO in connection with licensing and other non-litigation matters relating to the Patents.[7] Dorsey billed ABCO monthly on a straight time basis for the time spent on licensing matters.[8] Through the course of this representation, Dorsey became familiar with the Patents, in particular the prior art and other specifics of the Patents, and more generally with the market for such products.[9]

From late 1997 until June of 1999, ABCO paid these straight time bills as they came due.[10] But the Patents were not generating income at that time (because of the rampant infringement) and ABCO was required to borrow to pay these billings.[11] Both Dorsey and ABCO believed, however, that the United States market for the products that were covered by the Patents was somewhere between $20 million and $30 million a year, and had the potential to be significantly more.[12]

---

[6] Id., AA 58.

[7] Jan. 2007 Order & Mem., AA 196.

[8] Id.

[9] Grossman Jan. 2006 Aff., ¶ 4, AA 58.

[10] Jan. 2007 Order & Mem., AA 196.

[11] Grossman Jan. 2006 Aff., ¶ 4, AA 58.

[12] Id.

ABCO and Dorsey anticipated that ABCO would find it necessary to initiate legal action against Sybron International Corporation and/or Kerr Corporation ("Kerr"), the largest infringer, to enforce the terms of a 1996 license agreement between Kerr and the patent holder.[13] Dorsey and ABCO also discussed that some action would be needed with respect to other distributors of infringing products in the United States market.[14] But because the Patents were not generating income to finance multiple litigation proceedings simultaneously, client and lawyer had to come up with a creative representation arrangement.[15]

The 1999 Agreement

Dorsey and ABCO decided on a unique arrangement where ABCO would chip in its business and technical knowledge, its efforts to generate licensing royalties, and a share of the revenue from the Patents, and Dorsey would chip in its services.[16] The arrangement could require Dorsey to wait for payment of its fees but, in return, the Dorsey fees that were not paid promptly would be subject to an "escalator."[17] But unlike virtually all representation agreements on which payment to the attorney is contingent, not

---

[13] Grossman Jan. 2006 Aff., ¶ 5, AA 58.

[14] Id.

[15] Id.

[16] See Jan. 2007 Order & Mem., AA 196.

[17] Grossman Jan. 2006 Aff., Ex. A (1999 Agreement), AA 71-2.

mandatory, under the arrangement, Dorsey was to be paid from all "revenues" under the Patents--not just money that was realized due to Dorsey's efforts.[18]

The representation arrangement is set forth in a letter agreement dated August 11, 1999 (the "1999 Agreement"). The 1999 Agreement specifically provided that Dorsey would represent ABCO with respect to enforcement action to be taken against Kerr, *and* enforcement action to be taken with respect to other parties that distributed or manufactured products that infringed upon the Patents:

> The parties contemplate that [Dorsey] shall continue to provide representation in connection with the patent enforcement, patent exploitation, and patent license efforts concerning the Hasel Patents, until resolution of disputed issues are reached with Sybron International Corporation and/or Kerr Corporation (together referred to as "Sybron/Kerr"), *and with other parties that may have products that infringe one or more of the Hasel Patents.*

1999 Agreement, ¶ 2 (emphasis added).[19]

The Agreement then sets forth an arrangement whereby Dorsey agreed to maintain two separate files for billing purposes, one file designated as the "Licensing File" and the other designated as the "Litigation File," with litigation work being billed to the Litigation File and licensing work billed to the Licensing File.[20]

---

[18] Grossman Jan. 2006 Aff., Ex. A (1999 Agreement); see Jan. 2007 Order & Mem., AA 196.

[19] Grossman Jan. 2006 Aff., Ex. A (1999 Agreement), AA 71.

[20] Id., AA 71.

As to the Litigation File, ABCO agreed to pay Dorsey 40 percent of any "recovery" with respect to the Patents, subject to a cap of 3.33 times the actual time Dorsey had billed to the Litigation File:

> Within fifteen (15) days of the end of each calendar month, the Clients will pay [Dorsey] 40 percent of any recovery received during that quarter [from the Patents] as attorneys' fees, but in no event shall such fees exceed 3.33 times the standard matter value of [Dorsey's] time entries in the Litigation File. Within thirty (30) days of the end of each calendar quarter, the Clients shall report to [Dorsey] the Clients' recovery during that quarter [from the Patents] and for the entire period beginning with this Fee Agreement. The Clients will also, within thirty (30) days of the end of each calendar quarter, make payment adjustments to [Dorsey] so that up to 40 percent of the total recovery received at any time has been made available, if necessary, to pay the total amount of fees earned during the entire period of this Fee Agreement.[21]

The "recovery" generated by the Patents, of which Dorsey was to receive 40 percent, was not limited to monies received by virtue of Dorsey's efforts.[22] *Instead, the "recovery" included all income generated by the Patents.*[23]

"Recovery" is defined in the Agreement as:

> . . . *any income received by the Clients,* at any time after the effective date of this agreement, whether through litigation or licensing, and whether through payment on a judgment, court order, settlement, contract, license agreement, or other royalty mechanism, or any other means by which money is paid to or

---

[21] Grossman Jan. 2006 Aff., Ex. A (1999 Agreement), AA 71.

[22] See id., AA 72 (defining "recovery").

[23] Id.

> on behalf of the Clients with respect to patent enforcement, exploitation, and patent license efforts with regard to [the Patents], *whether such amounts were collected resulting from [Dorsey] timekeeper fees subject to the multiplier of 3.33 or not. . . .* (Emphasis added.)[24]

Thus, Dorsey's fee was not "contingent" on the outcome of any particular legal effort taken by Dorsey. Dorsey could lose all the infringement cases and still get paid if the Patents generated royalties. At the same time, however, Dorsey (like ABCO) was on the risk that, if the Patents never generated royalties, then Dorsey would never be paid for its work. In this sense, the 1999 Agreement has a contingency feature.

Applying this provision in practice, Dorsey received income from activities for which the firm did not provide legal services and for which Dorsey had not "billed."[25] For example, ABCO was involved in a patent infringement dispute with a company named Ivoclar.[26] ABCO retained two law firms other than Dorsey because Dorsey refused to provide its services to ABCO in that action.[27] But when it came time to negotiate the licensing fee Ivoclar would pay, Dorsey was deeply involved.[28] Dorsey did not bill ABCO for being involved in those settlement discussions as it was not

---

[24] Grossman Jan. 2006 Aff., Ex. A (1999 Agreement), AA 72.

[25] Grossman Jan. 2006 Aff., ¶ 8, AA 60.

[26] Id.

[27] Id.

[28] Id.

representing ABCO.[29] Rather, Dorsey was acting as ABCO's business partner in those negotiations and looking out for its interest in any "recovery."[30]

With respect to the Licensing File under the 1999 Agreement, Dorsey's time was billed at its standard rates, but ABCO enjoyed an option of not paying Dorsey the standard rates if it chose to do so.[31] But if ABCO did not timely pay a Dorsey billing with respect to the Licensing File, that billing would be added to the fees charged to the Litigation File:

> If the Clients do not pay all of the fees billed to the Licensing File in a timely manner according to [Dorsey's] normal billing and payment practices, the unpaid portion of the fees billed to the Licensing File will be added to the standard matter value in the Litigation File, and all of the fees in the Litigation File will be applicable to the multiplier 3.33 referred to above. If the Clients do pay any portion of the fees billed to the Licensing File in a timely manner according to [Dorsey's] normal billing and payment practices, that paid portion of the fees billed to the Licensing File will be excluded from the amount subject to the multiplier 3.33 referred to above. The standard matter value of all of [Dorsey's] time entries in the Litigation File will be applicable to the multiplier 3.33 referred to above.[32]

Since 3.33 times the value of the fees attributable to the Litigation File was both an escalator and a cap on what Dorsey would be paid pursuant to the 1999 Agreement, the

---

[29] Id.

[30] Id.

[31] Grossman Jan. 2006 Aff., Ex. A (1999 Agreement), AA 71.

[32] Id., AA 71-72.

more fees from the Licensing File that were added to the Litigation File, the higher the total fee recovery Dorsey would ultimately be paid, assuming the Patents generated royalties.[33]

Thus, while the 40 percent of the "recovery" generated by the Patents and the 3.33 multiplier both are ceilings on the amount that Dorsey may receive under the 1999 Agreement, there is *no floor* set forth in the 1999 Agreement on *how little* Dorsey could receive pursuant to the 1999 Agreement.[34] As noted earlier, Dorsey accepted the risk that if the Patents did not generate revenue net of expenses, then Dorsey would not receive any payment regardless of how much was billed to the Litigation file.

Similarly, Dorsey was on the risk that the amount of legal work necessary to properly license and enforce the Patents may not be worth the 40 percent recovery that Dorsey was to receive under the 1999 Agreement.[35]

On the other hand, if ABCO ultimately licensed the entire United States market, Dorsey stood to make millions of dollars.[36]

<u>The Patent Infringement Cases</u>

On February 29, 2000, ABCO commenced a patent infringement action against Kerr and sent cease-and-desist letters to numerous companies, namely: Confi-

---

[33] Grossman Jan. 2006 Aff., ¶ 9, AA 61.

[34] Grossman Jan. 2006 Aff., ¶10, AA 61.

[35] <u>Id.</u>

[36] <u>Id.</u>

Dental Products Co.; Bisco Dental Products Co.; Centrix, Inc.; Cosmodent Inc.; Danville Engineering Inc.; Denmat Corporation; Dentsply International Inc.; Herzeus Kulzer Inc.; Jeneric/Pentron Incorporated; Pulpdent Corporation; Southern Dental Industries; Temerex Corporation; Utradent Products Inc.; Vivadent/Ivolclar North America Inc.; Zenith/DMG; Dental/Medical Diagnostic Systems Inc.; ESPE America Inc.; Patterson Dental Supply Inc.; Darby Dental; and Spencer Mead Dental, all of whom were marketing products that infringed the Patents.[37]

As the Kerr action proceeded, ABCO began to receive bills from Dorsey for services.[38] In the months just after the parties executed the 1999 Agreement, ABCO paid a significant portion of the Dorsey bills on both the Licensing File and the Litigation File in the normal course and as they came due.[39] Accordingly, as there were no unpaid fees, there was no need to share the royalties being generated by the Patents.

Over the course of Dorsey's work on the various issues related to the Patents, ABCO paid $396,000, at standard Dorsey billable hour rates.[40]

The litigation against Kerr became hotly contested.[41] Kerr challenged the validity and enforceability of the Patents, as well as the allegation of infringement, a

---

[37] Grossman Jan. 2006 Aff., ¶ 11, AA 62.

[38] Id.

[39] Id.

[40] Grossman Jan. 2006 Aff., ¶ 27, AA 69.

[41] Grossman Jan. 2006 Aff., ¶ 12, AA 62.

common tactic in these complicated cases.[42] The other infringing companies that received ABCO's demand letter adopted a "wait-and-see" approach, apparently hoping the Patents would be declared unenforceable in the Kerr litigation.[43]

The Kerr litigation was protracted, as all expected it would be.[44]

In November of 2001, ABCO and Dorsey also initiated actions against Pulpdent and Danville.[45] These too became protracted litigations, as often happens in patent infringement matters.[46]

Dorsey acted as a full joint venture partner in these litigations, not simply counsel advising ABCO and executing ABCO's instructions.[47] For example, in the settlement negotiations with Kerr, Dorsey insisted that ABCO agree to a 5 percent royalty fee when ABCO argued that the market rate royalty should be 10 percent.[48] Dorsey complained vociferously that ABCO was overstating the royalty potential and incurring unnecessary litigation expenses.[49] Dorsey also made it clear that Dorsey did not want the Kerr matter to go trial.[50]

---

[42] Id.

[43] Id.

[44] Grossman Jan. 2006 Aff., ¶ 13, AA 62.

[45] Id.

[46] Id.

[47] Grossman Jan. 2006 Aff., ¶ 14, AA 63.

[48] Id.

[49] Id.

[50] Id.

ABCO eventually capitulated to Dorsey's demands and was forced to settle for a submarket royalty rate and a weak licensing agreement with Kerr.[51]

Dorsey also took control of the settlement negotiations with another infringer, Ivoclar.[52] Indeed, the parties ultimately settled that matter for a royalty rate that was less than what ABCO would have agreed to absent pressure from Dorsey.[53]

Dorsey Terminates its Services

By letter dated August 30, 2002, Craig Diviney, one of the primary Dorsey attorneys who worked on enforcement of the Patents, notified Grossman of Dorsey's unwillingness to continue to proceed under the 1999 Agreement.[54] He suggested alternative arrangements that would be acceptable to Dorsey.

Diviney pointed to several reasons Dorsey refused to continue to proceed under the terms of the 1999 Agreement, including:

- The Pulpdent and Danville litigations were becoming too expensive;
- Ivoclar, an infringer, had initiated a declaratory judgment action against ABCO; and
- The potential market for products using the Patent in this country appeared uncertain.[55]

---

[51] Id.

[52] Id.

[53] Id.

[54] Grossman Jan. 2006 Aff., Ex. B (August 30, 2002 letter from Diviney to Grossman), AA 74-78.

[55] Id.

The Notice of Withdrawal did not suggest that Dorsey's decision was related to Rule 1.16(a) of (b) of the Minnesota Rules of Professional Conduct or any ground set forth therein.[56]

After the August 30, 2002 letter, Dorsey continued to prosecute ABCO's infringement claims against Pulpdent and Danville, but refused to represent ABCO in the action against Ivoclar or any other infringer.[57]

Thereafter, settlement discussions began with Danville. In these negotiations, Dorsey again acted like a business partner, not an advisor.[58] For example, in a settlement conference before a magistrate judge, Dorsey adopted a position that was directly contrary to ABCO's settlement position and communicated that position to the magistrate.[59] Dorsey openly disagreed with ABCO in the presence of the magistrate and Danville, which was both embarrassing for ABCO and confusing to the magistrate and

---

[56] See Grossman Jan. 2006 Aff., Ex. A (1999 Agreement), ¶5 (setting forth conditions upon which Dorsey may withdraw from representation: "[Dorsey] may withdraw from further representation of the Clients for any of the reasons set forth in Rule 1.16 (a) or (b) of the Minnesota Rules of Professional Conduct, except that if the withdrawal is based on the Clients' insistence upon pursuing an objective that [Dorsey] considers imprudent, and if the Clients disagree that withdrawal is appropriate, the issue will be subject to mediation . . . ."), AA 72; see also id., Ex. B (Aug. 30, 2002 letter from Dorsey to Grossman), AA 74-78.

[57] Grossman Jan. 2006 Aff., ¶ 16, AA 64.

[58] Id.

[59] Id.

Danville.[60] In fact, ABCO had a private meeting with the magistrate to respond to the chaos created by Dorsey's actions.[61]

Danville and ABCO ultimately settled the matter, again for a royalty fee that was less than ABCO would have agreed except for pressure from Dorsey.[62]

In August of 2002, Ivoclar initiated a declaratory judgment action against ABCO in New York.[63] Dorsey refused to represent ABCO, and ABCO was forced to retain other counsel.[64] ABCO retained Faegre & Benson in Minneapolis as well as local counsel in New York.[65] Since these attorneys were not as familiar with the Patents as the Dorsey attorneys, ABCO incurred significant attorneys' fees that would not have been incurred if Dorsey had not declined to defend against Ivoclar's claims.[66]

In June of 2004, ABCO reached a settlement with Ivoclar.[67] While Dorsey had refused to represent ABCO in the Ivoclar litigation, *Dorsey insisted on being present at the settlement negotiations with Ivoclar* and demanded that ABCO accept a mere 5 percent royalty from Ivoclar.[68]

---

[60] Grossman Jan. 2006 Aff., ¶ 16, AA 64.

[61] Id.

[62] Id.

[63] Id., ¶17, AA 64.

[64] Id.

[65] Id.

[66] Id.

[67] Id.

[68] Grossman Jan. 2006 Aff., ¶ 17, AA 64.

While the Ivoclar litigation was pending, ABCO deducted the fees ABCO paid to Faegre & Benson and ABCO's New York counsel as expenses to the joint venture from the revenue generated by the Patents for purposes of calculating the 40 percent of "recovery" that was due to Dorsey.[69] Even though ABCO's position was that Dorsey was obligated to complete the work in the Ivoclar litigation pursuant to the 1999 Agreement, Dorsey opposed ABCO charging the fees ABCO paid to Faegre and New York counsel as expenses against "recovery."[70]

Settlement with Kerr and Further Problems with Kerr

In June of 2001, ABCO reached a settlement with Kerr.[71] The future license fee to be paid by Kerr under the settlement depended in part upon ABCO licensing at least 50 percent of the United States market.[72] The settlement agreement further provided that any dispute as to the percentage of the market under license at any time would be subject to arbitration.[73]

As of May 31, 2004, ABCO and Kerr had reached an impasse with respect to the share of the United States market ABCO had under license at that time.[74] The settlement agreement with Kerr requires that where the parties have such a dispute, Kerr

---

[69] Grossman Jan. 2006 Aff., ¶ 18, AA 65.

[70] Id.

[71] Grossman Jan. 2006 Aff., ¶ 19, AA 65.

[72] Id.

[73] Id.

[74] Id.

shall continue to make quarterly royalty payments in to escrow and that the parties shall then go to arbitration to determine which party is correct regarding the percent of the United States market that has been licensed.[75]

Kerr, however, breached this promise and ceased making royalty payments, either directly to ABCO or to escrow.[76] ABCO then demanded that Dorsey address this problem, but Dorsey declined to take any action about Kerr's clear violation of the licensing agreement.[77] This failure also cost ABCO significantly in the form of lost royalty fees, roughly $200,000, damages which are directly attributable to Dorsey's refusal to enforce the licensing agreement with Kerr.[78]

In the meantime, Dorsey prosecuted ABCO's claims against Pulpdent to verdict.[79] Judgment against Pulpdent was entered in January of 2004 for damages and a permanent injunction.[80] The judgment was in ABCO's favor on both the issues of validity and infringement, and the court determined that the market rate royalty to be paid by Pulpdent was 18 percent.[81] The court's finding that an 18 percent royalty was the market rate vindicated ABCO's position that the 5 percent royalty rate (or less) that

---

[75] Id.

[76] Id.

[77] Id.

[78] Id..

[79] Grossman Jan. 2006 Aff., ¶ 20, AA 66.

[80] Id.

[81] Id.

Dorsey had consistently insisted ABCO accept, was well below the market rate.[82]

Dorsey Refuses to Send Demand Letters

After this courtroom victory (with widespread industry implications), ABCO insisted that Dorsey send demand letters to the other infringers to inform them of ABCO's victory in the Pulpdent matter, and demand that they enter into licensing agreements with ABCO.[83] Dorsey refused to send demand letters to the other infringers because Dorsey feared one or more of the infringers would respond with a declaratory judgment action that would be expensive for Dorsey to defend.[84]

As a result, ABCO lost the tremendous leverage ABCO would have had against these other infringers in negotiating licensing agreements and has continued to suffer damages as these infringements continue.[85] To date, these other companies continue to manufacture and distribute products that infringe the Patents without paying any royalties to ABCO.[86] Furthermore, potential new market entrants hesitate to even enter the market because of the inconsistent patent enforcement, which has slowed the growth of the market.[87]

If Dorsey had aggressively challenged the other infringers after ABCO's

---

[82] Id.

[83] Grossman Jan. 2006 Aff., ¶ 21, AA 66.

[84] Id.

[85] Id.

[86] Grossman Jan. 2006 Aff., ¶ 22, AA 66.

[87] Id.

victory in the Pulpdent action, ABCO would have licensed nearly all of the United States market for these particular products.[88] A little less than one-half of the market remains unlicensed, and the market is approximately $30 million.[89] If we assume the 18 percent royalty rate that the Pulpdent court determined was market, then ABCO is losing in excess of $2 million a year in annual royalties by virtue of Dorsey's refusal to fulfill its duties under the 1999 Agreement.[90]

For the period **August 11, 1999 through July 29, 2002**, the Patents generated $55,681 of revenue (net of expenses). ABCO paid Dorsey 40 percent of this revenue, which was $22,272.[91]

For the period of **August 1, 2002, through December 31, 2003**, however, the expenses associated with the Patents far exceeded revenue, and the Patents lost roughly $300,000.[92]

By 2004, however, the Patents began to generate revenue in excess of expenses, becoming increasingly profitable into 2005.[93]

---

[88] See Grossman Jan. 2006 Aff., ¶¶ 21-22, AA 66-67.

[89] Grossman Jan. 2006 Aff., ¶ 22, AA 66.

[90] Id. Moreover, licensing agreements typically last for 15 years, so these damages will continue well into the foreseeable future. These damages are in addition to the damages ABCO is suffering by virtue of Dorsey's refusal to enforce the licensing agreements with Kerr and Ivoclar, which damages are well into the six figures. See Grossman Jan. 2006 Aff., ¶ 22, AA 67.

[91] Grossman Jan. 2006 Aff., ¶ 27, AA 69.

[92] Id.

[93] Id.

An analysis of the **entire period from August 1999 through June 30, 2005** reveals that the Patents generated $675,841 in revenue net of expenses, 40 percent of which is $270,336.[94] In addition to the $396,000 ABCO paid Dorsey at their billable hours rate, ABCO paid Dorsey $52,729 pursuant to the 40 percent compensation term.[95]

<u>The Attorneys' Lien Proceedings</u>

On November 15, 2005, Dorsey served two Notices of Attorneys' Liens pursuant to Minn. Stat. § 481.13.[96] The first one was addressed to ABCO and asserted a lien of $126,236.23 "arising from Dorsey & Whitney's representation" of ABCO in regard to the Patents.[97] The second notice was addressed to both ABCO and Grossman and sought $239,880 in attorneys' fees and $23,182.35 in expenses, "plus future payments and additional amounts to be determined by an accounting" in regard to the Patents.[98]

Dorsey also filed UCC financing statements with the Secretary of State "to perfect its liens."[99]

On November 18, 2005, Dorsey served a motion in Hennepin County

---

[94] <u>Id.</u>

[95] <u>Id.</u>

[96] Jan. 2007 Order & Mem., AA 194.

[97] Notice of Attorneys' Lien, AA 7.

[98] Notice of Attorneys' Lien, AA 1.

[99] <u>See</u> UCC Financing Statements, AA 3, 8. Dorsey made separate filings with the United States Patent and Trademark Office ("PTO") for the same purpose. Jan. 2007 Order & Mem., AA 194.

District Court against ABCO and Grossman entitled "Motion to Determine Amount of Attorneys' Liens and for Entry of Judgment."[100] (No complaint was ever served; no answer, of course, was ever served.) The motion was supported by an affidavit from Dorsey partner, Craig Diviney.[101]

ABCO and Grossman responded that the 1999 Agreement was one of joint venture and that, in any event, Grossman was not a party to it in the sense of being personally responsible for Dorsey fees; ABCO also argued that Dorsey had breached the 1999 Agreement and that the claim for $126,236.23 must fall under the 1999 Agreement and not constitute a separate claim.[102]

On April 7, 2006, the motion was heard before the Honorable John Q. McShane, and on April 17, 2006, Judge McShane issued a letter stating he was "prepared to render a decision" that:

- Dorsey is entitled to an attorneys' lien;
- The lien shall apply to 40 percent of any recovery from the Patents;
- The lien shall issue "without considering respondents' claims that Dorsey & Whitney breached the terms of the [1999 Agreement]" and;
- whether the lien is limited to Patent proceeds or "will be entered as a

[100] Mot. to Determine Amount of Attorneys' Lien and for Entry of Judgment, AA 10.

[101] Nov. 18, 2005 Aff. Of Craig D. Diviney, AA 21-26.

[102] Respondents' Mem. in Opp. to Mot. to Determine Amount of Attorneys' Liens, AA 29-56.

judgment against ABCO Research and/or Andrew Grossman."[103]

Judge McShane stated he could not, however, "determine the specific amount of the lien" and asked the parties to see if they could stipulate dollars consistent with his announced course of action.[104]

The parties conducted discovery and did agree on dollar figures, and counsel returned before Judge McShane on November 17, 2006 with differing views as to how those figures should be applied to his forthcoming rulings.[105]

On January 8, 2007, Judge McShane issued an Order for Judgment and Memorandum, essentially using the dollar figures the parties had supplied.

First, the district court ruled that ABCO's allegation that "Dorsey did not provide all the services it agreed to provide" under the 1999 Agreement was in the nature of a malpractice defense which the court "is not required to consider" in a "summary" lien proceeding under the authority of Thomas A. Foster & Assocs., Ltd. v. Paulson, 699 N.W.2d 1 (Minn. Ct. App. 2005).[106]

Second, the District Court ruled that the 1999 Agreement was a fee agreement, not a joint venture, because there "is an express contract between [the]

---

[103] April 17, 2006 letter from Judge McShane, AA 113-14.

[104] Id.

[105] See November 17, 2006 Transcript.

[106] Jan. 2007 Order & Mem., AA 197.

attorney and his client, fixing the attorney's compensation. . . ."[107] And the court also ruled that the lien applies to 40 percent of the $2.398 million in proceeds of the Patents from 1999-2006.[108]

Third, the court ruled that ABCO had improperly deducted $480,161 in expenses from the Patent proceeds subject to Dorsey's 40 percent share because the 1999 Agreement limited, in the court's view, proper expense deductions to "those that are attributable to the legal work done by Dorsey pursuant to the terms of the [1999] Agreement," i.e., any expense paid by ABCO itself is not a proper deduction.[109]

Fourth, as to one of these expenses--the so-called "Danville Fees" which ABCO had paid to one of the alleged infringers in a case where Dorsey had represented ABCO--the court found that they were not deductible because they did "not fall within the definition of 'Expenses and Service Charges' in paragraph 4" of the 1999 Agreement.[110]

Fifth, the district court ruled that certain Patent Prosecution fees were "not related to the patent litigation or licensing matters" and, thus, were not subject to the 1999 Agreement. Dorsey, therefore, had a right to a separate judgment against ABCO of

---

[107] Jan. 2007 Order & Mem., AA 198.

[108] Id., AA 199.

[109] Id., AA 200.

[110] Id., AA 200-01.

$126,236.23 for that work.[111]

Finally, the district court ruled that Grossman is "individually liable under the [1999] Agreement for Dorsey's fees" because he signed the 1999 Agreement individually.[112]

On January 11, 2007, a judgment was entered against ABCO and Grossman in the amount of $586,312.20 and a separate judgment against ABCO in the amount of $126,236.23.[113]

On February 9, 2007, Judge McShane, at the request of ABCO and Grossman, issued an Amended Order stating that the judgment against ABCO and Grossman, jointly and severally, for $586,313.20 [sic] "is a lien limited to the proceeds from the 'Hasel Patents,'" but the judgment against ABCO for $126,236.23 is "not limited to the proceeds from the 'Hasel Patents' or in any other way."[114]

On February 14, 2007, ABCO and Grossman filed a timely appeal from both judgments.[115] Since that time, Dorsey has engaged in aggressive post-judgment collection efforts, including garnishments, a supplementary deposition of Grossman, and

---

[111] Id., AA 201-02.

[112] Id., AA 202-03.

[113] January 11, 2007 Notices of Entry of Judgment, AA 204-05.

[114] February 9, 2007 Amended Order ("Am. Order"), AA 207.

[115] February 14, 2007 Notice of Appeal, AA 214-15.

a motion to appoint receiver.[116]

ARGUMENT

The first issue is one of contract--whether the 1999 Agreement was a joint venture agreement under which Dorsey has no right to seek an attorneys' lien; the next issue is, if Dorsey does have a right to seek an attorneys' lien, does the Minnesota statute authorize an *in personam* judgment or just an *in rem* judgment?

Finally, we ask the Court to answer a series of related questions, most prominently whether Andrew Grossman is a proper respondent on the facts here.

A. Standard of Review.

Application of the attorney-lien statute is a question of law which the Court of Appeals reviews de novo. Thomas A. Foster & Assocs Ltd. v. Paulson, 699 N.W.2d 1, 4 (Minn. Ct. App. 2005). "Although the reasonable value of attorney fees is a questions of fact, when considering whether the district court employed the proper method to calculate the amount of an attorney lien, [this Court] undertake[s] a de novo review." Id.

"The existence of a joint venture is ordinarily an issue of fact[]" though a district court may decide the issue as a matter of law where facts do not support the finding of a joint venture. Duxbury v. Spex Feeds, Inc., 681 N.W.2d 380, 390 (Minn. Ct. App. 2004), review denied (Minn. Aug. 25, 2004). Where "the district court rule[s] as a

---

[116] June 4, 2007 Dorsey Mem. of Law in Support of Mot. to Appoint Receiver ("Receiver Mem."), AA 257-65; June 1, 2007 Affidavit of Perry M. Wilson, III ("Wilson June 2007 Aff."), ¶¶ 2-4, AA 266-67.

matter of law that a joint venture did not exist, [this Court] review[s] this determination de novo." Id. (citations omitted).

B. The 1999 Agreement Between ABCO and Dorsey is a Joint Venture Contract, and Minn. Stat. § 481.13 Does Not Apply to Such Arrangements.

1. The Lien Statute Does Not Apply to a Joint Venture Arrangement.

All sellers of goods and services are at risk that their customers do not pay them; attorneys in contingent fee matters are uniquely at risk, however, that their clients can take the proceeds of their labor--a settlement check, for example--and deny the attorney the benefit of his work. Because of this unique risk, Minnesota law has long provided a lien remedy to protect the interest lawyers have in claims or the proceeds of claims that arise due to their efforts.

Section 481.13 is the current codification of that remedy and protects lawyers when they act as vendors of legal services. That section gives an attorney "a lien for compensation . . . upon the cause of action" and upon "the interest of the attorney's client in any money or property involved in or affected by any action or proceeding in which the attorney may have been employed. . . ." Minn. Stat. § 481.13, subd. 1 (2006). But the right to a lien does not extend beyond these narrow parameters and does not allow an attorney to seek a lien where the arrangement at issue is something other than a representation where the attorney seeks his fair share of the fruits of his labor. Where attorneys act as joint venturers, partners or shareholders, however, they have no such protection because they are not seeking a share of the proceeds of an action; they are seeking to recover from the "client's general account," which cannot be done under the lien statute. Crolley v. O'Hare Int'l. Bank, 346 N.W.2d 156, 159 (Minn. 1984) (*citing* Schroeder, Sedgfried v. Modern Elec. Products, Inc., 295 N.W.2d 514, 516 (Minn. 1980)).

The arrangement at issue here is a business arrangement--a profit sharing arrangement--not an attorney-client fee agreement of the type protected by the lien statute. Because the arrangement gives Dorsey rights to proceeds of the Patents generated beyond matters on which Dorsey worked, lien rights do not arise. See Foster, 699 N.W.2d at 5 (stating lien statute "grants an attorney an inchoate lien on a recovery obtained *through his or her efforts* on behalf of a client")(emphasis added); Crolley, 346 N.W.2d at 159 (lien applies only to charges for services in connection "with particular action or proceeding").

The fee arrangements that the lien statute protects are generally contingent fee arrangements.[117] But Dorsey's compensation is not "a percentage of the amount

[117] The receipt by Dorsey of 40 percent of the Patent revenues net of expenses, however, was not "contingent" on the success of any specific "cause of action," nor was it related to the proceeds of a cause of action. Rather, Dorsey would receive its 40 percent *regardless* of the success of any particular litigation or licensing success or failure. Black's Law Dictionary defines a contingency fee as an:

> [a]rrangement between attorney and client whereby attorney agrees to represent client *with compensation to be a percentage of the amount recovered*; e.g., 25% if the case is

recovered" in any particular action but instead is a share of the profits generated by the Patents. See Thornton, Sperry & Jensen, Ltd. v. Anderson, 352 N.W.2d 467, 469 (Minn. Ct. App. 1984) (successful contingency fee arrangement produces a "*res* out of which to pay the attorney"). While attorneys have lien rights when they act as contingent fee attorneys, they have no lien rights when they act as joint venturers.

2. The 1999 Agreement is a Joint Venture Agreement.

The 1999 Agreement sets forth a joint venture, which in general terms:

> . . . exists when two or more persons combine their money, property, time, or skills in a business enterprise and agree to share the resulting profits.

Duxbury, 681 N.W.2d at 390. The four legal elements of a joint venture are set forth in Powell v. Trans Global Tours, Inc., 594 N.W.2d 252 (Minn. Ct. App. 1999), and each element is present here:

> (1) contribution, i.e., the parties must combine money, property, time, or skill in some common undertaking

Id. at 256.

Both Dorsey and ABCO contributed to the joint venture: Dorsey contributed time, skill and intimate knowledge of the legal issues relating to the Patents and its ability to license infringers and to enforce the Patents through civil actions, and

---

> settled, 30% if case goes to trial. Frequently used in personal injury actions.

(emphasis added) Black's Law Dictionary, 614 (6th ed. 1990).

ABCO contributed the revenue from the Patents themselves.[118] The common undertaking was to make the Patents profitable. <u>See</u> <u>e.g.</u>, 1999 Agreement, AA 70-73; Aug. 30, 2002 letter from Dorsey to Grossman, AA 74 (referring to "our mutual desire to exploit, on the most cost-efficient basis, the Hasel Patents to our mutual long-term benefit"), AA 74.

> (2) <u>joint proprietorship and control, i.e., a proprietary interest and right of mutual control over the subject matter of the property engaged in the venture</u>

<u>Duxbury</u>, 681 N.W.2d at 256.

Dorsey regularly exercised mutual control with ABCO over the subject matter of the Patents. Dorsey did not act like a counselor who simply advises a client; Dorsey acted like a partner who participates in decisions of the joint venture.[119] This is a crucial difference from most lien cases.

For example, Dorsey routinely debated with ABCO over what royalty percentage should be demanded in settlement negotiations with infringers.[120] The best example involved the Ivoclar litigation, where even though Dorsey refused to provide its services in that litigation, (which refusal turned out to be very expensive for ABCO), Dorsey insisted on attending during the negotiation of the royalty fee that Ivoclar would

---

[118] Grossman Jan. 2006 Aff., ¶ 6, AA 59; <u>id.</u>, Ex. A (1999 Agreement), ¶¶ 2 & 3, AA 71-72.

[119] Grossman Jan. 2006 Aff., ¶ 16, AA 64.

[120] <u>See</u> <u>id.</u>, ¶¶ 16-19, AA 64-65.

pay, and refused to accept the royalty rate that ABCO desired.[121] This is the conduct of a business partner.

Similarly, Dorsey refused to write demand letters to other infringers even when ABCO insisted that Dorsey do so.[122] The reason Dorsey refused was that Dorsey did not believe the potential recovery with respect to the Patents was worth the effort and expense that Dorsey would have to undertake to enforce the Patents against those infringers.[123] Attorneys working for clients have no such luxury--if they refuse to perform as instructed, they are dismissed. But Dorsey faced no risk of being dismissed.

These are not the sorts of decisions, moreover, that attorneys make for their clients, or the sorts of decisions where attorneys are free to ignore their clients' wishes. Instead, these are core strategic decisions regarding the best way to maximize the profitability of the Patents. They are *business decisions*. In short, Dorsey treated ABCO in the manner that business partners would negotiate business strategy.

(3) sharing of profits by express or implied agreement

Duxbury, 681 N.W.2d at 256.

As is set forth in the 1999 Agreement, Dorsey was to receive 40 percent of the profits generated by the Patents and ABCO was to receive 60 percent. We do not

---

[121] Grossman Jan. 2006 Aff., ¶¶ 17-18, AA 64-65.

[122] Id., ¶ 21, AA 66.

[123] Id., ¶ 21, AA 66; see id., Ex. B (Aug. 2002 letter from Dorsey to Grossman) ¶10 (stating " it will take more than a year of additional royalty recovery to reimburse [Dorsey] for every additional month of newly incurred fees"), AA 76 .

believe the presence of this element is disputed.

> (4) a contract, express or implied, showing that a joint venture was entered into

Id.

The 1999 Agreement itself satisfies this element. Again, we do not believe this element is disputed.

Because Dorsey and ABCO were joint venturers, not just attorney and client, Dorsey does not enjoy the right to proceed under the "summary procedure" set forth in Minn. Stat. § 481.13. Instead, Dorsey must proceed by action pursuant to the Rules of Civil Procedure, i.e., by service of summons and complaint.

C. An Attorneys' Lien Claimant May Not Seek an *In Personam* Judgment Pursuant to Minn. Stat. § 481.13.

1. The Attorneys' Lien Statute Allows Only a Lien Order or Judgment.

The relief Dorsey obtained against ABCO and Grossman is not cognizable under Minn. Stat. § 481.13. See Robb Gass Const., Inc. v. Dropps, No. A03-88, 2003 WL 22889811, at *6 (Minn. Ct. App. Dec. 9, 2003) (stating "[a]n unqualified personal judgment is ineffective to enforce an attorneys' lien").

Importantly, Dorsey sought to attach its lien to a *stream of revenue*, a *share of profits*[124] and ended up with two *in personam* judgments.

The Minnesota attorneys' lien statute, however, only allows Dorsey to

---

[124] See Lien Claimant's Proposed Order, AA 27-28.

attach a lien to income that is clearly attributable to its efforts, as would be the case if this were a contingent fee arrangement in a particular case. See Crolley v. O'Hare Int'l Bank, 346 N.W.2d 156, 159 (Minn. 1984) (holding that "the attorney's charging lien authorized by Minn. Stat. § 481.13 (1982) applies only to an attorney's charges 'for services in connection with the particular action or proceeding involved and not to a client's general account'") (quoting Schroeder, Siegfried, etc. v. Modern Elec. Products, Inc., 295 N.W.2d 514, 516 (Minn. 1980)); see also St. Cloud Nat'l Bank & Trust Co. v. Brutger, 488 N.W.2d 852, 855 (Minn. Ct. App. 1992) ("A charging lien applies in the situation where a client recovers money or property as a result of an attorney's services. The attorney can then establish a lien on the recovered money or property as security for fees owed by the client."), review denied (Minn. Nov. 17, 1992).

An attorneys' lien can only attach to a *res* that arose by virtue of the attorney's work;[125] however, what Dorsey obtained here is an *in personam* judgment against both ABCO and Grossman for a piece of the profits generated by the Patents. That type of relief is not cognizable under Minn. Stat. § 481.13 and can only be obtained through a complaint, with a right to defend and counterclaim, rights that were never allowed to ABCO or Grossman here.

Judge McShane ruled that ABCO's efforts to show that Dorsey had

---

[125] See Thornton, Sperry & Jensen, 352 N.W.2d at 469 (successful fee contingency fee arrangement produces a "*res* out of which to pay the attorney").

breached the contract were irrelevant to the lien proceeding. That ruling, however, demonstrates why Dorsey could not have obtained an *in personam* judgment. How can such a judgment be entered when the court refused to hear the defendants' defense?

Dorsey relied heavily on Thomas A. Foster & Assocs., Ltd v. Paulson, 699 N.W.2d 1 (Minn. Ct. App. 2005), to support the propriety of using the attorneys' lien procedure here and refusing to hear defenses or counterclaims. In Foster, an attorney sought to establish a summary lien for attorneys' fees against a client he had represented in a construction arbitration against the builder of the client's home. 699 N.W.2d at 4. The client sought to raise the defense that the attorney had committed malpractice in the representation and therefore was not entitled to his fee. Id. The court, however, refused to conduct a "mini-trial" within the context of the motion for the lien to determine if in fact the attorney had committed malpractice. Id. The time necessary to address the defense was inconsistent with the "summary" nature of lien proceeding. Id. at 6.

We agree that Foster is relevant to the present dispute and we ask the Court to review it carefully, especially the history of the attorney lien statute and the circumstances under which the statute applies. 699 N.W.2d at 6-8. In Foster, the lawyer and client were fighting over a $118,952 settlement check from a case in which the lawyer had represented the client, and the Court ruled that the lawyer had a summary right to his contractual contingent fee--25 percent minus a retainer--of the check; the effort by the clients to allege malpractice by the lawyer in the case would have to wait for another day. Id. at 8.

But in Foster the lien was sought *against settlement proceeds of a cause of action,* whereas here Dorsey seeks a share of patent profits from any source, not just Dorsey work. The lien statute simply does not apply to a right to profits.

More particularly, the lien statute seeks to protect lawyers from clients absconding with the proceeds of cases where the lawyers represented them by providing summary lien rights on (i) causes of action; (ii) money arising from causes of action; or (iii) judgments arising from causes of action "in which the attorney may have been employed." Minn. Stat. § 481.13, subd. 1(a) (2006).

But the facts here are not remotely similar to the situation the lien statute was designed to address. There is no settlement check, judgment or property that ABCO is running away with.

The lien statute is strictly applicable only to "money . . . involved in or affected by any action or proceeding in which the attorney may have been employed. . . . ." Minn. Stat. § 481.13, subd. 1(a).

Moreover, this Court carefully analyzed how entertaining a malpractice case in a lien proceeding, with experts and the like, would destroy the summary nature of the proceeding. Foster, 699 N.W.2d at 8. The Foster ruling did not authorize trial courts to grant *in personam* judgments and refuse to entertain the defendants' defenses because of the "summary" nature of the proceedings.

All of the attorneys' lien cases say there must be a "balance between fairness and the summary nature of an attorney-lien proceeding." See id. at 7; Boline v. Doty, 345 N.W.2d. 285, 290 (Minn. Ct. App. 1984), *superceded by statute on other grounds by* Minn. Stat. § 481.13 (holding that summary procedure established by trial court was unfair where documentary discovery not permitted).

Further, because attorney lien proceedings impact property rights, due process guarantees that ABCO be given the opportunity to "fairly litigate" the issues related to the proposed lien. For example, in Gaughan v. Gaughan, 450 N.W.2d 338 (Minn. Ct. App. 1990), review denied (Minn. Mar. 16, 1990), a law firm that represented an individual in a marriage dissolution action asserted lien rights under Minn. Stat. § 481.13, and sought to establish an attorneys' lien via a summary proceeding. 450 N.W.2d at 340. The client requested that the original time sheets of the attorneys be produced because he alleged the bills were excessive and that a review of the handwritten time sheets would reveal the attorneys had not filled out their own time sheets. Id. The district court, however, denied the requests for the original time sheets because the law firm admitted many time sheets were not written by the attorneys. Id. at 341.

The client appealed, alleging that he was not given a fair opportunity to litigate the reasonable value of the Firm's services because he could not cross-examine the attorneys regarding their time sheets. Id. at 342.

This Court, while recognizing that Minn. Stat. § 481.13 provides for a "summary proceeding," held that it would not be "fair litigation" if the client was not given an opportunity to cross-examine the attorneys about their time sheets. Id. at 342-43. This Court further held that:

> where an attorney produces evidence to support a claimed attorney's fee, a client must be allowed to challenge that evidence. To hold otherwise would permit attorneys to present their time sheets, billing statements, or other evidence to the trial court unchallenged, and then be awarded an attorneys' lien. Such a result does not comport with due process and fair play.

Id. at 343. In conclusion, the court of appeals held that:

> It should be noted that proceedings under Minn. Stat. § 481.13 retain their summary nature. There is no jury trial. . . . However, before an attorneys' lien can be granted and enforced, the reasonable amount of the attorney's services must be fairly litigated.

Id. Accordingly, the trial court was reversed and the matter was remanded.

The Gaughan decision forbids precisely what Dorsey accomplished here: a $584,312 judgment based on only the self-serving and conclusory affidavits of its attorneys without any opportunity for cross-examination or to assert defenses (or counterclaims). Such a procedure is fundamentally unfair and denied ABCO and Grossman their rights to due process.

The Gaughan decision was not the first time that this Court held that a trial court had failed to provide a defendant to an action under Minn. Stat. § 481.13 a fair opportunity to litigate issues relating to the alleged fee. In Boline, this Court also reversed a trial court that did not allow discovery related to a motion for attorneys' fees under Minn. Stat. § 481.13. Boline, 345 N.W.2d at 290. In particular, this Court found problematic that the appellants:

> . . . did not have access to the files and papers generated in their behalf, even though the papers properly belonged to them and were needed to litigate their good-faith claim that the attorney's fees were excessive.

Id. at 290. Given this and other factors, the Court found that "the amount of the lien was not fairly litigated" and accordingly reversed the trial court. Id.

2. The Impropriety of the Judgments Below is Best Illustrated Through the $586,312 *In Personam* Judgment Against Grossman.

Perhaps the best way to see the injustice of the use of the lien statute by the district court is through the perspective of the $526,320 personal judgment against Andrew Grossman. This is an enormous judgment against an individual and, as the Court can understand, brings his ability to borrow or refinance to a screeching halt, to say nothing of the effect on Grossman's hard-earned credit rating. Indeed, entry of a judgment and failure to promptly cure is an act of default for many forms of modern financing which people today enjoy, e.g., home mortgages, credit lines.

This judgment was entered against Grossman in a matter where he could submit no defense or counterclaim. That violates due process and does enormous harm to him with his only recourse being a trip to this Court, which may take upwards of a year to resolve.

Dorsey, as noted earlier, poured salt on Grossman's wounds by promptly exercising post-judgment remedies like garnishing bank accounts and obtaining a supplementary deposition.[126] The garnishment alerted Grossman's bankers to his predicament. None of these remedies are available to mere lien holders--they are reserved for judgment creditors.

If this is a proper *in personam* judgment, why would any lawyer ever sue a client for unpaid fees and risk a malpractice defense or counterclaim? All lawyers in the future need do is assert lien rights, get a summary adjudication where no defenses will be heard, and then execute on their judgments. Only lawyers, of course, could get such favored treatment from the courts--all other creditors will still have to stand in line down at the courthouse to get their cases heard and go through the complaint, answer, and discovery process before they get a judgment, if they do.

Courts need to be alert that the lien statute is not pushed, as here, beyond the *in rem* nature of the remedy, beyond the harm it is intended to avoid. Courts need to be scrupulous in applying a statute like this one that gives lawyers--the colleagues and friends of the judiciary--rights others do not have. Courts must, therefore, narrowly construct the attorneys' lien statute to authorize liens only against a *res*, not personal judgments against people (or corporations for that matter).

---

[126] See Receiver Mem., AA 257-65; Wilson June 2007 Aff., ¶¶2-4, AA 266-67.

D. **The Defense Which the District Court Refused to Hear Was Significant.**

As set forth above, Dorsey unquestionably failed to complete the representation it undertook pursuant to the 1999 Agreement. Specifically, once the Patent infringement actions and the licensing work became more expensive than Dorsey had anticipated, Dorsey refused to continue with the work.[127] While the 1999 Agreement did contain very limited "out" rights for Dorsey, those rights were not invoked and did not apply to Dorsey's hasty departure.

Dorsey took the gamble in the 1999 Agreement that it would invest a substantial amount of legal time because the firm stood to make millions if the Patents generated what Dorsey expected them to generate.[128] A sophisticated business organization like Dorsey cannot simply renege on its contracts when the deal it struck does not work out as well as it hoped and then seek to have a lien attach without any inquiry into the nature of the 1999 Agreement, such as whether Dorsey adhered to the terms of the agreement to be entitled to fees as set forth therein.

While the 1999 Agreement did not commit Dorsey to represent Appellants in "any specific litigation or other enforcement effort,"[129] it did limit the circumstances under which Dorsey could withdraw from the 1999 Agreement and representation of

---

[127] See Grossman Jan. 2006 Aff., ¶ 15, AA 63.

[128] Id., ¶10, AA 61.

[129] Id., Ex. A (1999 Agreement), ¶ 2 ("Nothing in this agreement shall obligate . . . [Dorsey] to represent the Clients in connection with, any specific litigation or other enforcement effort."), AA 71.

ABCO:[130]

> [Dorsey] may withdraw from further representation of the Clients for any of the reasons set forth in Rule 1.16 (a) or (b) of the Minnesota Rules of Professional Conduct, except that if the withdrawal is based on the Clients' insistence upon pursuing an objective that [Dorsey] considers imprudent, and if the Clients disagree that withdrawal is appropriate, the issue will be subject to mediation . . . .[131]

Dorsey did not suggest that its reason for wanting to withdraw from the 1999 Agreement was related to Rule 1.16 (a) or (b) of the Rules of Professional Conduct.[132] Rather, Dorsey indicated that it no longer wanted to represent ABCO because the investment on Dorsey's part was larger than it had anticipated when it entered into the joint venture agreement.[133] See Grossman Jan. 2006 Aff., Ex. B (Aug. 2002 letter from Dorsey to Grossman stating "[Dorsey's] investment in these cases has grown to a level, compared with the potential return on investment, that is well beyond what was contemplated when the [1999 Agreement] was authored").[134]

Withdrawal from the agreement for purely economic reasons is a clear breach of the 1999 Agreement and precludes Dorsey from obtaining a lien. But ABCO was not permitted to present this defense to the district court.

---

[130] Id., ¶ 5, AA 72.

[131] Id., AA 72.

[132] See id., Ex. B (Aug. 2002 letter from Dorsey to Grossman stating reasons Dorsey would no longer proceed under 1999 Agreement), AA 74-78.

[133] Id., AA 74.

[134] Id.

While Dorsey ultimately prosecuted infringement claims against two infringers, Pulpdent and Danville, Dorsey refused to represent ABCO in litigation against Ivoclar and other infringers.[135] Yet Dorsey inserted itself in settlement negotiations with Ivoclar and demanded that ABCO accept a royalty substantially below the market rate.[136]

Dorsey made the same demand in settlement negotiations with Danville—openly disagreeing with ABCO in the presence of the magistrate, which was embarrassing for ABCO and confusing to the magistrate and Danville.[137] In fact, ABCO had a private meeting with the magistrate in the Danville matter to respond to the chaos created by Dorsey's actions.[138] Without question the 1999 Agreement did not contemplate that Dorsey would be free to pick and choose at what part of a proceeding it would represent ABCO. These acts constituted a separate breach of the 1999 Agreement.

Dorsey's on-again, off-again representation interfered with ABCO's ability to settle these cases and is a clear breach of the 1999 Agreement. But again, ABCO was deprived of presenting this defense to the district court.

Perhaps the most serious breach of the 1999 Agreement is Dorsey's refusal to send simple demand letters to other infringers of ABCO's Patents after judgment was entered in ABCO's favor on both the issues of validity and infringement in the Pulpdent

---

[135] Grossman Jan. 2006 Aff., ¶ 16, AA 64.

[136] Id., ¶¶ 17-18, AA 64-65.

[137] Id., ¶ 16, AA 64.

[138] Id.

litigation.[139]

A demand letter from one of the largest law firms in the country can be a powerful instrument for companies with proprietary patent-protected products in the wake of a successful infringement verdict. While Dorsey may not have been obligated to represent ABCO in any "specific litigation or other enforcement efforts," the 1999 Agreement does not permit Dorsey to refuse to write letters to companies infringing on ABCO's Patents.

As a result of Dorsey's breach, ABCO lost tremendous leverage that it would have had against these other infringers in negotiating licensing agreements, and from which ABCO continues to suffer damages as these infringements continue.[140]

Finally, Dorsey refused to address Kerr's violation of the licensing agreement ABCO entered into following the protracted litigation with Kerr in which Dorsey represented ABCO.[141] Enforcement efforts against Kerr were specifically contemplated by the 1999 Agreement. See 1999 Agreement (stating "[t]he parties contemplate that [Dorsey] shall continue to provide representation in connection with the patent enforcement, patent exploitation, and patent license efforts concerning the Hasel Patents until resolution of disputed issues are reached with [Kerr]").[142] As before, ABCO

---

[139] Id., ¶ 21, AA 66.

[140] Id., ¶ 21, AA 66.

[141] Id., ¶¶ 13 & 19, AA 62 & AA 65.

[142] Id., Ex. A (1999 Agreement), AA 71.

was not permitted to present this defense to the district court. Consequently, ABCO was denied an opportunity to fairly litigate whether Dorsey was entitled to a lien.

E. Patent Prosecution Fees.

The district court ruled that certain patent prosecution fees that were for work before the U.S. Patent and Trademark Office ("PTO") fall outside the 1999 Agreement and ordered a separate judgment against ABCO for $126,236.23 for this work. The district court reasoned that this work "was not related to the patent litigation or licensing matters" that were the subject of that Agreement.[143]

This was in the nature of a summary adjudication where, at a minimum, the applicable language of the agreement is ambiguous;[144] indeed, we submit a fair reading of the document shows these fees fell within the 1999 Agreement.

The original Hasel patent claimed the composition of a certain type of resin,

---

[143] Jan. 2007 Order & Mem., AA 202.

[144] The construction and effect of an unambiguous contract is a question of law reviewed de novo. Denelsbeck v. Wells Fargo & Co., 666 N.W.2d 339, 346 (Minn. 2003). A contract is ambiguous if it is reasonably susceptible of more than one interpretation. Id. The determination of whether a contract is ambiguous is a question of law, but the interpretation of an ambiguous contract is a question of fact. Id. at 346-47. "When faced with an ambiguous contract, we construe its terms against the drafter in the absence of a clear showing that the parties intended a contrary meaning." Untiedt v. Grand Labs., Inc., 552 N.W.2d 571, 574 (Minn. Ct. App. 1996) (construing ambiguous fee agreement against drafting attorney), review denied (Minn. Oct. 15, 1996). "Application of this rule is particularly appropriate when interpreting a contingent fee agreement." Id. (citing Cardenas v. Ramsey County, 322 N.W.2d 191, 193-94 (Minn. 1982) (recognizing principle of construing ambiguous fee agreements against their drafters, but relying on attorney's sophistication and fiduciary status as reason to favor an interpretation that comports with client's expectations).

so infringers just used a different resin; Dorsey then filed additional PTO claims asserting a "process" or "method" patent that covered any type of resin.[145] Once those filings were made, Kerr gave up and settled.[146] This is the Patent Prosecution work for which Dorsey was awarded $126,236.23.

First, this work is "enforcement, patent exploitation and patent license work," as those broad terms are used in the 1999 Agreement.[147] Further, the 1999 Agreement contemplated "further continuation, divisional, reissue or reexamination applications," i.e., patent prosecution work, of the Patents.[148] Had Dorsey wanted to exclude future fees related to the prosecution of the Patents, it could have easily have made that clear.

Second, this PTO work is all for services after November 1999. Paragraph 1 of the 1999 Agreement states:

> [Dorsey] has provided representation to the Clients over a number of months in connection with the Hasel Patents by providing advice and by aiding in the prosecution of patents in the United States Patent and Trademark Office ("PTO"). Attorneys' fees incurred up until the date of this agreement are not included in this agreement and remain payable by the Clients to [Dorsey].[149]

---

[145] See Grossman Jan. 2006 Aff., ¶¶ 23-24, AA 67-68.

[146] Id., ¶ 24, AA 67-68.

[147] Id., Ex. A (1999 Agreement), AA 70.

[148] Id.

[149] Id., Ex. A (1999 Agreement), AA 70.

The only reasonable inference from this "carve-out" of *pre*-1999 Agreement PTO billings is that *post*-1999 Agreement PTO billings *do* fall under that Agreement.

Third, Dorsey has shown the Court no separate retainer or fee agreement for post-1999 PTO work.

Fourth, paragraph 6 of the November 2006 Grossman Affidavit states that for a period after the parties entered into the 1999 Agreement, ABCO erroneously paid PTO fees and then, when it realized the error, sent Dorsey a check to clear the PTO account showing ABCO believed PTO work was under the 1999 Agreement.[150] *Dorsey accepted, and for years thereafter, ABCO did not pay and Dorsey did not demand payment for PTO work.*[151]

Finally, it was always Grossman's understanding under the 1999 Agreement that all expenses associated with ABCO's litigation against Kerr were covered by the 1999 Agreement.[152] The 1999 Agreement covers:

> . . . patent enforcement, patent exploitation, and patent license efforts concerning the Hasel Patents, until resolution of disputed issues are reached with Sybron International Corporation and/or Kerr Corporation (together referred to as "Sybron/Kerr"), and with other parties that may have products that infringe one or more of the Hasel Patents.

The change in the Patents *that was done as part of the Kerr litigation* is covered under

---

[150] Nov. 18, 2006 Aff. of Andrew C. Grossman ("Grossman Nov. 2006 Aff."), ¶¶ 6 & 14, AA165-66, AA 169.

[151] Grossman Jan. 2006 Aff., ¶24, AA 67-68.

[152] Grossman Nov. 2006 Aff., ¶¶ 5 & 11, AA 165 & 167-68.

this provision. At a minimum, ABCO ought to have a right to present these issues to a fact-finder and not have them resolved on a summary lien proceeding.

F. <u>The Dispute Over Expenses and Service Charges</u>.

The sense of the 1999 Agreement is simple: expenses "come off the top"--whether incurred by ABCO or Dorsey--and what is left is the "recovery," which is split between ABCO (60 percent) and Dorsey (40 percent). But Judge McShane ruled that only expenses *incurred by Dorsey* were properly deducted from gross revenue from the Patents, i.e., the split occurred before ABCO expenses are deducted and thus ABCO ends up paying those expenses out of its share of the "recovery." The first question one asks is why would ABCO ever agree to such a dumb arrangement?

The 1999 Agreement does not provide that Dorsey's 40 percent payment would be calculated against *all* revenues ABCO received from the Patents. Rather, the definition of "recovery" permitted ABCO to deduct certain expenses and service charges:

> . . . any income received by the Clients, at any time after the effective date of this agreement, whether through litigation or licensing, and whether through payment on a judgment, court order, settlement, contract, license agreement, or other royalty mechanism, or any other means by which money is paid to or on behalf of the Clients with respect to patent enforcement, exploitation, and patent license efforts with regard to [the Patents], whether such amounts were collected resulting from [Dorsey] timekeeper fees subject to the multiplier of 3.33 or not, *less any amounts paid by the Clients for expenses and service charges pursuant to the following [Paragraph] 4, and less any portions of the fees billed to the Licensing File that have been paid by the Clients in a timely manner according to*

[Dorsey's] standard billing and payment practices.[153]

(Emphasis added).

The key language is "less any amounts paid by the clients for expenses and service charges. . . ."[154] Paragraph 4 of the 1999 Agreement sets forth the operative deduction language which plainly contemplates a broad range of deductible expenses and service charges:

> **Expenses and Service Charges**. This *matter* will require *out-of-pocket expenses, such as* court filing fees, local counsel fees, costs for depositions and expert witnesses, photocopying, costs of obtaining file histories, telephone and fax charges, *and similar expense items*. (Emphasis added).

From the effective date of the 1999 Agreement through June 30, 2006, ABCO deducted $1,338,511 from Patent revenues for out-of-pocket and similar expense and service charges ABCO had actually paid to third parties to determine the "recovery" for purposes of the 40 percent share to Dorsey.[155] Dorsey disputed some, but not all, of these deductions.[156]

The majority of the approximately $480,161 in disputed deductions[157]

---

[153] Grossman Jan. 2006 Aff., Ex. A, AA 72.

[154] Id.

[155] See Grossman Nov. 2006 Aff., ¶ 7 & Ex. A (chart), AA 170.

[156] See Dorsey's Mem. of Law in Support of Mot. to Establish Amount of Attorneys' Liens and for Entry of Judgment ("Dorsey Mem."), AA 118-19.

[157] See Third Affidavit of Craig D. Diviney ("Diviney 3rd Aff."), ¶ 5, AA 128-29; Grossman Nov. Aff., Ex. B (chart), AA 171.

consist of attorney fees that ABCO paid to law firms other than Dorsey, in part because Dorsey refused to continue to represent ABCO under the terms of the 1999 Agreement.[158]

The remaining deductions disputed by Dorsey included deductions ABCO took for interest expenses to fund licensing efforts[159] and $128,226 in legal fees ABCO paid to Danville Materials, Inc. ("Danville") as a result of a patent action by ABCO against Danville.[160]

Despite the broad language of Paragraph 4 of the 1999 Agreement, the district court erroneously denied these deductions and ruled that the only deductions permitted were expenses and service charges attributable to legal work done by Dorsey.[161]

1. Non-Dorsey Expenses.

In or about August of 2002, after Dorsey refused to represent ABCO under the terms of the 1999 Agreement, ABCO was forced to retain other counsel (Faegre & Benson in Minneapolis) and to pay those lawyers out-of-pocket in order to continue with the enforcement, exploitation and licensing efforts that Dorsey had begun and then abandoned.[162] As a result, ABCO incurred attorney fees that otherwise would not have

---

[158] See Grossman Jan. 2006 Aff., Ex. B (August 30, 2002 letter from Dorsey to Grossman setting forth Dorsey's unwillingness to proceed under the 1999 Agreement); Grossman Jan. 2006 Aff., ¶¶ 15-16, AA 63-64.

[159] See Grossman Nov. 2006 Aff., ¶ 13, AA 168-69.

[160] See Dorsey Mem., AA 121-22.

[161] Jan. 2007 Order & Mem., AA 200.

[162] See Grossman Jan. 2006 Aff., ¶¶ 15-17, AA 63-64.

been incurred.[163]

ABCO also paid attorney fees to the Minneapolis law firms of Moss & Barnett, and Leonard, Street & Deinard. The fees paid to Moss & Barnett were incurred when one of the Patent infringers claimed that Dr. Hasel had lost ownership of the patents in an earlier bankruptcy proceeding and ABCO had to defend the ownership claim.[164] The firm of Moss & Barnett was retained because that firm had represented Dr. Hasel in the bankruptcy proceeding.[165] Because these fees clearly related to fighting infringement of the Patents, they were properly deducted from the "recovery."

The fees paid to Leonard, Street & Deinard are out-of-pocket expenses incurred by ABCO and brought on due to Dorsey's decision to abandon the 1999 Agreement.[166] It is important to understand that ABCO has no other business than to enforce the Patents and all of ABCO's revenue is derived solely from the Patents.[167] Therefore, all expenses incurred by ABCO relate solely to the Patents and are properly a deduction against the royalty income under the terms of the 1999 Agreement.

Paragraph 4 "Expenses and Service Charges" are those costs that arise due to "[t]his matter."[168] "This matter" is "patent enforcement, patent exploitation, and patent

---

[163] See id.

[164] See Grossman Nov. 2006 Aff., ¶ 9, AA 167.

[165] See id., ¶ 9, AA 167.

[166] See id., ¶ 10, AA 167.

[167] See id., ¶ 10, AA 167.

[168] Grossman Jan. 2006 Aff., Ex. A (1999 Agreement), ¶4, AA 72.

license efforts of the Hasel Patents."[169] Such efforts may occur by Dorsey, but if Dorsey withdraws, someone else has to do the work. That is what happened here.

ABCO also paid fees to the licensing attorneys at J.J. McCarthy; Popovich & Wiles; Harry F. Manback; and Rothwell, Fink, Ernst & Manback to assist ABCO in strengthening the Patents and in negotiating strong licensing agreements with the infringers of the Patents.[170]

The J. J. McCarthy firm was recommended by Dorsey when ABCO found itself in the position of having to retain other counsel after Dorsey refused to continue to represent ABCO under the terms of the 1999 Agreement.[171] Popovich & Wiles, Harry F. Manback, and Rothwell, Fink, Ernst & Manback were also recommended by Dorsey and collaborated with Dorsey in the legal work before the PTO to re-write the Patents to obtain greater patent protection to aid the litigation and licensing efforts.[172]

Importantly, as a result of the legal services of these firms, ABCO was able to enter into licensing agreements with several companies.[173] These licensing agreements have generated the royalty income from which Dorsey's fees have been and will be paid. Accordingly, the expenses incurred in generating the revenue are properly deducted from

---

[169] Id.

[170] See Grossman Nov. 2006 Aff., ¶ 11, AA 167-68.

[171] Id.

[172] Id.

[173] Id.

the royalty income stream if the 1999 Agreement is to make any economic sense.

Without the legal services and efforts of these other law firms, Dorsey's recovery would be smaller,[174] yet Dorsey wants ABCO to bear the brunt of these expenses while Dorsey reaps 40 percent of the benefits. While the 1999 Agreement allows Dorsey to benefit from the other firms' legal work, because it does allow Dorsey to withdraw under certain circumstances and allows Dorsey to turn down representation of ABCO, paragraphs 3- 4 of the agreement also justifiably allows ABCO to deduct out-of-pocket expenses incurred in enforcing, litigating and licensing the Patents from the royalty revenue.[175]

Another perspective on the propriety of deducting these expenses is in light of the 3.33 "escalator" Dorsey receives on its fees (that means Dorsey was credited with hourly rates over $1,000 for partner time). It makes no sense that such a generous hourly rate would be available to the attorneys before all of ABCO's litigation/licensing expenses from any source were deducted.

Paragraph 4 of the 1999 Agreement does not by its terms limit "expenses and service charges" to amounts paid to third parties *by Dorsey*. Paragraph 4 specifically provides that Dorsey itself may not pay such expenses in the first instance, and ABCO

---

[174] Id.; Grossman Jan. 2006 Aff., Ex. B (August 30, 2002 letter from Dorsey to Grossman), ¶ 2 (stating "efforts [by attorneys other than Dorsey] have been successful in two cases" wherein licensing negotiations were made by attorneys other than Dorsey), AA 74.

[175] Grossman Jan. 2006 Aff., Ex. A (1999 Agreement), AA 71-72.

may do so. The key operative language is "out-of-pocket expenses" paid by either Dorsey or ABCO to prosecute and defend the Patents. The words "similar expense items" demonstrate that the parties did not intend to limit "out-of-pocket expenses" to items identified in that paragraph—they were just examples.

It is important to emphasize that every nickel of the disputed deductions was paid by ABCO to third parties in regard to exploitation of the Patents. Ironically, had Dorsey paid these bills and billed them back to ABCO, then even Dorsey would agree they are proper deductions.

2. <u>The Danville Fees</u>.

Having initially advised ABCO to file a complaint relating to the Patents against Danville Materials, Inc., Dorsey subsequently advised ABCO to move for dismissal of certain claims.[176] As a condition of dismissal, Magistrate Judge Franklin Noel ordered ABCO to pay Danville's attorney fees related to the claim, which came to \$128,226.[177] Because these were out-of-pocket litigation expenses, ABCO deducted the \$128,226 in attorney fees from the "recovery" pursuant to the 1999 Agreement.[178]

---

[176] <u>See</u> Grossman Nov. 2006 Aff., ¶12, AA 168.

[177] Oct. 18, 2006 Aff. of Ronald J. Brown ("Brown Oct. 2006 Aff."), Ex. A (<u>Hasel v. Danville</u>, Nov. 15, 2002 Order) & Ex. B (<u>Hasel v. Danville</u>, Dec. 26, 2002 Order), AA 135-37.

[178] The record demonstrates that ABCO first deducted the Danville attorney fees in its Recovery Payment Report to Dorsey for the period of March 31, 2003 through June 20, 2003. <u>See</u> Supplemental Aff. of Craig D. Diviney, Ex. 2, AA 98. At the time Dorsey received the June Report, Dorsey did not contend that the Danville attorney fees were not deductible. <u>See</u> Grossman Nov. 2006 Aff., ¶ 12, AA 168. We believe that silence is a

Judge McShane ruled that paragraph 4 of the 1999 Agreement did not permit ABCO to deduct these fees from the "recovery." The exclusion by the district court of this expense from "recovery" is grossly unfair for three reasons:

First, litigation expenses such as the Danville attorney fees are commonly advanced by law firms to their clients and indeed, the 1999 Agreement anticipates such advances by Dorsey.[179] If Dorsey had "fronted" the payment ABCO was ordered to make to Danville, this expense would unquestionably be a proper deduction under the 1999 Agreement.[180] It should make no difference for purposes of deduction that ABCO made the payment rather than Dorsey.

Second, it is undisputed that ABCO sued Danville on Dorsey's recommendation.[181] It is equally undisputed that ABCO dismissed the claims against Danville at Dorsey's recommendation.[182] In other words, ABCO incurred this out-of-pocket expense as a direct result of Dorsey's advice and representation in litigation relating to the Patents.[183]

---

telling admission.

[179] See Grossman Jan. 2006 Aff., Ex. A (1999 Agreement), ¶4 (stating Dorsey "may, in its discretion, advance payment of such expenses. . ."), AA 72.

[180] Id.

[181] Grossman Nov. 2006 Affidavit, ¶12, AA 168; see Second Aff. of Ronald J. Brown ("Brown Nov. 2006 Aff."), ¶5, (Brown does not deny that Dorsey advised ABCO to file suit against Danville), AA 182.

[182] Brown Oct. 2006 Aff., ¶¶ 2 & 3, (Brown states it was his opinion the claim could not be sustained and that he directed an associate to move for dismissal), AA 131.

[183] Grossman Nov. 2006 Aff., ¶12, AA 168.

Finally, the district court found that it was somehow ABCO's fault that it had to pay the Danville fees because of "inaccurate information" ABCO had provided Dorsey at the time the complaint was drafted.[184] This finding is an adjudication on a disputed fact issue based on the self-serving affidavit of counsel that should never have been made in a proceeding to establish an attorney's lien.

In sum, the Danville fees are an expense that arose due to Dorsey's advice and the expense was incurred in patent litigation that clearly fell under the 1999 Agreement and is therefore a proper expense.

G. The Personal Liability of Andrew Grossman.

An attorneys' lien "is a hold or claim on the property as security for a debt or charge." Boline, 345 N.W.2d at 288. This Court has previously held that "[a]n unqualified personal judgment is ineffective to enforce an attorneys' lien." Robb Gass Constr., Inc. v. Dropps, 2003 WL 22889811, at *6.

Andrew Grossman has never been sued in regard to the Dorsey fees, has never been allowed to assert a defense, and yet now he has against him a personal judgment that Dorsey has vigorously used virtually all the tools available to a judgment creditor--including a supplementary deposition--to collect.[185] There is something wrong with this picture.

---

[184] Jan. 2007 Order & Mem., AA 200.

[185] See Receiver Mem., AA 257-65; Wilson June 2007 Aff., ¶¶ 2-4, AA 266-67.

First, the district court found Grossman liable under the 1999 Agreement because he signed it "Individually and for ABCO Research LLC." [186] But at no point does that agreement call for Grossman to deliver any performance to Dorsey--the performance by "the Clients" is to pay 40 percent "of any recovery" from the Patents to Dorsey.[187] The subject of this performance is dollars of a certain type that come in to ABCO. The context is that Grossman--and inventor Robert Hasel for that matter--were to act as agents of ABCO to deliver Dorsey's share of any "recovery" to Dorsey.

The district court appears to have recognized that an *in personam* judgment against Grossman is an injustice under these circumstances, and so it ordered that Dorsey may only recover from Grossman dollars that sourced from the Patents.[188] This limitation too, however, misperceives the way the lien statute works--it is not a remedy for past wrongs--it is a remedy to avoid future wrongs. If, for example, a client diverted a settlement check (perhaps even forged the attorney's name if the check was written to both client and lawyer) and cashed the check, the attorneys' lien statute would provide no remedy--the lawyer would have to sue the client for conversion or something like that. The attorneys' lien statute is not some sort of statutory form of tracing proceeds of a lawsuit.

This Court should emphatically state that Minn. Stat. § 481.13 cannot be

---

[186] Jan. 2007 Order & Mem., AA 202.

[187] See Grossman Jan. 2006 Aff., Ex. A (1999 Agreement), AA 71-72.

[188] Jan. 2007 Order & Mem., AA 193; Am. Order, AA 207.

used as the basis for an *in personam* judgment against Andrew Grossman, or anyone else for that matter.

CONCLUSION

The judgments below should be vacated, Grossman should be dismissed as a party, and the Court should rule that the 1999 Agreement is one of a joint venture. The Danville and other litigation expenses should be held to come under the 1999 Agreement.

Dated: June 22, 2007.

KELLY & BERENS, P.A.

By:________________________

Timothy D. Kelly (#54926)
Carrie L. Zochert (#291778)
3720 IDS Center
80 South Eighth Street
Minneapolis, Minnesota 55402
(612) 349-6171

Attorneys for Appellants

STATE OF MINNESOTA
IN COURT OF APPEALS

Dorsey & Whitney LLP, | Case No. A07-0358

Lien Claimant/Respondent,

v.

CERTIFICATION OF BRIEF LENGTH

Andrew C. Grossman and ABCO Research, LLC,

Appellants.

I hereby certify that this brief conforms to the requirements of Minn. R. Civ. App. P. 132.01, subds. 1 and 3, for a brief produced with a proportional font. The length of this brief is 13,650 words. This brief was prepared using WordPerfect Office 12.

Dated: June 22, 2007.

KELLY & BERENS, P.A.

By: ______________________
Timothy D. Kelly (#54926)
Carrie L. Zochert (#291778)
3720 IDS Center
80 South Eighth Street
Minneapolis, Minnesota 55402
(612) 349-6171

Attorneys for Appellants