

The Honorable Ricardo S. Martinez

UNITED STATES DISTRICT COURT
WESTERN DISTRICT OF WASHINGTON
AT SEATTLE

CASCADE YARNS, INC., a Washington)
corporation,)

Plaintiff,)

v.)

KNITTING FEVER, INC., a New York)
Corporation, DESIGNER YARNS, LTD., a)
corporation of England, FILATURA)
PETTINATA V.V.G. DI STEFANO VACCARI)
& C. (S.A.S.) an entity organized or existing)
under the laws of Italy, SION ELALOUF, an)
individual, DIANE ELALOUF, an individual,)
JAY OPPERMAN, an individual, DEBBIE)
BLISS, an individual, DAVID WATT, an)
individual and DOES 1-50,)

Defendants.)

Civil Action No. 2:10-cv-00861-RSM

**DEFENDANTS’ MEMORANDUM
OF LAW IN OPPOSITION TO
CASCADE’S MOTION TO
DISQUALIFY PEPPER HAMILTON**

**Noted on Motion Calendar:
August 6, 2010**

Defendants Knitting Fever, Inc., Sion Elalouf, Diane Elalouf, and Jay Opperman
(collectively, the “KFI Defendants”), and Defendants Designer Yarns, Inc., David Watt, Filatura
Pettinata V.V.G. Di Stefano Vaccari & C., and Debbie Bliss (collectively, the “Non-KFI
Defendants”), hereby submit this memorandum of law in opposition to the Motion to Disqualify
Joshua Slavitt, Deirdre McInerney and their the law firm, Pepper Hamilton LLP (collectively,

1 “Pepper Hamilton”) filed by Plaintiff, Cascade Yarns, Inc. (“Cascade”).¹

2 Cascade’s Motion to Disqualify epitomizes a tactic disfavored by the courts – attempting
3 to use the Rules of Professional Conduct as a procedural weapon to deprive the opposing parties
4 of their counsel of choice. The disfavored tactical nature of the Motion is epitomized by one
5 undisputed fact: Cascade has never been a client of Pepper Hamilton. Yet, Cascade bases its
6 Motion on an alleged violation of Rule 1.7, prohibiting conflicts of interest, ostensibly resulting
7 from Pepper Hamilton’s representation of both the KFI and Non-KFI Defendants. Not
8 surprisingly, Cascade points to no harm it has suffered.

9 As a non-client, Cascade lacks standing to move for disqualification. Even if it had
10 standing, however, Cascade cannot establish that a concurrent conflict of interest under Rule 1.7
11 exists. Instead of fact, Cascade relies only on a mischaracterization of a conference in which
12 neither it nor its counsel even participated to conjure up a conflict between the KFI and Non-KFI
13 Defendants. Cascade fails to cite any evidence that would substantiate the existence of that
14 alleged conflict. In reality, the KFI and Non-KFI Defendants do not have adverse interests.
15 Again, contrary to Cascade’s assertions, there is no indication that Pepper Hamilton’s
16 representation of one group will compromise its zealous and diligent representation of the other,
17 especially because the Defendants intend to present a unified defense that will show Cascade’s
18 claims are without factual or legal basis.

19 Even if such a concurrent conflict existed, the conflict could be waived by the clients
20 with informed consent Cascade’s Motion simply assumes, and would have this Court
21 erroneously assume, that Pepper Hamilton never discussed any conflict issues with its clients.
22 Cascade’s assumption is incorrect. At the time Mr. Slavitt was asked by the Non-KFI
23 Defendants to represent them, he complied with his professional responsibility obligations; he

¹ The KFI and Non-KFI Defendants separately oppose Cascade’s Motion to Disqualify
Davis Wright Tremaine and, therefore, do not repeat those arguments here.

1 explained to the prospective clients and then also to the KFI Defendants the nature of the joint
2 representation, as well as the privilege issues such a representation entails. He analyzed the
3 situation and made an independent judgment that he did not anticipate a conflict of interest
4 arising among his joint clients. Mr. Slavitt also sought and received his clients' consent to the
5 joint representation.

6 Finally, Cascade contends that Pepper Hamilton engaged in the unauthorized practice of
7 law when Mr. Slavitt emailed Cascade's counsel, one week before filing motions for *pro hac*
8 *vice* admission, and advised that he represented Defendants. This conduct is permitted by
9 Washington Rule of Professional Conduct 5.5, which reasonably allows an unadmitted attorney
10 to render services where the lawyer reasonably expects to be admitted *pro hac vice*.
11 Accordingly, Defendants respectfully request that the Court allow them to continue with their
12 counsel of choice, Mr. Slavitt, Ms. McInerney, and Pepper Hamilton, and deny Cascade's
13 Motion to Disqualify.

14 **I. FACTUAL BACKGROUND**

15 **A. History of Pepper Hamilton's Representation of the Defendants**

16 Mr. Slavitt has represented the KFI Defendants since September 2008, when they were
17 sued by an entity called The Knit With in the Eastern District of Pennsylvania, Civil Action No.
18 2:08-cv-04221-RLB (the "E.D. Pa. Action"). Although the Non-KFI Defendants were named as
19 defendants in the E.D. Pa. Action, The Knit With failed to properly serve them. Accordingly,
20 only the KFI Defendants, through Mr. Slavitt, had participated in the E.D. Pa. Action. In
21 answering the Complaint in the Ed. Pa. Action, the KFI Defendants did not file cross-claims
22 against the Non-KFI Defendants, and did not assert that the Non-KFI Defendants were liable on
23 any of Plaintiff's claims. *See* Answer in the E.D. Pa. Action (Doc. 15).

In May and June 2010, the Non-KFI Defendants engaged Mr. Slavitt. At that time, he

1 wrote to each party to explain the scope and terms of the engagement.² In his letter to each of
2 the Non-KFI Defendants,³ Mr. Slavitt explained that he also represented the KFI Defendants, and
3 therefore described the nature and scope of the joint representation and the privilege issues, as
4 well as a conflicts analysis, associated with an engagement for joint clients. *See, e.g.*, Exhibit A,
5 at 2. Each of the Non-KFI Defendants confirmed that they understood and agreed to the terms of
6 the engagement. *See* Exhibit A, at 5; Exhibit B, at 5; Exhibit C, at 5.

7 Shortly after Mr. Slavitt provided the engagement letters to the Non-KFI Defendants, he
8 revised the original version of the engagement letters he had sent to the KFI Defendants in
9 September 2008. In the revised version, he created the “mirror image” of the letter to the Non-
10 KFI Defendants, again explaining the nature and scope of the joint representation and the
11 privilege issues, as well as a conflicts analysis.⁴ These Defendants confirmed they understood
12 and consented to the joint representation. *See* Exhibit F, at 5; Exhibit G, at 4.

13 On June 9, 2010, Plaintiff filed the First Amended Complaint in the instant action. Soon
14 thereafter, the KFI and Non-KFI Defendants engaged Pepper Hamilton to represent them in the

15 ² *See* Engagement Ltr. to A. Oliaro of Filatura Pettinata V.V.G. Di Stefano Vaccari & C.
16 (May 14, 2010), attached hereto as Exhibit A; Engagement Ltr. to J. Cashell of Designer Yarns,
Ltd. (June 20, 2010), attached hereto as Exhibit B; Engagement Ltr. to Debbie Bliss (June 24,
2010), attached hereto as Exhibit C.

17 ³ Non-KFI Defendant David Watt is a manager of Non-KFI Defendant Designer Yarns,
18 Ltd. He was not named as a defendant in the E.D. Pa. Action. Mr. Slavitt represents Mr. Watt in
the instant action. *See* Affidavit of Joshua R. Slavitt (Aug. 2, 2010), attached hereto as Exhibit
D, at ¶¶ 16, 19. The engagement letter for Mr. Watt is attached hereto as Exhibit E.

19 ⁴ Revised Engagement Ltr. for Knitting Fever, Inc., S. Elalouf and D. Elalouf (July 22,
20 2010), attached hereto as Exhibit F, at 2; Engagement Letter to J. Opperman (July 22, 2010),
21 attached hereto as Exhibit G, at 2. The revised engagement letter for Knitting Fever, Inc., S.
22 Elalouf, and D. Elalouf refers to Mr. Opperman as a “non-KFI Defendant.” Since he is an
23 independent sales representative of Knitting Fever, Inc. and a minority shareholder in Designer
Yarns, Ltd., E. D. Pa. Action Answer (Doc. 15) ¶ 9, Mr. Slavitt distinguished him from KFI and
its officers and directors. There is no conflict between Mr. Opperman and any other defendant,
and for the purposes of the instant response Mr. Opperman is a KFI Defendant.

1 instant action. *See* Slavitt Affidavit, Exhibit D, at ¶¶ 15-16. Several of the engagement letters
 2 reflect that Pepper Hamilton represents all the Defendants in both actions. *See, e.g.*, Exhibit C at
 3 1, Exhibit G at 1. The KFI and Non-KFI Defendants have not yet answered the First Amended
 4 Complaint, and in the various filings to date no Defendant has asserted that any other Defendant
 5 may be liable on any of Plaintiff’s claims.

6 **B. Plaintiff’s Misleading Allegations Regarding the Existence of a Conflict**

7 The purported basis for Plaintiff’s allegation that a concurrent conflict of interest exists is
 8 that “during the Pennsylvania action’s Rule 26(f) conference, Pepper Hamilton announced that
 9 KFI would defend against allegations of improper labeling of certain of its yarns by claiming
 10 ‘KFI is a victim too of others’ improper labeling.” Plaintiff’s Motion at 6-7. As support for
 11 asserting that Pepper Hamilton stated “KFI is a victim too,” Plaintiff cites the declaration that
 12 The Knit With’s counsel attached to The Knit With’s Motion to Disqualify Joshua R. Slavitt and
 13 Pepper Hamilton in the E.D. Pa. Action.⁵ In turn, the declaration of The Knit With’s counsel
 14 relied on a letter *he himself had authored and sent* – not one authored by Mr. Slavitt – five days
 15 after the conversation between them. Mr. Slavitt never confirmed Plaintiff’s counsel’s
 16 misunderstanding of Mr. Slavitt’s position. Slavitt Affidavit, Exhibit D, at ¶ 10. Moreover, Mr.
 17 Slavitt did not contend the KFI Defendants were victimized *by* any of the Non-KFI Defendants.
 18 *Id.* at ¶¶ 10-11. To the extent that Mr. Slavitt suggested KFI was a “victim,” he was a) assuming
 19 for the sake of argument that mislabeling had occurred and b) noting the difficulties in
 20 ascertaining the material content of yarn products from the earliest links in a complex
 21 distribution chain. *Id.* at ¶ 10.

22 Reflecting these dubious sources, Plaintiff only speculates as to whether a conflict exists:

23 _____
⁵ Defendants respectfully suggest that this Court hold disposition of this Motion in
 abeyance pending determination of the identical issues in the earlier-filed motion to disqualify
 currently pending in the E.D. Pa. Action.

- 1
- 2 • “[t]he allegations raised in the [Pennsylvania] motion to disqualify . . .
- 3 evince the *potential* appearance of impropriety and/or conflict of interest”;
- 4 • “[i]n other words, KFI suggests it will defend itself against claims that it
- 5 improperly labeled its yarns by blaming its foreign suppliers, *presumably*
- 6 Pepper Hamilton’s other clients”;
- 7 • “*it is possible* that KFI’s foreign suppliers *could allege* that the products
- 8 they supplied were labeled pursuant to KFI’s explicit instructions”;
- 9 • “KFI’s statements that it was a victim of improper labeling from its
- suppliers *would likely* give rise to claims for indemnity or contribution
- against those suppliers”; and
- “KFI’s suppliers *could allege* that KFI subsequently affixed labels
- misstating the fiber content of their products”

10 Plaintiff’s Motion at 5, 7 (emphasis added).

11 **C. Plaintiff’s Weak Allegations Regarding the Unauthorized Practice of Law**

12 Plaintiff contends that Mr. Slavitt engaged in the unauthorized practice of law in the State
 13 of Washington when he explained to Plaintiff’s counsel in an email, dated July 2, 2010 – one
 14 week before Defendants’ local counsel filed motions to admit Mr. Slavitt and Ms. McInerney *pro*
 15 *hac vice* – that he represented the Defendants. As the email reveals, Mr. Slavitt was attempting
 16 to coordinate the responses of the Defendants to the First Amended Complaint and ascertaining
 17 which Defendants had been properly served. Mr. Slavitt also was in the process of identifying
 18 and hiring a firm to serve as local counsel. Slavitt Affidavit, Exhibit D, at ¶¶ 21-24. This Court
 granted the *pro hac vice* motions on July 12.

19 **II. STANDARD OF REVIEW**

20 “Disqualification is considered a drastic measure which courts should hesitate to impose
 21 except when absolutely necessary.” *Microsoft Corp. v. Immersion Corp.*, No. C07-936RSM,
 22 2008 U.S. Dist. LEXIS 27442, at *5 (W.D. Wash. Mar. 7, 2008) (Martinez, J.) (internal
 23 quotation omitted) (denying motion to disqualify). “Depriving a party of the right to be

1 represented by the attorney of his or her choice is a penalty that must not be imposed without
2 careful consideration.” *Id.* at 5-6 (internal quotation omitted). “In the Ninth Circuit, it is well
3 recognized that disqualification motions should be subjected to particularly strict judicial
4 scrutiny because of the potential for abuse.” *Ernie Ball, Inc. v. Earvana, LLC*, No. 06-384, 2006
5 U.S. Dist. LEXIS 96976, at *5-6 (C.D. Cal. Aug. 9, 2006) (denying motion to disqualify); *see*
6 *Microsoft Corp.*, 2008 U.S. Dist. LEXIS 27442, at *6 (“Disqualification motions are therefore
7 subject to ‘particularly strict judicial scrutiny.’”) (quoting *Optyl Eyewear Fashion Int’l Corp. v.*
8 *Style Cos.*, 760 F.2d 1045, 1050 (9th Cir. 1985)).

9 **III. LEGAL ARGUMENT**

10 **A. Because Plaintiff Was Not a Client or Former Client,** 11 **It Lacks Standing to Move for Disqualification**

12 As a threshold matter, a party generally lacks standing to seek the disqualification of his
13 opposing party’s lawyer if he has never been that lawyer’s client. “The Ninth Circuit has
14 ‘indicated that it has difficulty seeing how an opposing party has standing to complain about a
15 possible conflict of interest having nothing to do with her own representation and that, as a
16 general rule, courts do not disqualify an attorney on the grounds of conflict of interest unless the
17 former client moves for disqualification.’” *Clark v. Goodwill Indus. of Haw., Inc.*, No. 09-
18 00184, 2009 U.S. Dist. LEXIS 81918, at *4-5 (D. Haw. Sept. 9, 2009) (quoting *Kasza v.*
19 *Browner*, 133 F.3d 1159, 1171 (9th Cir. 1998)) (internal citations and alterations omitted)
20 (denying motion to disqualify). “The majority view is that only a current or former client of an
21 attorney has standing to complain of that attorney’s representation of interests adverse to that
22 current or former client.” *Colyer v. Smith*, 50 F. Supp.2d 966, 969 (C.D. Cal. 1999) (denying
23 standing). Because Pepper Hamilton never acted as Plaintiff’s counsel, Plaintiff has no standing
to seek its disqualification.

In rare circumstances, a minority of courts, including this one, have permitted nonclient
litigants to “bring motions to disqualify counsel based on conflicts of interest.” *FMC Techs.*,

1 *Inc. v. Edwards*, 420 F. Supp.2d 1153, 1159 (W.D. Wash. Mar. 13, 2006) (granting motion in
 2 situation involving side switching); *see Coyle*, 50 F. Supp.2d at 972 (explaining that, for
 3 standing to lie for a non-client, the ethical breach must be “so severe that it ‘obstructs the orderly
 4 administration of justice’”). But the result would be no different even if this Court were to
 5 employ the minority view, which insists that the non-client show “that the continued
 6 representation by opposing counsel threatens the non-client with immediate and actual harm by
 7 creating the substantial risk to her right to a fair and just determination of her claims.”
 8 *Cauderlier & Assocs., Inc. v. Zambrana*, No. 05-1653, 2006 U.S. Dist. LEXIS 85969, at *8
 9 (D.D.C. Oct. 6, 2006) (denying standing). Plaintiff does not cite any harm and thus cannot meet
 10 this standard. *Contrast FMC Techs.*, 420 F. Supp.2d at 1160-61 (defense counsel disqualified
 11 where it formerly represented plaintiff’s key witness in a matter involving the exact same issues).
 Plaintiff cannot establish standing under either view and its Motion should be denied.

12 **B. The Motion Should Be Denied Because Plaintiff**
 13 **Cannot Carry His Heavy Burden of Showing a Conflict Exists**

14 **1. Rule 1.7 Does Not Include an “Appearance of Impropriety” Standard**

15 Rule 1.7⁶ provides that “a lawyer shall not represent a client if the representation involves
 16 a concurrent conflict of interest.” The rule describes the two situations in which a concurrent
 17 conflict of interest may exist:

- 18 (1) the representation of one client will be directly adverse to another client; or
 19 (2) there is a significant risk that the representation of one or more clients will
 20 be materially limited by the lawyer’s responsibilities to another client, a

21 ⁶ Under Local Rule Civ. P. CR 2(e), the Washington Rules of Professional Conduct apply
 22 to this controversy. Although Washington courts have not formally adopted the commentary to
 23 the RPCs, they view the commentary as instructive. *State v. Hunsacker*, 74 Wash. App. 38, 46,
 873 P.2d 540, 544-45 (1994).

1 former client or a third person or by a personal interest of the lawyer.

2 Rule 1.7 does not include an “appearance of impropriety” standard. *U.S.A. ex rel. Elec. Co., Inc.*
 3 *v. Titan Pacific Constr. Corp.*, 637 F. Supp. 1556, 1567 (W.D. Wash. 1986) (“Because it is
 4 desirable that an attorney know what ethical norms are expected of him or her, . . . it is
 5 inappropriate to exceed the bounds of the Washington RPC and disqualify attorneys merely on
 6 the basis of an ‘appearance of impropriety.’”) (rejecting standard and refusing to disqualify law
 7 firm; one firm attorney was disqualified under Rule 1.9 for representing a party against a former
 8 client in a substantially related matter).

9 **2. Plaintiff Cannot Meet Its Burden of Establishing a**
Current Conflict Under Rule 1.7(a)(1) or (a)(2)

10 Assuming Plaintiff has standing, it must demonstrate that the opposing party’s counsel
 11 has violated the Washington Rules of Professional Conduct. “The party seeking disqualification
 12 bears the burden of proving the conflict alleged.” *City of Grass Valley v. Newmont Mining*
 13 *Corp.*, 2:04-cv-00149, 2007 U.S. Dist. LEXIS 89187 (E.D. Cal. Nov. 20, 2007) (motion denied);
 14 *Microsoft Corp.*, 2008 U.S. Dist. LEXIS 27442, at *7 (denying motion where movant failed to
 15 present sufficient evidence and relied on “bald assertions”). “Courts have stated that a ‘motion
 16 to disqualify should be accompanied by declarations and admissible evidence sufficient to
 17 establish the factual predicate upon which the motion depends.’” *Marshall v. Gravitt*, 2:06-cv-
 18 0536, 2007 U.S. Dist. LEXIS 4947, at *9 (D. Nev. Jan. 18, 2007) (internal citation omitted)
 19 (motion denied); *McKeeson Info. Solutions, Inc. v. Bridge Med., Inc.*, No. S-02-2669, 2004 U.S.
 20 Dist. LEXIS 30734, at *10-11 (E.D. Cal. Feb. 3, 2004) (denying motion where grounds for
 conflict were purely speculative). In fact, the only⁷ case Plaintiff cited in its conflict of interest

21 ⁷ The remaining cases cited by Plaintiff do not apply to Rule 1.7 or 5.5 – the issues
 22 relating to Pepper Hamilton; Plaintiff cites those cases in an effort to support its argument for the
 23 disqualification of Davis Wright Tremaine under Rule 1.9. See Plaintiff’s Motion at 8-9. Again,
 we refer this Court to Defendants’ separate response.

1 argument, *Eugster v. City of Spokane*, 39 P.3d 380, 387-88 (Wash. Ct. App. 2002), affirmed the
 2 denial of a motion to disqualify because the movant failed to show a conflict existed where
 3 defense counsel represented the City, City Council and several former Council members.

4 Here, Plaintiff cannot show a concurrent conflict of interest exists. Plaintiff offers no
 5 admissible evidence that the KFI and Non-KFI Defendants have adverse interests or that the
 6 representation of one set of defendants will materially limit Pepper Hamilton's representation of
 7 the other set of defendants. Indeed, the KFI Defendants have not asserted in any pleadings or
 8 other filings that the Non-KFI Defendants are liable on Plaintiff's claims. Instead, both groups
 9 intend to present a unified defense that will demonstrate there is no factual or legal basis for
 Plaintiff's claims. Therefore, there is no concurrent conflict of interest under Rule 1.7(a).

10 Plaintiff attempts to conjure up a conflict based on alleged comments by Mr. Slavitt.
 11 Those comments are discussed in detail in Section I(B), above. To summarize, the statement that
 12 KFI may be a victim was made with knowledge of the difficulties of ascertaining the material
 13 content of yarn products from the earliest links in a complex distribution chain – and not to place
 14 the blame upon any of the Defendants in this case. Pl.'s Mot. at 6-7; *see* Slavitt Affidavit, Exh.
 15 D, at ¶¶ 10-11. Plaintiff's mischaracterizations which underlie its Motion fly in the face of the
 16 current unified defense, which corresponds to Knitting Fever's successful business relationship
 17 with the Non-KFI Defendants – one which has continued uninterrupted since Plaintiff
 commenced the litigation. *Id.* at ¶ 11.⁸

18 **3. Mr. Slavitt May Continue as Counsel Because All Clients Consented**
 19 **to the Joint Representation**

20 Even if a concurrent conflict of interest exists, Rule 1.7(b) permits the attorney to

21 ⁸ *Contrast Qwest Corp. v. Anovian, Inc.*, No. C08-1715RSM, 2010 U.S. Dist. LEXIS
 22 46678, at *18 (W.D. Wash. Apr. 7, 2010) (Martinez, J.), properly granting a motion to disqualify
 23 where counsel tried to fire a current client to represent another client in litigation adverse to that
 current client – a clear violation of Rule 1.7.

1 continue the representation if:

2 (1) the lawyer reasonably believes that the lawyer will be able to
 3 provide competent and diligent representation to each affected
 client;

4 (2) the representation is not prohibited by law;

5 (3) the representation does not involve the assertion of a claim by
 6 one client against another client represented by the lawyer in the
 same litigation or other proceeding before a tribunal; and

7 (4) each affected client gives informed consent

8 “Informed consent requires that each affected client be aware of the relevant
 9 circumstances and of the material and reasonably foreseeable ways that the conflict could have
 10 adverse effects on the interests of that client.” Cmt. [18] to Rule 1.7. Each of the Defendants
 11 who have been served in this matter have provided informed consent, and the informed consent
 12 of Mr. Watt is being secured presently. As Mr. Slavitt has explained in his representation letters
 13 to the KFI and Non-KFI Defendants, there is currently no conflict of interest between the
 14 Defendants. Even so, Mr. Slavitt explained the nature of the joint representation, and the
 attendant privilege issues, and sought and received the Defendants’ consent to joint
 15 representation. Pepper Hamilton’s representation of the Defendants does not involve one client
 16 asserting a claim against another client. Furthermore, there is no reason to believe that if a
 17 conflict did arise, it would be one that the courts would deem to be unwaivable or prohibited by
 18 law. Thus, any conflict was subject to waiver with informed consent, which was provided by
 19 each of the Defendants. Because the record in this case “is bereft of anything but, at most,
 20 imagined conflicts,” this Court need not consider whether disqualification would be a proper
 21 remedy. *Wolf, Block, Schorr, & Solis-Cohen LLP v. Navon*, No. 05-6038, 2006 U.S. Dist.
 LEXIS 9859, at *8-9 (E.D. Pa. Mar. 9, 2006).

22 **C. Pepper Hamilton at All Times Complied with Rule 5.5**

23 Washington Rule of Professional Conduct 5.5 permitted Mr. Slavitt to act as Defendants’

1 counsel in contacting Plaintiff's counsel in order to coordinate Defendants' responses to the
2 recently-filed First Amended Complaint. Comment [10] to Rule 5.5 specifically states "a lawyer
3 rendering services in this jurisdiction on a temporary basis does not violate this Rule when the
4 lawyer engages in conduct . . . in a jurisdiction . . . in which the lawyer reasonably expects to be
5 admitted pro hac vice." The comment provides examples of permitted conduct, including
6 meeting with the client, interviewing potential witnesses and reviewing documents. Mr. Slavitt's
7 email to Plaintiff's counsel was far less substantial activity than those examples of permitted
8 conduct. In addition, it occurred just one week before Defendant's local counsel filed motions
9 for admission of Mr. Slavitt and Ms. McInerney *pro hac vice*, which the Court granted on the
10 next court day. Thus, Pepper Hamilton's conduct was in compliance with Rule 5.5, not in
11 violation of it. This conduct cannot support the instant Motion to Disqualify Pepper Hamilton.

11 **IV. CONCLUSION**

12 For all of the reasons set forth above, the KFI and Non-KFI Defendants respectfully
13 request that the Court deny Plaintiff's Motion to Disqualify Joshua R. Slavitt, Deirdre
14 McInerney, and the law firm of Pepper Hamilton.

15 DATED this 2d day of August, 2010.

16 Respectfully submitted,

17 Pepper Hamilton LLP
18 Attorneys for Defendants

19 By /s/Joshua R. Slavitt

20 Joshua R. Slavitt (Admitted *Pro Hac Vice*)
21 Deirdre E. McInerney (Admitted *Pro Hac Vice*)
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Exhibit A

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May 14, 2010

Alberto Oliaro
Filatura Pettinata V.V.G. Di Stefano Vaccari & C. (Q.A.S.)
Via Gianasso,11
13871 Benna
Italy

Re: Engagement Letter

Dear Mr. Oliaro:

We are delighted to be representing Filatura Pettinata V.V.G. Di Stefano Vaccari & C. (Q.A.S.) ("Filatura Pettinata") in connection with the lawsuit recently filed by The Knit With now pending in federal court in the Eastern District of Pennsylvania (the "Lawsuit").

Fundamental to a sound relationship is a clear understanding of the terms and conditions upon which we will be providing legal services. The purpose of this letter is to clarify and confirm the parties and scope of the engagement and the nature of the services we will render. It also describes our billing policies, procedures and rates. Should you retain Pepper Hamilton LLP ("Pepper") for subsequent matters, the specifics of this agreement will remain the same unless otherwise communicated. The attachment to this letter, "Additional Terms of Engagement," contains other important aspects of the attorney-client relationship.

Scope of Engagement

Our engagement is to defend you in the Lawsuit filed by The Knit With against Filatura Pettinata. Our acceptance of this engagement does not involve an undertaking to represent you or your interests in any matter other than that described in this paragraph.

Philadelphia Boston Washington, D.C. Detroit New York Pittsburgh
Berwyn Harrisburg Orange County Princeton Wilmington



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Joint Representation

Let me take this opportunity to confirm your understanding of the consequences of our representing other defendants while we represent you with respect to the Lawsuit, and further to confirm that you consent to our representation of you under these conditions.

We have considered the allegations asserted in the Lawsuit, and we have concluded that our joint representation of you as well as KFI and the individuals associated with KFI, namely, Sion Elalouf, Diane Elalouf, Jeffrey Denecke, and Jay Opperman (collectively with KFI, the "KFI Defendants") does not present any current conflict of interest.

The attorney-client privilege applies to communications between counsel and jointly represented clients. Although such communications are privileged as against third-parties, the general rule is that communications between counsel and jointly represented clients are not privileged as between the jointly represented clients. Thus, any communications the KFI Defendants have with us about the Lawsuit are not privileged as to you. Likewise, the information you provide to the Firm will be used for the benefit of and may be disclosed to the KFI Defendants in connection with the defense of the Lawsuit made against you and the KFI Defendants.

We believe it is extremely unlikely that any future conflict of interest would arise that would compromise our representation of you and the KFI Defendants. However, in the unlikely event that a dispute arises between you and any of the KFI Defendants relating to the issues raised in the Claim, you specifically agree that Pepper Hamilton would not continue to represent you but would continue to represent the KFI Defendants. If appropriate, the Firm will assist you with arrangements to secure new counsel. You understand and agree that in its continuing representation of the KFI Defendants, the Firm may use, as it deems appropriate, any information that it received from you during the period of joint representation. You further agree that you will not seek disqualification of the Firm in that circumstance.

I can assure you that representation of the KFI Defendants will in no way adversely affect our vigorous joint representation of you as well.

Attorneys Providing Services

I will be the attorney responsible for your representation. From time to time, I may ask other Pepper attorneys and paralegals to assist me in providing quality legal services in an efficient, economical manner and to take advantage of special expertise. We always attempt to have work done for clients by the person or persons with the most suitable legal experience and seniority level,



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and we will follow that principle in representing you in this engagement. If at any time you have questions regarding staffing or performance, please call me. It is important that you are satisfied with our services and responsiveness at all times.

Client Liaison

We understand that you will be our primary contact at Filatura Pettinata. Please advise us immediately if there is any change in the contact information or in the person who will be primarily responsible for this matter.

Fees

In accordance with your agreement with Knitting Fever, Inc. ("KFI"), all work will be billed monthly to KFI at our regular hourly rates which we traditionally adjust each January 1. All work in this matter will be billed at our normal hourly rates, which we believe to be highly competitive. My current hourly rate is \$500. The current hourly rate range other personnel who may assist me is as follows: partners, \$420 to \$620; associates, \$230 to \$360; paralegals, \$75 to \$200; other professional support staff, \$35 to \$60. We traditionally adjust these rates each January.

We are keenly aware of time expenditures and make every effort to achieve the most cost-effective mix of hours, rates and experience. Our bills will be reviewed by me before being sent to assure that we are delivering our services as efficiently as we can.

All payments are to be made free of any withholding of tax. Should you be obligated to withhold taxes on payments to be made, the payment is to be increased so that after the withholding of the tax Pepper receives the amount of the invoice.

Disbursements

In accordance with your agreement with KFI, they will also be billed monthly for disbursements and ancillary services in this matter. These items, including telephone charges, copying, fax services and computerized legal research, are listed on the enclosed "Summary of Charges for Ancillary Services." Disbursements are not always available on a current basis, so they may be billed in subsequent statements.

If it becomes necessary for us to obtain services on the client's behalf from suppliers outside Pepper (for example, deposition transcripts), we may make payment for charges under \$500 and list such payments as expense items in our monthly bills. When the charge is \$500 or more, and in other instances when the bill is to be forwarded to the client for payment, we will first review it for appropriateness. Expert witnesses will be engaged only with your prior approval. We will seek your



Alberto Oliaro
Page 4
May 14, 2010

approval for vendors if substantial expenses are anticipated. Our personnel travel Metroliner or Acela class for rail transportation, and business class (or first if business class is not available) for international travel of more than two (2) hours anticipated duration or domestic travel of more than five (5) hours anticipated duration, and coach class for all other air transportation.

Billing Arrangement

Our monthly statements will provide a detailed listing of the services performed. We require payment of our statements within 30 days of the statement date. Any outstanding balance for which payment has not been received within 60 days of the statement date will begin to accrue interest charges at a rate of two points (2%) over prime. If payment of any of our billings is not made within 60 days of the statement date, Pepper reserves the right to withdraw as counsel to "Filatura Pettinata", and "Filatura Pettinata" agrees that it will not object to any motion that Pepper files to withdraw from its representation on that ground. Such a withdrawal or motion will not affect the obligation of "Filatura Pettinata" to pay Pepper the amounts set forth in billing statements that Pepper sends to them.

We do not anticipate having any disagreement with you about the quality, cost or appropriateness of our service. If, however, you have questions or concerns about these subjects, please notify us immediately. We want to answer your questions as soon as possible. In addition, Pepper commits with you to engage in good faith negotiations to attempt to resolve any and all billing issues quickly and fairly.

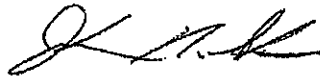
I encourage you to discuss with me any questions that you may have concerning any of these arrangements. We are most pleased that you have engaged us for this matter and we will make every reasonable effort to assist you in achieving your objectives.

Pepper Hamilton LLP
Attorneys at Law

Alberto Oliaro
Page 5
May 14, 2010

I ask that you confirm Filatura Pettinata's agreement with the terms of retention set forth in this letter by signing this letter as provided below and returning the signed letter to me. Please retain a copy for your records.

Sincerely yours,



Joshua R. Slavitt

Enclosures:
Additional Terms of Engagement
Statement of Ancillary Charges

The undersigned acknowledges and agrees to the terms of representation by Pepper Hamilton LLP as set forth in this letter and the accompanying additional terms of engagement.

Filatura Pettinata V.V.G. Di Stefano Vaccari & C. (Q.A.S.)

Dated: 14/05/2010

By: _____

FILATURA V.V.G.
di STEFANO VACCARI & C. S.A.S.
VIA GIANASSO, 11 - 13039 BENNA (BI)
tel. 015/5821112 - Fax 015/5821475
C.F. • P.IVA 00169310026

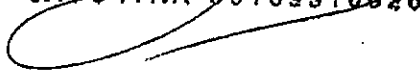


Exhibit B

WED, 23-JUN-10 19:55

JOHN CASHELL LTD

+353 21 4551800

P. 02

Pepper Hamilton LLP
Attorneys at Law

3000 Two Logan Square
Eighteenth and Arch Streets
Philadelphia, PA 19104-2799
215.981.4000
Fax 215.981.4750

Joshua R. Slavit
direct dial 215-981-4680
directfax 800-589-4728
slavit@pepperlaw.com

June 20, 2010

Via Email

John Cashell
Designer Yarns Ltd.
Units 8-10 Newbridge Ind Est
Pitt Street
Keighley
West Yorkshire BD21 4PQ
Email: jcshell@iol.ie

Re: Engagement Letter

Dear Mr. Cashell:

We are delighted to be representing Designer Yarns Ltd. ("Designer Yarns") in connection with the lawsuit filed by The Knit With now pending in federal court in the Eastern District of Pennsylvania (the "Lawsuit").

Fundamental to a sound relationship is a clear understanding of the terms and conditions upon which we will be providing legal services. The purpose of this letter is to clarify and confirm the parties and scope of the engagement, and the nature of the services we will render. It also describes our billing policies, procedures and rates. Should you retain Pepper Hamilton LLP ("Pepper") for subsequent matters, the specifics of this agreement will remain the same unless otherwise communicated. The attachment to this letter, "Additional Terms of Engagement," contains other important aspects of the attorney-client relationship.

Philadelphia	Boston	Washington, D.C.	Detroit	New York	Pittsburgh
Brewery	Harrisburg	Orange County	Princeton	Wilmington	

www.pepperlaw.com

WED, 23-JUN-10 19:56

JOHN CASHELL LTD

+353 21 4551800

P. 03

Pepper Hamilton LLP
Attorneys at Law

John Cashell
Page 3
June 20, 2010

Scope of Engagement

Our engagement is to defend you in the Lawsuit filed by The Knit With against Designer Yarns. Our acceptance of this engagement does not involve an undertaking to represent you or your interests in any matter other than that described in this paragraph.

Joint Representation

Let me take this opportunity to confirm your understanding of the consequences of our representing other defendants while we represent you with respect to the Lawsuit, and further to confirm that you consent to our representation of you under these conditions.

We have considered the allegations asserted in the Lawsuit, and we have concluded that our joint representation of you, as well as Filatur Pettinata, Debbie Bliss, Knitting Fever, Inc. ("KFI"), and individuals associated with KFI, namely, Sion Elalouf, Diane Elalouf, Jeffrey Denecke, and Jay Opperman (collectively with KFI, the "KFI Defendants"), Filatura Pettinata and Debbie Bliss, does not present any current conflict of interest.

The attorney-client privilege applies to communications between counsel and jointly represented clients. Although such communications are privileged as against third-parties, the general rule is that communications between counsel and jointly represented clients are not privileged as between the jointly represented clients. Thus, any communications other jointly represented clients have with us about the Lawsuit are not privileged as to you. Likewise, the information you provide to the Firm will be used for the benefit of and may be disclosed to other jointly represented clients in connection with the defense of the Lawsuit.

We believe it is extremely unlikely that any future conflict of interest would arise that would compromise our representation of you and the other jointly represented clients. However, in the unlikely event that a dispute arises between you and any of the other jointly represented clients relating to the issues raised in the Lawsuit, you specifically agree that Pepper Hamilton would not continue to represent you but would continue to represent the KFI. If appropriate, the Firm will assist you with arrangements to secure new counsel. You understand and agree that in its continuing representation of KFI, the Firm may use, as it deems appropriate, any information that it received from you during the period of joint representation. You further agree that you will not seek disqualification of the Firm in that circumstance.

I can assure you that representation of the KFI or any of the other jointly represented clients will in no way adversely affect our vigorous joint representation of you as well.

WED, 23-JUN-10 20:03

JOHN CASHELL LTD

+353 21 4551800

P. 01

Pepper Hamilton LLP
Pepper Hamilton Law

John Casshell
Page 3
June 20, 2010

Attorneys Providing Services

I will be the attorney responsible for your representation. From time to time, I may ask other Pepper attorneys and paralegals to assist me in providing quality legal services in an efficient, economical manner and to take advantage of special expertise. We always attempt to have work done for clients by the person or persons with the most suitable legal experience and seniority level, and we will follow that principle in representing you in this engagement. If at any time you have questions regarding staffing or performance, please call me. It is important that you are satisfied with our services and responsiveness at all times.

Client Liaison

We understand that you will be our primary contact at Designer Yarns. Please advise us immediately if there is any change in the contact information or in the person who will be primarily responsible for this matter.

Fees

In accordance with your agreement with KFI, all work will be billed monthly to KFI at our regular hourly rates which we traditionally adjust each January 1. All work in this matter will be billed at our normal hourly rates, which we believe to be highly competitive. My current hourly rate is \$500. The current hourly rate range other personnel who may assist me is as follows: partners, \$420 to \$600; associates, \$230 to \$360; paralegals, \$75 to \$200; other professional support staff, \$35 to \$60. We traditionally adjust these rates each January.

We are keenly aware of time expenditures and make every effort to achieve the most cost-effective mix of hours, rates and experience. Our bills will be reviewed by me before being sent to assure that we are delivering our services as efficiently as we can.

All payments are to be made free of any withholding of tax. Should you be obligated to withhold taxes on payments to be made, the payment is to be increased so that after the withholding of the tax Pepper receives the amount of the invoice.

Disbursements

In accordance with your agreement with KFI, they will also be billed monthly for disbursements and ancillary services in this matter. These items, including telephone charges, copying, fax services and computerized legal research, are listed on the enclosed "Summary of

WED, 23-JUN-10 20:04

JOHN CASHELL LTD

+353 21 4551800

P. 02

Pepper Hamilton LLP
ATTORNEYS AT LAW

John Cashell
Page 4
June 20, 2010

Charges for Ancillary Services." Disbursements are not always available on a current basis, so they may be billed in subsequent statements.

If it becomes necessary for us to obtain services on the client's behalf from suppliers outside Pepper (for example, deposition transcripts), we may make payment for charges under \$500 and list such payments as expense items in our monthly bills. When the charge is \$500 or more, and in other instances when the bill is to be forwarded to the client for payment, we will first review it for appropriateness. Expert witnesses will be engaged only with your prior approval. We will seek your approval for vendors if substantial expenses are anticipated. Our personnel travel Meroliner or Acela class for rail transportation, and business class (or first if business class is not available) for international travel of more than two (2) hours anticipated duration or domestic travel of more than five (5) hours anticipated duration, and coach class for all other air transportation.

Billing Arrangement

Our monthly statements will provide a detailed listing of the services performed. We require payment of our statements within 30 days of the statement date. Any outstanding balance for which payment has not been received within 60 days of the statement date will begin to accrue interest charges at a rate of two points (2%) over prime. If payment of any of our billings is not made within 60 days of the statement date, Pepper reserves the right to withdraw as counsel to Designer Yarns, and Designer Yarns agrees that it will not object to any motion that Pepper files to withdraw from its representation on that ground. Such a withdrawal or motion will not affect the obligation of Designer Yarns to pay Pepper the amounts set forth in billing statements that Pepper sends to them.

We do not anticipate having any disagreement with you about the quality, cost or appropriateness of our service. If, however, you have questions or concerns about these subjects, please notify us immediately. We want to answer your questions as soon as possible. In addition, Pepper commits with you to engage in good faith negotiations to attempt to resolve any and all billing issues quickly and fairly.

I encourage you to discuss with me any questions that you may have concerning any of these arrangements. We are most pleased that you have engaged us for this matter and we will make every reasonable effort to assist you in achieving your objectives.

WED, 23-JUN-10 19:57

JOHN CASHELL LTD

+353 21 4551800

P. 04

Pepper Hamilton LLP
Attorneys at Law

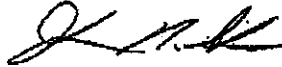
John Cashell

Page 5

June 20, 2010

I ask that you confirm Designer Yarns's agreement with the terms of retention set forth in this letter by signing this letter as provided below and returning the signed letter to me. Please retain a copy for your records.

Sincerely yours,



Joshua R. Slavitt

Enclosures:

Additional Terms of Engagement

Statement of Ancillary Charges

The undersigned acknowledges and agrees to the terms of representation by Pepper Hamilton LLP as set forth in this letter and the accompanying additional terms of engagement.

Designer Yarns

Dated: 23rd June 2010

By: J. A. Cashell
John Cashell

Title: CHAIRMAN
DESIGNER YARNS LTD.

Exhibit C

Pepper Hamilton LLP
Attorneys at Law

3000 Two Logan Square
Eighteenth and Arch Streets
Philadelphia, PA 19103-2799
215.981.4000
Fax 215.981.4750

Joshua R. Slavitt
direct dial: 215-981-4680
directfax 800-589-4728
slavitr@pepperlaw.com

June 24, 2010

Via Email

Debbie Bliss
9 Folkestone Road
Walthamstow
London E17 9SD
United Kingdom
Email: debbiebliss@live.co.uk

Re: Engagement Letter

Dear Ms. Bliss:

We are delighted to be representing you in connection with the lawsuits filed against you by the Knit With in the Eastern District of Pennsylvania (the "PA Lawsuit") and Cascade Yarns in the District of Washington (the "WA Lawsuit") (collectively, the "Lawsuits").

Fundamental to a sound relationship is a clear understanding of the terms and conditions upon which we will be providing legal services. The purpose of this letter is to clarify and confirm the parties and scope of the engagement, and the nature of the services we will render. It also describes our billing policies, procedures and rates. Should you retain Pepper Hamilton LLP ("Pepper") for subsequent matters, the specifics of this agreement will remain the same unless otherwise communicated. The attachment to this letter, "Additional Terms of Engagement," contains other important aspects of the attorney-client relationship.

Scope of Engagement

Our engagement is to defend you in the Lawsuits. Our acceptance of this engagement does not involve an undertaking to represent you or your interests in any matter other than that described in this paragraph.

Philadelphia	Boston	Washington, D.C.	Detroit	New York	Pittsburgh
Berwyn	Harrisburg	Orange County	Princeton	Wilmington	

www.pepperlaw.com



Debbie Bliss
Page 2
June 24, 2010

Joint Representation

Let me take this opportunity to confirm your understanding of the consequences of our representing other defendants while we represent you with respect to the Lawsuits, and further to confirm that you consent to our representation of you under these conditions.

We have considered the allegations asserted in the Lawsuits, and we have concluded that our joint representation of you, as well as Filatura Pettinata, Designer Yarns, Ltd., David Watt, Knitting Fever, Inc. ("KFI"), and individuals associated with KFI, namely, Sion Elalouf, Diane Elalouf, Jeffrey Denecke, and Jay Opperman (collectively with KFI, the "KFI Defendants") does not present any current conflict of interest.

The attorney-client privilege applies to communications between counsel and jointly represented clients. Although such communications are privileged as against third-parties, the general rule is that communications between counsel and jointly represented clients are not privileged as between the jointly represented clients. Thus, any communications other jointly represented clients have with us about the Lawsuits are not privileged as to you. Likewise, the information you provide to the Firm will be used for the benefit of and may be disclosed to other jointly represented clients in connection with the defense of the Lawsuits.

We believe it is extremely unlikely that any future conflict of interest would arise that would compromise our representation of you and the other jointly represented clients. However, in the unlikely event that a dispute arises between you and any of the other jointly represented clients relating to the issues raised in the Lawsuits, you specifically agree that Pepper Hamilton would not continue to represent you but would continue to represent the KFI Defendants. If appropriate, the Firm will assist you with arrangements to secure new counsel. You understand and agree that in its continuing representation of the KFI Defendants, the Firm may use, as it deems appropriate, any information that it received from you during the period of joint representation. You further agree that you will not seek disqualification of the Firm in that circumstance.

I can assure you that representation of the KFI Defendants or any of the other jointly represented clients will in no way adversely affect our vigorous joint representation of you as well.



Debbie Bliss
Page 3
June 24, 2010

Attorneys Providing Services

I will be the attorney responsible for your representation. From time to time, I may ask other Pepper attorneys and paralegals to assist me in providing quality legal services in an efficient, economical manner and to take advantage of special expertise. We always attempt to have work done for clients by the person or persons with the most suitable legal experience and seniority level, and we will follow that principle in representing you in this engagement. If at any time you have questions regarding staffing or performance, please call me. It is important that you are satisfied with our services and responsiveness at all times.

Fees

In accordance with your agreement with KFI, all work will be billed monthly to KFI at our regular hourly rates which we traditionally adjust each January 1. All work in this matter will be billed at our normal hourly rates, which we believe to be highly competitive. My current hourly rate is \$500. The current hourly rate range other personnel who may assist me is as follows: partners, \$420 to \$620; associates, \$230 to \$360; paralegals, \$75 to \$200; other professional support staff, \$35 to \$60. We traditionally adjust these rates each January.

We are keenly aware of time expenditures and make every effort to achieve the most cost-effective mix of hours, rates and experience. Our bills will be reviewed by me before being sent to assure that we are delivering our services as efficiently as we can.

All payments are to be made free of any withholding of tax. Should you be obligated to withhold taxes on payments to be made, the payment is to be increased so that after the withholding of the tax Pepper receives the amount of the invoice.

Disbursements

In accordance with your agreement with KFI, they will also be billed monthly for disbursements and ancillary services in this matter. These items, including telephone charges, copying, fax services and computerized legal research, are listed on the enclosed "Summary of Charges for Ancillary Services." Disbursements are not always available on a current basis, so they may be billed in subsequent statements.

If it becomes necessary for us to obtain services on the client's behalf from suppliers outside Pepper (for example, deposition transcripts), we may make payment for charges under \$500 and list such payments as expense items in our monthly bills. When the charge is \$500 or more, and in other



Debbie Bliss
Page 4
June 24, 2010

instances when the bill is to be forwarded to the client for payment, we will first review it for appropriateness. Expert witnesses will be engaged only with your prior approval. We will seek approval for vendors if substantial expenses are anticipated. Our personnel travel Metroliner or Acela class for rail transportation, and business class (or first if business class is not available) for international travel of more than two (2) hours anticipated duration or domestic travel of more than five (5) hours anticipated duration, and coach class for all other air transportation.

Billing Arrangement

Our monthly statements will provide a detailed listing of the services performed. We require payment of our statements within 30 days of the statement date. Any outstanding balance for which payment has not been received within 60 days of the statement date will begin to accrue interest charges at a rate of two points (2%) over prime. If payment of any of our billings is not made within 60 days of the statement date, Pepper reserves the right to withdraw as your counsel, and you agree not to object to any motion that Pepper files to withdraw from its representation on that ground. Such a withdrawal or motion will not affect the obligation of KFI to pay Pepper the amounts set forth in billing statements that Pepper sends to them.

We do not anticipate having any disagreement with you about the quality, cost or appropriateness of our service. If, however, you have questions or concerns about these subjects, please notify us immediately. We want to answer your questions as soon as possible. In addition, Pepper commits with you to engage in good faith negotiations to attempt to resolve any and all billing issues quickly and fairly.

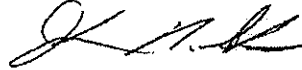
I encourage you to discuss with me any questions that you may have concerning any of these arrangements. We are most pleased that you have engaged us for this matter and we will make every reasonable effort to assist you in achieving your objectives.

Pepper Hamilton LLP
Attorneys at Law

Debbie Bliss
Page 5
June 24, 2010

I ask that you confirm your agreement with the terms of retention set forth in this letter by signing this letter as provided below and returning the signed letter to me. Please retain a copy for your records.

Sincerely yours,



Joshua R. Slavitt

Enclosures:
Additional Terms of Engagement
Statement of Ancillary Charges

The undersigned acknowledges and agrees to the terms of representation by Pepper Hamilton LLP as set forth in this letter and the accompanying additional terms of engagement.

Debbie Bliss

Dated: 27/6/10

By: Debbie Bliss

Exhibit D

1 UNITED STATES DISTRICT COURT
2 WESTERN DISTRICT OF WASHINGTON
3 AT SEATTLE

3 CASCADE YARNS, INC., a Washington)
corporation,)

4)
5 Plaintiff,)

6 v.)

7 KNITTING FEVER, INC., a New York)
Corporation, DESIGNER YARNS, LTD., a)
corporation of England, FILATURA)

8 PETTINATA V.V.G. DI STEFANO VACCARI)
& C. (S.A.S.) an entity organized or existing)
9 under the laws of Italy, SION ELALOUF, an)
individual, DIANE ELALOUF, an individual,)
10 JAY OPPERMAN, an individual, DEBBIE)
BLISS, an individual, DAVID WATT, an)
11 individual and DOES 1-50.)

12 Defendants.)

Civil Action No. 10-cv-00861-RSM

AFFIDAVIT OF JOSHUA R. SLAVITT

13 COMMONWEALTH OF PENNSYLVANIA:

: ss.

14 COUNTY OF PHILADELPHIA :

15 I, Joshua R. Slavitt, do hereby depose and state as follows:

16 1. I am a partner in the law firm of Pepper Hamilton LLP ("Pepper Hamilton"). I
17 am providing this Affidavit to set forth certain facts relating to my representation of Defendants
18 Knitting Fever, Inc. (individually, "KFI"), Sion Elalouf, Diane Elalouf, and Jay Opperman
19 (collectively, the "KFI Defendants"), and Defendants Designer Yarns, Inc., David Watt, Filatura
20 Pettinata V.V.G. Di Stefano Vaccari & C. (individually, "Filatura") and Debbie Bliss
21 (collectively, the "Non-KFI Defendants"). I provide this Affidavit based upon my personal
22 knowledge.

1 2. I began representing all the KFI Defendants in or about September 2008, when an
2 entity named The Knit With filed a Complaint against them in the United States District Court
3 for the Eastern District of Pennsylvania asserting claims for, among other things, violations of
4 the Lanham Act and the Racketeer Influenced and Corrupt Organization Act (“RICO”) based on
5 allegations of mislabeling three types of Cashmerino knitting yarns. Just over a month after
6 filing that Complaint, The Knit With brought another action in the same court against the KFI
7 Defendants, but also included a Japanese yarn manufacturer of three different types of yarns as a
8 defendant. The Eastern District of Pennsylvania consolidated both actions under Civil Action
9 No. 08-cv-04221 (hereinafter, collectively, the “E.D. Pa. Action”).

10 3. The core claims and allegations against the defendants in the E.D. Pa. Action are
11 quite similar to those set forth in the First Amended Complaint in this action. Here, Plaintiff,
12 Cascade Yarns, Inc. (“Cascade”), asserts claims for, among other things, violations of the
13 Lanham Act and RICO based on allegations that the defendants manufactured, imported,
14 distributed, and sold misbranded yarn.

15 4. With the exception of David Watt, The Knit With’s Complaint also named the
16 Non-KFI Defendants as defendants in the E.D. Pa. Action. The Knit With, however, failed to
17 properly serve them. Accordingly, I did not commence representing the Non-KFI Defendants
18 until May of 2010, soon after The Knit With moved for default against each of the Non-KFI
19 Defendants (not including Mr. Watt).

20 5. On July 9, 2010, The Knit With filed a motion to disqualify me and my firm,
21 Pepper Hamilton, from representing for the Defendants in the E.D. Pa. Action. Defendants filed
22 their responses on July 26, 2010, and that motion is currently pending.

1 6. In this action, Cascade filed a similar motion to disqualify me, my colleague
2 Deirdre McInerney (an associate at Pepper Hamilton), and Pepper Hamilton from representing
3 the KFI and Non-KFI Defendants in this matter (the “Motion”). The main argument raised in the
4 Motion against Pepper Hamilton, Ms. McInerney and me is the same argument raised in the
5 motion to disqualify filed in the E.D. Pa. Action – that there is a conflict of interest in jointly
6 representing the KFI Defendants and the Non-KFI Defendants.

7 7. Attached to the Motion is the declaration of Plaintiff’s counsel, Robert Guite,
8 which in turn references a declaration of The Knit With’s counsel, James Casale, which The Knit
9 With submitted in support of its motion to disqualify in the E.D. Pa. Action. Reliance on the
10 same declaration underscores the similarities between the present Motion and the motion to
11 disqualify filed in the E.D. Pa. Action.

12 8. Mr. Casale’s declaration referenced a letter that he had written to me on February
13 21, 2009, in which he, among other things, stated his understanding of positions I allegedly took
14 during a conversation we had on February 16, 2009. Guite Decl., Exh. B at Ex. 4 at ¶¶ 4-5. In
15 that letter, Mr. Casale claimed that I took the position that “KFI will defend the improper
16 labeling of the *Cashmerino* and *Noro* yarns in question on the . . . [theory] that KFI is a victim
17 too of others’ improper labeling” *Id.* at 2.

18 9. Mr. Casale’s declaration quotes his own February 21, 2009, letter in stating:
19 “[d]uring that conference, Mr. Slavitt announced . . . [that the KFI Defendants] will defend the
20 improper labeling of the *Cashmerino* yarns by claiming ‘KFI is a victim too of others’ improper
21 labeling.”” *Id.* at ¶ 4.

22 10. With respect to the February 16, 2009, conversation and Mr. Casale’s February
23 21, 2009, letter regarding that conversation, I did not confirm with Mr. Casale that his

1 understanding of positions I took during our conversation was accurate, and it was not. I did not
2 contend that there had been improper labeling of the products at issue or that anyone, much less
3 any of the defendants in the E.D. Pa. Action, had engaged in it. To the extent that I suggested
4 KFI was a “victim,” I was a) assuming for the sake of argument that mislabeling had occurred
5 and b) noting the difficulties in ascertaining the material content of yarn products from the
6 earliest links in a complex distribution chain.

7 11. Moreover, the defense theory in the E.D. Pa. Action has never been that KFI was
8 a “victim” of its suppliers. KFI continues to enjoy a successful business relationship with
9 Designer Yarns, Filatura and Debbie Bliss, and has not attempted to defend the case by asserting
10 that they, or anyone else in particular, are liable on The Knit With’s claims.

11 12. In May 2010, the Non-KFI Defendants decided to engage my services to
12 represent them in the E.D. Pa. Action. I made an independent evaluation of The Knit With’s
13 claims in that action and, based on my evaluation, concluded that there is no current conflict of
14 interest between or among any of the named Defendants.

15 13. I addressed the conflicts issues and other matters related to joint representation in
16 separate letters to each of the clients I represent in the E.D. Pa. Action. The independent letters
17 of engagement and conflict waiver letters are attached to Defendants’ Memorandum of Law in
18 Opposition to Plaintiff’s Motion to Disqualify Pepper Hamilton as Exhibits A, B, C, F, and G.

19 14. Each client made its independent determination to retain me as counsel in the
20 E.D. Pa. Action.

21 15. At or near the time the Non-KFI Defendants decided to engage me in the E.D. Pa.
22 Action, Cascade initiated the present action against the KFI- and Non-KFI Defendants.

1 16. Both groups of Defendants decided to engage me to represent them in this action
2 in late June of 2010.

3 17. Just as I had done in the E.D. Pa. Action, I made an independent evaluation of the
4 claims Plaintiff is alleging in this action. Based on my evaluation, I concluded that there is no
5 current conflict of interest between or among any of the named Defendants.

6 18. While only the engagement letters for Ms. Bliss, Mr. Watt, and Mr. Opperman
7 explicitly reference this action, I have explained to all Defendants (with the exception of Mr.
8 Watt, who is not a party to the E.D. Pa. Action) that I represent them in both actions and that the
9 terms of engagement that I explained in my engagement letters, including the conflicts issues and
10 other matters related to joint representation, apply to both actions.

11 19. As to Mr. Watt, I addressed the conflicts issues and other matters related to joint
12 representation in a separate letter to him. That letter is attached hereto as Exhibit E to the
13 Defendants' Memorandum of Law in Opposition to Plaintiff's Motion to Disqualify Pepper
14 Hamilton.

15 20. After each Defendant decided to engage my services in this action, I endeavored
16 to coordinate the responses of each to Plaintiff's First Amended Complaint. This coordination
17 entailed, among other things, ascertaining when and upon whom Plaintiff had properly effected
18 service of the First Amended Complaint.

19 21. On July 2, 2010, I emailed Mr. Guite, noting that I was in the process of
20 coordinating responses to the First Amended Complaint and that there may be issues about the
21 sufficiency of service. *See* Exhibit C to Cascade's Motion.

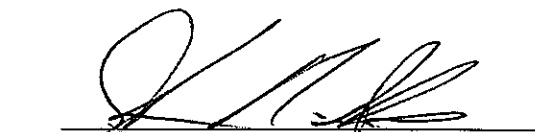
1 22. In that email, I also explained that I represented the Defendants and requested that
2 we agree on one date as a deadline for all the Defendants to respond, in one form or another, to
3 the First Amended Complaint. *Id.*

4 23. At the time I sent this email to Mr. Guite, I was planning on having the motion for
5 my admission *pro hac vice* filed shortly, and reasonably expected that this motion would be
6 granted.

7 24. One week after I sent the email to Mr. Guite, local counsel for Defendants filed
8 motions to admit Ms. McInerney and I *pro hac vice*. The Court granted those motions on the
9 next business day for the Court – July 12, 2010.

10 I declare under penalty of perjury under the laws of the United States of America that the
11 foregoing is true and correct.

12 Executed this 21 day of August, 2010, at Philadelphia, Pennsylvania.

13
14
15 
16 Joshua R. Slavitt

17 The above and foregoing was subscribed and sworn to or affirmed before me this 2nd day
18 of August, 2010 by Joshua R. Slavitt.

19 Sheila R. Fanelli
20 Notary Public
21 Commonwealth of Pennsylvania
County of Philadelphia

COMMONWEALTH OF PENNSYLVANIA
NOTARIAL SEAL
SHEILA R. FANELLI, Notary Public
City of Philadelphia, Phila. County
My Commission Expires November 27, 2011

22 My Commission Expires: 11/27/2011
23

Exhibit E

Pepper Hamilton LLP
Attorneys at Law

3000 Two Logan Square
Eighteenth and Arch Streets
Philadelphia, PA 19103-2799
215.981.4000
Fax 215.981.4750

Joshua R. Slavitt
direct dial: 215-981-4680
direct fax: 800-589-4728]
slavittj@pepperlaw.com

August 2, 2010

Via Email

David Watt
Managing Director of Designer Yarns, Ltd.
Units 8-10
Newbridge Industrial Estate
Pitt Street, Keighley
West Yorkshire BD21 4PQ
England
Email: David@designeryarns.uk.com

Re: Engagement Letter

Dear Mr. Watt:

We are delighted to be representing you in connection with the lawsuit filed by Cascade Yarns in the District of Washington (the "Lawsuit").

Fundamental to a sound relationship is a clear understanding of the terms and conditions upon which we will be providing legal services. The purpose of this letter is to clarify and confirm the parties and scope of the engagement, and the nature of the services we will render. It also describes our billing policies, procedures and rates. Should you retain Pepper Hamilton LLP ("Pepper") for subsequent matters, the specifics of this agreement will remain the same unless otherwise communicated. The attachment to this letter, "Additional Terms of Engagement," contains other important aspects of the attorney-client relationship.

Philadelphia Boston Washington, D.C. Detroit New York Pittsburgh

Berwyn Harrisburg Orange County Princeton Wilmington

www.pepperlaw.com

Pepper Hamilton LLP
Attorneys at Law

David Watt

Page 2

August 2, 2010

Scope of Engagement

Our engagement is to defend you in the Lawsuit filed by Cascade Yarns. Our acceptance of this engagement does not involve an undertaking to represent you or your interests in any matter other than that described in this paragraph.

Joint Representation

Let me take this opportunity to confirm your understanding of the consequences of our representing other defendants while we represent you with respect to the Lawsuit, and further to confirm that you consent to our representation of you under these conditions.

We have considered the allegations asserted in the Lawsuit, and we have concluded that our joint representation of you, as well as Filatura Pettinata, Designer Yarns, Debbie Bliss, Knitting Fever, Inc. ("KFI"), and individuals associated with KFI, namely, Sion Elalouf, Diane Elalouf, Jeffrey Denecke, and Jay Opperman (collectively with KFI, the "KFI Defendants"), does not present any current conflict of interest.

The attorney-client privilege applies to communications between counsel and jointly represented clients. Although such communications are privileged as against third-parties, the general rule is that communications between counsel and jointly represented clients are not privileged as between the jointly represented clients. Thus, any communications other jointly represented clients have with us about the Lawsuit are not privileged as to you. Likewise, the information you provide to the Firm will be used for the benefit of and may be disclosed to other jointly represented clients in connection with the defense of the Lawsuit.

We believe it is extremely unlikely that any future conflict of interest would arise that would compromise our representation of you and the other jointly represented clients. However, in the unlikely event that a dispute arises between you and any of the other jointly represented clients relating to the issues raised in the Lawsuit, you specifically agree that Pepper Hamilton would not continue to represent you but would continue to represent the KFI Defendants. If appropriate, the Firm will assist you with arrangements to secure new counsel. You understand and agree that in its continuing representation of the KFI Defendants, the Firm may use, as it deems appropriate, any information that it received from you during the period of joint representation. You further agree that you will not seek disqualification of the Firm in that circumstance.

I can assure you that representation of the KFI Defendants or any of the other jointly represented clients will in no way adversely affect our vigorous joint representation of you as well.

Pepper Hamilton LLP
Attorneys at Law

David Watt
Page 3
August 2, 2010

Attorneys Providing Services

I will be the attorney responsible for this representation. From time to time, I may ask other Pepper attorneys and paralegals to assist me in providing quality legal services in an efficient, economical manner and to take advantage of special expertise. We always attempt to have work done for clients by the person or persons with the most suitable legal experience and seniority level, and we will follow that principle in representing you in this engagement. If at any time you have questions regarding staffing or performance, please call me. It is important that you are satisfied with our services and responsiveness at all times.

Fees

In accordance with your agreement with KFI, all work will be billed monthly to KFI at our regular hourly rates which we traditionally adjust each January 1. All work in this matter will be billed at our normal hourly rates, which we believe to be highly competitive. My current hourly rate is \$500. The current hourly rate range other personnel who may assist me is as follows: partners, \$420 to \$620; associates, \$230 to \$360; paralegals, \$75 to \$200; other professional support staff, \$35 to \$60. We traditionally adjust these rates each January.

We are keenly aware of time expenditures and make every effort to achieve the most cost-effective mix of hours, rates and experience. Our bills will be reviewed by me before being sent to assure that we are delivering our services as efficiently as we can.

All payments are to be made free of any withholding of tax. Should you be obligated to withhold taxes on payments to be made, the payment is to be increased so that after the withholding of the tax Pepper receives the amount of the invoice.

Disbursements

In accordance with your agreement with KFI, they will also be billed monthly for disbursements and ancillary services in this matter. These items, including telephone charges, copying, fax services and computerized legal research, are listed on the enclosed "Summary of Charges for Ancillary Services." Disbursements are not always available on a current basis, so they may be billed in subsequent statements.

If it becomes necessary for us to obtain services on the client's behalf from suppliers outside Pepper (for example, deposition transcripts), we may make payment for charges under \$500 and list such payments as expense items in our monthly bills. When the charge is \$500 or more, and in other instances when the bill is to be forwarded to the client for payment, we will first review it for appropriateness. Expert witnesses will be engaged only with your prior approval. We will seek your approval for vendors if substantial expenses are anticipated. Our personnel travel Metroliner or

Pepper Hamilton LLP
Attorneys at Law

David Watt
Page 4
August 2, 2010

Acela class for rail transportation, and business class (or first if business class is not available) for international travel of more than two (2) hours anticipated duration or domestic travel of more than five (5) hours anticipated duration, and coach class for all other air transportation.

Billing Arrangement

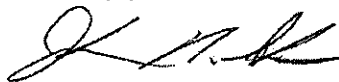
Our monthly statements will provide a detailed listing of the services performed. We require payment of our statements within 30 days of the statement date. Any outstanding balance for which payment has not been received within 60 days of the statement date will begin to accrue interest charges at a rate of two points (2%) over prime. If payment of any of our billings is not made within 60 days of the statement date, Pepper reserves the right to withdraw as counsel to you, and you agree that you will not object to any motion that Pepper files to withdraw from its representation on that ground. Such a withdrawal or motion will not affect the obligation of KFI to pay Pepper the amounts set forth in billing statements that Pepper sends to them.

We do not anticipate having any disagreement with you about the quality, cost or appropriateness of our service. If, however, you have questions or concerns about these subjects, please notify us immediately. We want to answer your questions as soon as possible. In addition, Pepper commits with you to engage in good faith negotiations to attempt to resolve any and all billing issues quickly and fairly.

I encourage you to discuss with me any questions that you may have concerning any of these arrangements. We are most pleased that you have engaged us for this matter and we will make every reasonable effort to assist you in achieving your objectives.

I ask that you confirm your agreement with the terms of retention set forth in this letter by signing this letter as provided below and returning the signed letter to me. Please retain a copy for your records.

Sincerely yours,



Joshua R. Slavitt

Enclosures:
Additional Terms of Engagement
Statement of Ancillary Charges

The undersigned acknowledges and agrees to the terms of representation by Pepper Hamilton LLP as set forth in this letter and the accompanying additional terms of engagement.

David Watt

Pepper Hamilton LLP
Attorneys at Law

David Watt

Page 5

August 2, 2010

Dated: _____ By: _____

Exhibit F

Pepper Hamilton LLP
Attorneys at Law

3000 Two Logan Square
Eighteenth and Arch Streets
Philadelphia, PA 19103-2799
215.981.4000
Fax: 215.981.4750

Joshua R. Slavitt
direct dial: 215-981-4680
direct fax: 800-589-4728
slavittj@pepperlaw.com

July 22, 2010

Via Email

Sion Elalouf
President
Knitting Fever, Inc.
315 Bayview Avenue
Amityville, NY 11701
Email: sunseekersixty@aol.com

Re: Engagement Letter

Dear Sion:

We are delighted to be representing Knitting Fever, Inc., ("KFI"), as well as you and your wife individually, in connection with the lawsuit filed by The Knit With in the Eastern District of Pennsylvania (the "Lawsuit").

Fundamental to a sound relationship is a clear understanding of the terms and conditions upon which we will be providing legal services. The purpose of this letter is to clarify and confirm the parties and scope of the engagement, and the nature of the services we will render. It also describes our billing policies, procedures and rates. Should you retain Pepper Hamilton LLP ("Pepper") for subsequent matters, the specifics of this agreement will remain the same unless otherwise communicated. The attachment to this letter, "Additional Terms of Engagement," contains other important aspects of the attorney-client relationship.

Philadelphia	Boston	Washington, D.C.	Detroit	New York	Pittsburgh
Berwyn	Harrisburg	Orange County	Princeton	Wilmington	



Sion Elalouf
Page 2
July 22, 2010

Scope of Engagement

Our engagement is to defend you in the Lawsuit filed by The Knit With. Our acceptance of this engagement does not involve an undertaking to represent you or your interests in any matter other than that described in this paragraph.

Joint Representation

Let me take this opportunity to confirm your understanding of the consequences of our representing other defendants while we represent you with respect to the Lawsuit, and further to confirm that you consent to our representation of you under these conditions.

We have considered the allegations asserted in the Lawsuit, and we have concluded that our joint representation of ("KFI"), and individuals associated with KFI, namely, you, and your wife, and Jeffrey Denecke, (collectively with KFI, the "KFI Defendants"), as well as Jay Opperman, Designer Yarns Ltd., Filatura Pettinata, and Debbie Bliss, (the "non-KFI Defendants"), does not present any conflict of interest.

The attorney-client privilege applies to communications between counsel and jointly represented clients. Although such communications are privileged as against third-parties, the general rule is that communications between counsel and jointly represented clients are not privileged as between the jointly represented clients. Thus, any communications other jointly represented clients have with us about the Lawsuit are not privileged as to you. Likewise, the information you provide to the Firm will be used for the benefit of and may be disclosed to other jointly represented clients in connection with the defense of the Lawsuit.

We believe it is extremely unlikely that any future conflict of interest would arise that would compromise our representation of you and the other jointly represented clients. However, in the unlikely event that a dispute arises between you and any of the other jointly represented clients relating to the issues raised in the Lawsuit, the non-KFI Defendants have specifically agreed that Pepper Hamilton would be able to continue to represent you in this Lawsuit.

I can assure you that representation of the non-KFI Defendants or any of the other jointly represented clients will in no way adversely affect our vigorous joint representation of you as well.



Sion Elalouf
Page 3
July 22, 2010

Attorneys Providing Services

I will be the attorney responsible for this representation. From time to time, I may ask other Pepper attorneys and paralegals to assist me in providing quality legal services in an efficient, economical manner and to take advantage of special expertise. We always attempt to have work done for clients by the person or persons with the most suitable legal experience and seniority level, and we will follow that principle in representing KFI in this engagement. If at any time you have questions regarding staffing or performance, please call me. It is important that you are satisfied with our services and responsiveness at all times.

Client Liaison

We understand that you will be our primary contact at KFI. Please advise us immediately if there is any change in the contact information or in the person who will be primarily responsible for this matter.

Fees

In accordance with our agreement, all work will be billed monthly to KFI at our regular hourly rates which we traditionally adjust each January 1. All work in this matter will be billed at our normal hourly rates, which we believe to be highly competitive. My current hourly rate is \$500. The current hourly rate range other personnel who may assist me is as follows: partners, \$420 to \$620; associates, \$230 to \$360; paralegals, \$75 to \$200; other professional support staff, \$35 to \$60. We traditionally adjust these rates each January.

We are keenly aware of time expenditures and make every effort to achieve the most cost-effective mix of hours, rates and experience. Our bills will be reviewed by me before being sent to assure that we are delivering our services as efficiently as we can.

All payments are to be made free of any withholding of tax. Should you be obligated to withhold taxes on payments to be made, the payment is to be increased so that after the withholding of the tax Pepper receives the amount of the invoice.

Disbursements

In accordance with our agreement, KFI will also be billed monthly for disbursements and ancillary services in this matter. These items, including telephone charges, copying, fax services and computerized legal research, are listed on the enclosed "Summary of Charges for Ancillary

Pepper Hamilton LLP
Attorneys at Law

Sion Elalouf
Page 4
July 22, 2010

Services.” Disbursements are not always available on a current basis, so they may be billed in subsequent statements.

If it becomes necessary for us to obtain services on the client’s behalf from suppliers outside Pepper (for example, deposition transcripts), we may make payment for charges under \$500 and list such payments as expense items in our monthly bills. When the charge is \$500 or more, and in other instances when the bill is to be forwarded to the client for payment, we will first review it for appropriateness. Expert witnesses will be engaged only with your prior approval. We will seek your approval for vendors if substantial expenses are anticipated. Our personnel travel Metroliner or Acela class for rail transportation, and business class (or first if business class is not available) for international travel of more than two (2) hours anticipated duration or domestic travel of more than five (5) hours anticipated duration, and coach class for all other air transportation.

Billing Arrangement

Our monthly statements will provide a detailed listing of the services performed. We require payment of our statements within 30 days of the statement date. Any outstanding balance for which payment has not been received within 60 days of the statement date will begin to accrue interest charges at a rate of two points (2%) over prime. If payment of any of our billings is not made within 60 days of the statement date, Pepper reserves the right to withdraw as counsel, and KFI agrees that it will not object to any motion that Pepper files to withdraw from its representation on that ground. Such a withdrawal or motion will not affect the obligation of KFI to pay Pepper the amounts set forth in billing statements that Pepper sends to them.

We do not anticipate having any disagreement with you about the quality, cost or appropriateness of our service. If, however, you have questions or concerns about these subjects, please notify us immediately. We want to answer your questions as soon as possible. In addition, Pepper commits with you to engage in good faith negotiations to attempt to resolve any and all billing issues quickly and fairly.

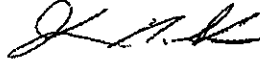
I encourage you to discuss with me any questions that you may have concerning any of these arrangements. We are most pleased that you have engaged us for this matter and we will make every reasonable effort to assist you in achieving your objectives.

Pepper Hamilton LLP
Attorneys at Law

Sion Elalouf
Page 5
July 22, 2010

I ask that you confirm KFI's, as well as you and your wife's agreement with the terms of retention set forth above by signing this letter as provided below and returning the signed letter to me. Please retain a copy for your records.

Sincerely yours,



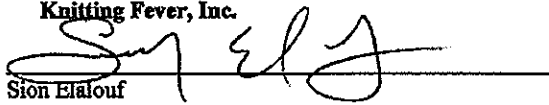
Joshua R. Slavitt

Enclosures:
Additional Terms of Engagement
Statement of Ancillary Charges

The undersigned acknowledges and agrees to the terms of representation by Pepper Hamilton LLP as set forth in this letter and the accompanying additional terms of engagement.

Knitting Fever, Inc.

Dated: _____


Sion Elalouf

Individually and as President of Knitting Fever, Inc.

Dated: _____


Diane Elalouf

2

Exhibit G

Pepper Hamilton LLP
Attorneys at Law

3000 Two Logan Square
Eighteenth and Arch Streets
Philadelphia, PA 19103-2799
215.981.4000
Fax 215.981.4750

Joshua R. Slavitt
direct dial: 215-981-4680
directfax 800-589-4728]
slavitr@pepperlaw.com

July 22, 2010

Via Email

Jay Opperman
78 Clinton Ave
Montclair, NJ 07042-2116

Re: Engagement Letter

Dear Mr. Opperman:

We are delighted to be representing you in connection with the lawsuits filed against you by the Knit With in the Eastern District of Pennsylvania (the "PA Lawsuit") and Cascade Yarns in the District of Washington (the "WA Lawsuit") (collectively, the "Lawsuits").

Fundamental to a sound relationship is a clear understanding of the terms and conditions upon which we will be providing legal services. The purpose of this letter is to clarify and confirm the parties and scope of the engagement, and the nature of the services we will render. It also describes our billing policies, procedures and rates. Should you retain Pepper Hamilton LLP ("Pepper") for subsequent matters, the specifics of this agreement will remain the same unless otherwise communicated. The attachment to this letter, "Additional Terms of Engagement," contains other important aspects of the attorney-client relationship.

Scope of Engagement

Our engagement is to defend you in the Lawsuits. Our acceptance of this engagement does not involve an undertaking to represent you or your interests in any matter other than that described in this paragraph.

Pepper Hamilton LLP
Attorneys at Law

Jay Opperman
Page 2
July 22, 2010

Joint Representation

Let me take this opportunity to confirm your understanding of the consequences of our representing other defendants while we represent you with respect to the Lawsuits, and further to confirm that you consent to our representation of you under these conditions.

We have considered the allegations asserted in the Lawsuits, and we have concluded that our joint representation of you, Knitting Fever, Inc. ("KFI"), and individuals associated with KFI, namely, Sion Elalouf, Diane Elalouf, and Jeffrey Denecke, (collectively with KFI, the "KFI Defendants") as well as Filatura Pettinata, Designer Yarns, Ltd., Debbie Bliss, and David Watt, (the "non-KFI Defendants") does not present any current conflict of interest.

The attorney-client privilege applies to communications between counsel and jointly represented clients. Although such communications are privileged as against third-parties, the general rule is that communications between counsel and jointly represented clients are not privileged as between the jointly represented clients. Thus, any communications other jointly represented clients have with us about the Lawsuits are not privileged as to you. Likewise, the information you provide to the Firm will be used for the benefit of and may be disclosed to other jointly represented clients in connection with the defense of the Lawsuits.

We believe it is extremely unlikely that any future conflict of interest would arise that would compromise our representation of you and the other jointly represented clients. However, in the unlikely event that a dispute arises between you and any of the other jointly represented clients relating to the issues raised in the Lawsuits, you specifically agree that Pepper Hamilton would not continue to represent you but would continue to represent the KFI Defendants. If appropriate, the Firm will assist you with arrangements to secure new counsel. You understand and agree that in its continuing representation of the KFI Defendants, the Firm may use, as it deems appropriate, any information that it received from you during the period of joint representation. You further agree that you will not seek disqualification of the Firm in that circumstance.

I can assure you that representation of the KFI Defendants or any of the other jointly represented clients will in no way adversely affect our vigorous joint representation of you as well.

Attorneys Providing Services

I will be the attorney responsible for your representation. From time to time, I may ask other Pepper attorneys and paralegals to assist me in providing quality legal services in an efficient, economical manner and to take advantage of special expertise. We always attempt to have work done for clients by the person or persons with the most suitable legal experience and seniority level, and we will follow that principle in representing you in this engagement. If at any time you have

Pepper Hamilton LLP
Attorneys at Law

Jay Opperman
Page 3
July 22, 2010

questions regarding staffing or performance, please call me. It is important that you are satisfied with our services and responsiveness at all times.

Fees

In accordance with your agreement with KFI, all work will be billed monthly to KFI at our regular hourly rates which we traditionally adjust each January 1. All work in this matter will be billed at our normal hourly rates, which we believe to be highly competitive. My current hourly rate is \$500. The current hourly rate range other personnel who may assist me is as follows: partners, \$420 to \$620; associates, \$230 to \$360; paralegals, \$75 to \$200; other professional support staff, \$35 to \$60. We traditionally adjust these rates each January.

We are keenly aware of time expenditures and make every effort to achieve the most cost-effective mix of hours, rates and experience. Our bills will be reviewed by me before being sent to assure that we are delivering our services as efficiently as we can.

All payments are to be made free of any withholding of tax. Should you be obligated to withhold taxes on payments to be made, the payment is to be increased so that after the withholding of the tax Pepper receives the amount of the invoice.

Disbursements

In accordance with your agreement with KFI, they will also be billed monthly for disbursements and ancillary services in this matter. These items, including telephone charges, copying, fax services and computerized legal research, are listed on the enclosed "Summary of Charges for Ancillary Services." Disbursements are not always available on a current basis, so they may be billed in subsequent statements.

If it becomes necessary for us to obtain services on the client's behalf from suppliers outside Pepper (for example, deposition transcripts), we may make payment for charges under \$500 and list such payments as expense items in our monthly bills. When the charge is \$500 or more, and in other instances when the bill is to be forwarded to the client for payment, we will first review it for appropriateness. Expert witnesses will be engaged only with your prior approval. We will seek approval for vendors if substantial expenses are anticipated. Our personnel travel Metroliner or Acela class for rail transportation, and business class (or first if business class is not available) for international travel of more than two (2) hours anticipated duration or domestic travel of more than five (5) hours anticipated duration, and coach class for all other air transportation.

Billing Arrangement

Our monthly statements will provide a detailed listing of the services performed. We require payment of our statements within 30 days of the statement date. Any outstanding balance for which payment has not been received within 60 days of the statement date will begin to accrue interest

Pepper Hamilton LLP
Attorneys at Law

Jay Opperman
Page 4
July 22, 2010

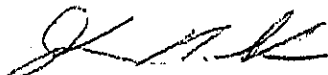
charges at a rate of two points (2%) over prime. If payment of any of our billings is not made within 60 days of the statement date, Pepper reserves the right to withdraw as your counsel, and you agree not to object to any motion that Pepper files to withdraw from its representation on that ground. Such a withdrawal or motion will not affect the obligation of KFI to pay Pepper the amounts set forth in billing statements that Pepper sends to them.

We do not anticipate having any disagreement with you about the quality, cost or appropriateness of our service. If, however, you have questions or concerns about these subjects, please notify us immediately. We want to answer your questions as soon as possible. In addition, Pepper commits with you to engage in good faith negotiations to attempt to resolve any and all billing issues quickly and fairly.

I encourage you to discuss with me any questions that you may have concerning any of these arrangements. We are most pleased that you have engaged us for this matter and we will make every reasonable effort to assist you in achieving your objectives.

I ask that you confirm your agreement with the terms of retention set forth in this letter by signing this letter as provided below and returning the signed letter to me. Please retain a copy for your records.

Sincerely yours,



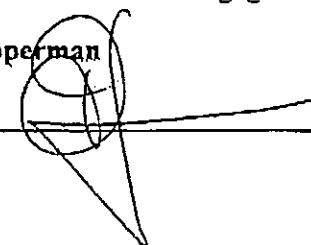
Joshua R. Slavitt

Enclosures:
Additional Terms of Engagement
Statement of Ancillary Charges

The undersigned acknowledges and agrees to the terms of representation by Pepper Hamilton LLP as set forth in this letter and the accompanying additional terms of engagement.

Jay Opperman

Dated: 7.26.10

By: 

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CERTIFICATE OF ELECTRONIC SERVICE

I hereby certify that on August 2, 2010, I electronically filed the foregoing Opposition to the Motion To Disqualify as to Joshua R. Slavitt, Deirdre McInerney, and Pepper Hamilton LLP with the Clerk of the Court using the CM/ECF system which will send notification of such filing to the following:

Robert J. Guite, Esquire
Squire, Sanders & Dempsey L.L.P.
One Maritime Plaza, Suite 300
San Francisco, CA 94111-3492
rguite@ssd.com

DATED this 2nd day of August, 2010.

Pepper Hamilton LLP
Attorneys for Defendants

By /s/Joshua R. Slavitt
Joshua R. Slavitt (Admitted *Pro Hac Vice*)
Deirdre E. McInerney (Admitted *Pro Hac Vice*)
3000 Two Logan Square
Philadelphia, PA 19102
Tel: (215) 981-4000
Fax: (215) 981-4750
E-mail: slavittj@pepperlaw.com
mcinerneyd@pepperlaw.com

The Honorable Ricardo S. Martinez

UNITED STATES DISTRICT COURT
WESTERN DISTRICT OF WASHINGTON
AT SEATTLE

CASCADE YARNS, INC., a Washington
corporation,)

Plaintiff,)

v.)

KNITTING FEVER, INC., a New York
Corporation, DESIGNER YARNS, LTD., a
corporation of England, FILATURA
PETTINATA V.V.G. DI STEFANO VACCARI
& C. (S.A.S.) an entity organized or existing
under the laws of Italy, SION ELALOUF, an
individual, DIANE ELALOUF, an individual,
JAY OPPERMAN, an individual, DEBBIE
BLISS, an individual, DAVID WATT, an
individual and DOES 1-50.)

Defendants.)

Civil Action No. 10-cv-00861-RSM

[PROPOSED] ORDER

NOTE ON MOTION CALENDAR:
August 6, 2010

ORDER

AND NOW, this ____ day of _____, 2010, upon consideration of Plaintiff

Cascade Yarns, Inc.'s Motion to Disqualify Pepper Hamilton and Davis Wright Tremaine, the

1 opposition filed in response thereto, and for good and sufficient cause shown, it is hereby

2 ORDERED that the Motion is DENIED.

3 BY THE COURT:

4
5 _____
6 Ricardo S. Martinez, U.S.D.J.

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