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# Conflicts in Patent Prosecution: Avoiding the Ethical Pitfalls

Minimizing Risks of Malpractice Liability and Ethics Sanctions

TUESDAY, DECEMBER 4, 2018

1pm Eastern | 12pm Central | 11am Mountain | 10am Pacific

Today's faculty features:

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# *Overview*

- The Rules and Why Conflicts Really Matter.
- Who is or was the Client?
- What is “Adversity” and “Material Limitations”
- What to do (along the way).

## *Conflict of Interest*

A **conflict of interest** is a situation in which someone in a position of trust, such as a lawyer, has competing professional or personal interests. Such competing interests can make it difficult to fulfill his or her duties.

## *Conflict of Interest*

A **conflict of interest** exists even if no unethical or improper act results from it.

A conflict of interest can create an appearance of impropriety that can undermine confidence in the person, profession, or court system.

## *Why Conflicts Matter*

Your firm wants to sue former client for fees.

- Sends demand letter.
- Former client points out "conflict."
- Your firm foregoes fee collection.

Fee disgorgement as a counterclaim (next)

- In many states, even if client is not damaged, it can counterclaim for a serious conflict of interest as a breach of fiduciary duty.
- Result: loss in some/all fees.

Strategic Conflicts

- Conflict create to present representation.

## *Sheppard Mullin (Cal. Aug. 2018)*

Law firm representing Client A on-and-off.

Client B asks firm to sue many defendants including Client A (unrelated matter).

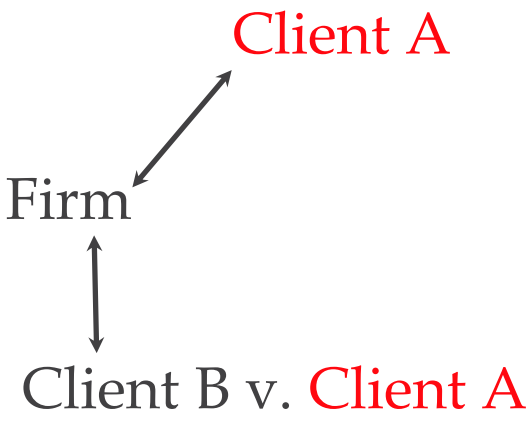
Firm's GC gave go-ahead: engagement letter with Client B has arbitration clause and broad "consent" but doesn't mention Client A.

Client A later objects to conflict and firm is DQ'd.

Client B refuses to pay outstanding $1m in fees, of $3m total, because firm had an undisclosed ("pulling punches") conflict.

Go to arbitration: Arbitrator awards $1m to firm.

Firm moves to confirm award; Client B opposes…



## *In the Courts…*

Undisclosed conflict means fee agreement unenforceable

- Firm was representing Client A – on and off over time -- and did not disclose that to Client B.
- Vacate arbitral award (no arbitration clause)

As for whether firm entitled to any compensation (up to $3m):

- Remand so trial court can "fashion a remedy that awards the attorney as much, or as little, as equity warrants, while preserving incentives to scrupulously adhere to the Rules of Professional Conduct."

# *Step One: Choice of Law, Exceptions*

Choice of law

- CAFC looks to regional circuit law
- In some circuits, state rules do not control even if local rules adopt (5th, 10th)
  - 5th Circuit DQs even if state rules *permit* representation
- USPTO discipline uses different standards that USPTO DQ

Not addressing fully: client consent by informed consent after full disclosure (writing preferred, at least), waiver by delay, estoppel, etc.

# *The USPTO Rules*

Similar to Most State Bar Rules and ABA Model Rules.

## *Current Clients: Rule 11.107*

A concurrent conflict of interest exists if:

(1) the representation of one client will be directly adverse to another client; or

**-- "adversity"**

(2) there is a significant risk that the representation of one or more clients will be materially limited by the lawyer's responsibilities to another client, a former client or a third person or by a personal interest of the lawyer.

**-- "pulling punches"**

## *Information as a Conflict and Imputation*

11.107(b) A practitioner shall not use information relating to representation of a client to the disadvantage of the client unless the client gives informed consent, except as permitted or required by the USPTO Rules of Professional Conduct.

11.108(k) While practitioners are associated in a firm, a prohibition in paragraphs (a) through (i) of this section that applies to any one of them shall apply to all of them.

# *Former Clients*

11.109

(a) A practitioner who has formerly represented a client in a matter shall not thereafter represent another person in the same or a substantially related matter in which that person's interests are materially adverse to the interests of the former client unless the former client gives informed consent, confirmed in writing.

(b) A practitioner shall not knowingly represent a person in the same or a substantially related matter in which a firm with which the practitioner formerly was associated had previously represented a client:

(1) Whose interests are materially adverse to that person; and

(2) About whom the practitioner had acquired information protected by Sections 11.106 and 11.109(c) that is material to the matter; unless the former client gives informed consent, confirmed in writing.

(c) A practitioner who has formerly represented a client in a matter or whose present or former firm has formerly represented a client in a matter shall not thereafter:

(1) Use information relating to the representation to the disadvantage of the former client except as the USPTO Rules of Professional Conduct would permit or require with respect to a client, or when the information has become generally known; or

(2) Reveal information relating to the representation except as the USPTO Rules of Professional Conduct would permit or require with respect to a client.

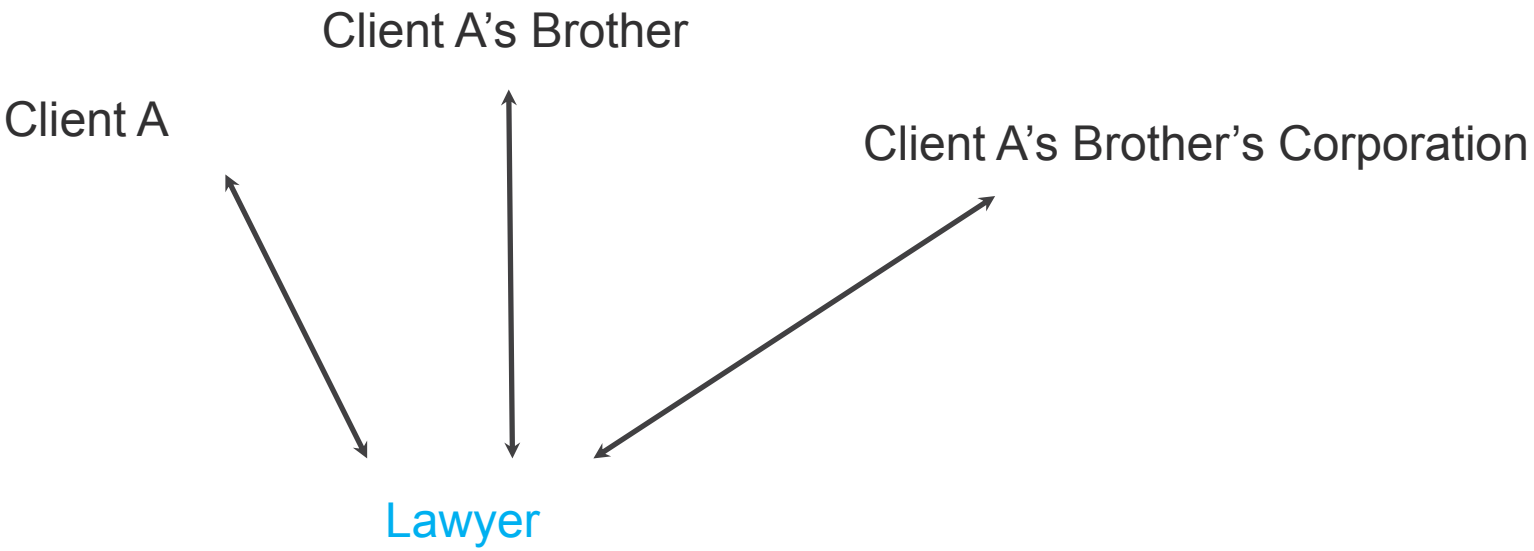
*Step Two: Who is, are, was, or were the client(s)?*

- Inventors as Clients
- Pre-entity formation and joint clients
- Joint Development Agreements: Two Clients or One?

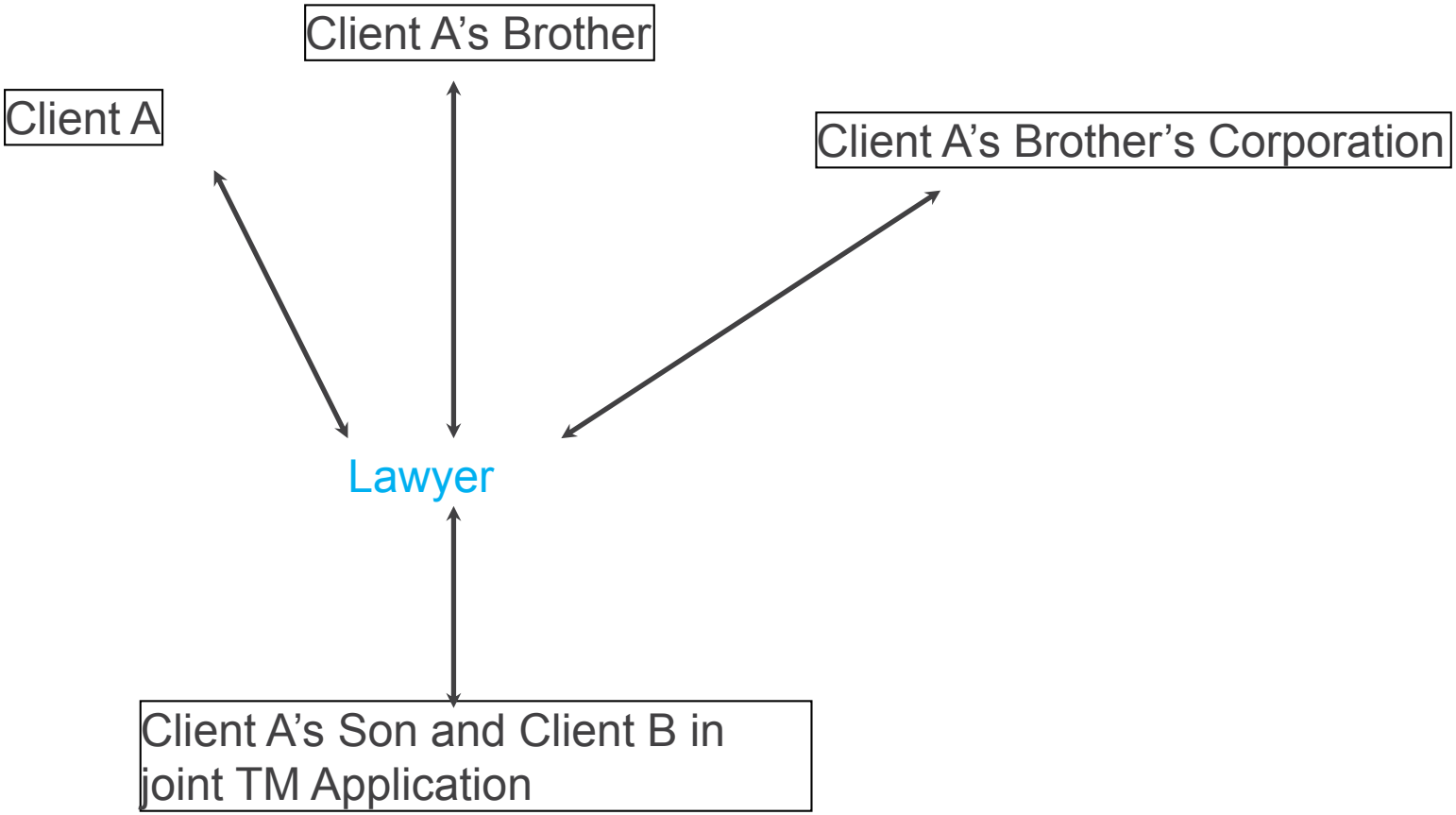
Common Scenarios

The $10 million dollar pick up truck.

## *Business Formation and Joint Clients*



# *Conflicts: Joint Clients*



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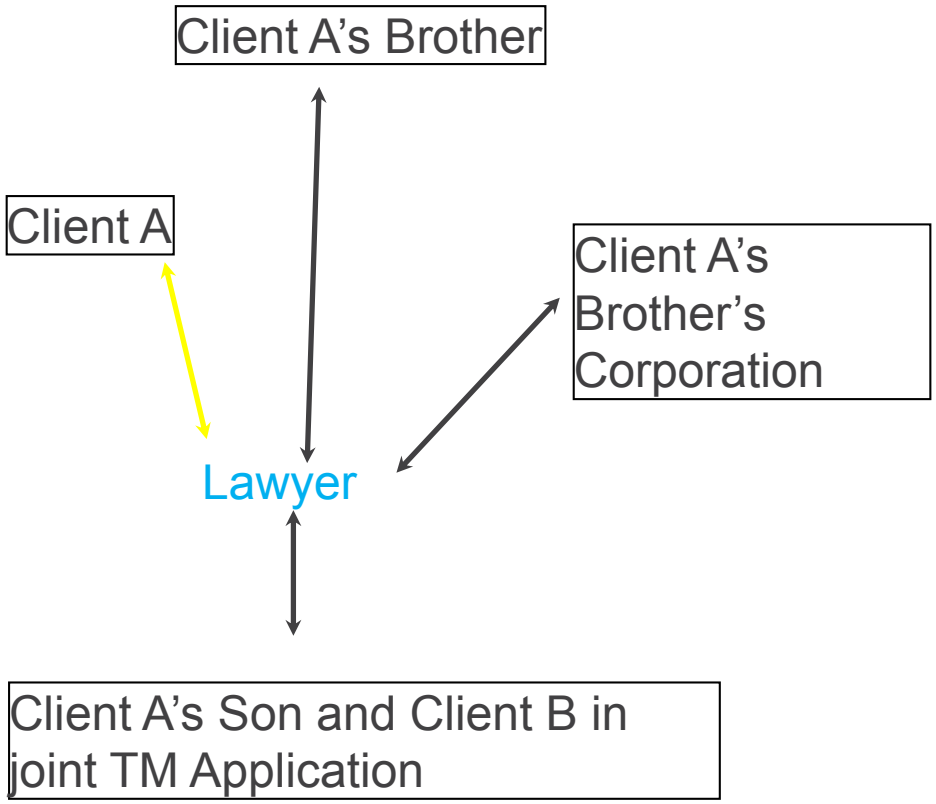

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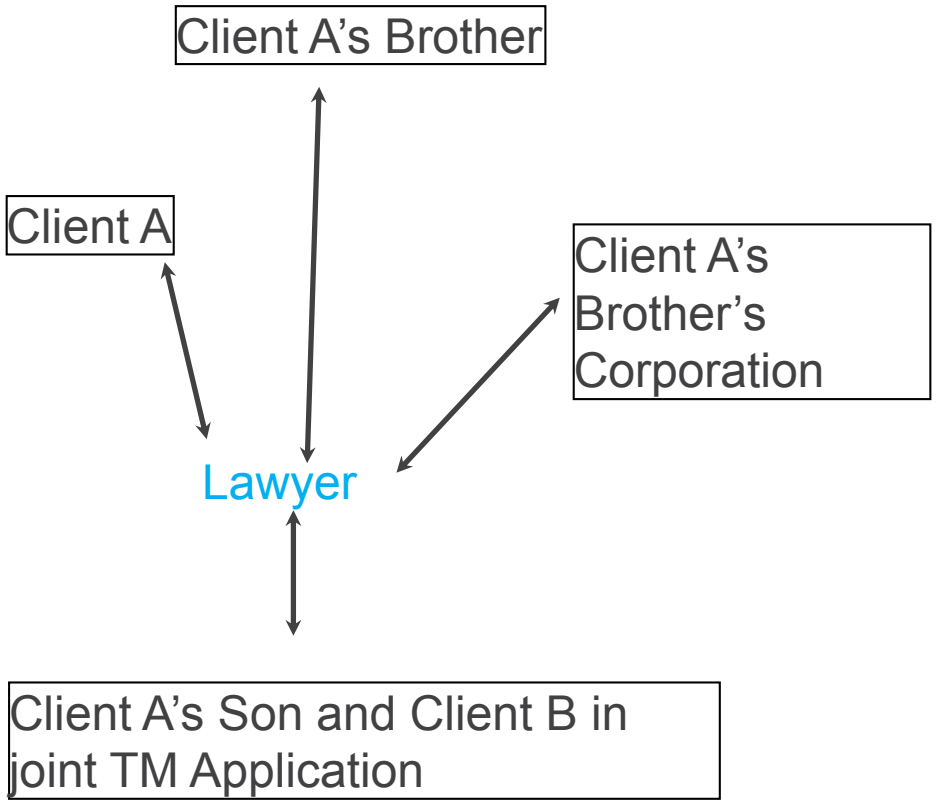

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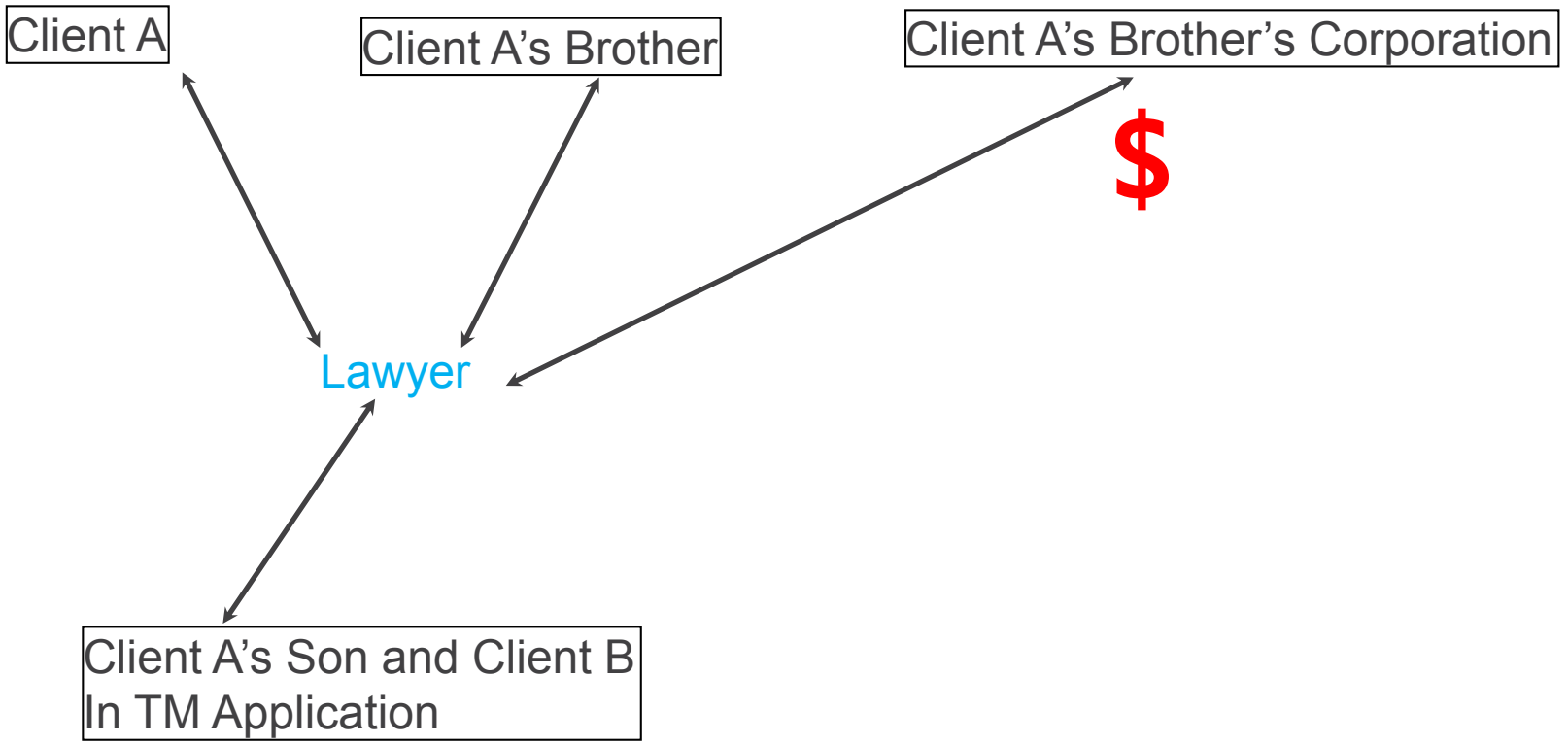

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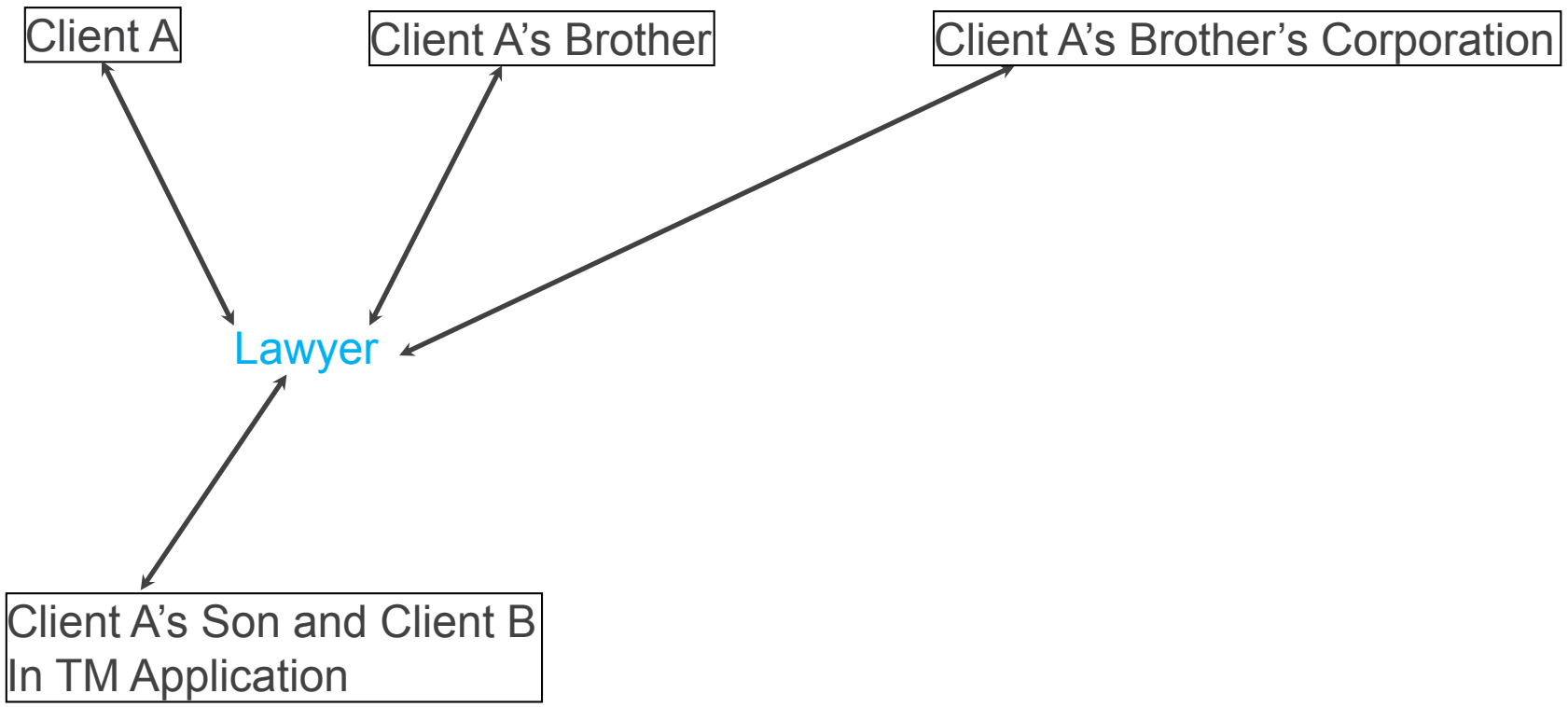

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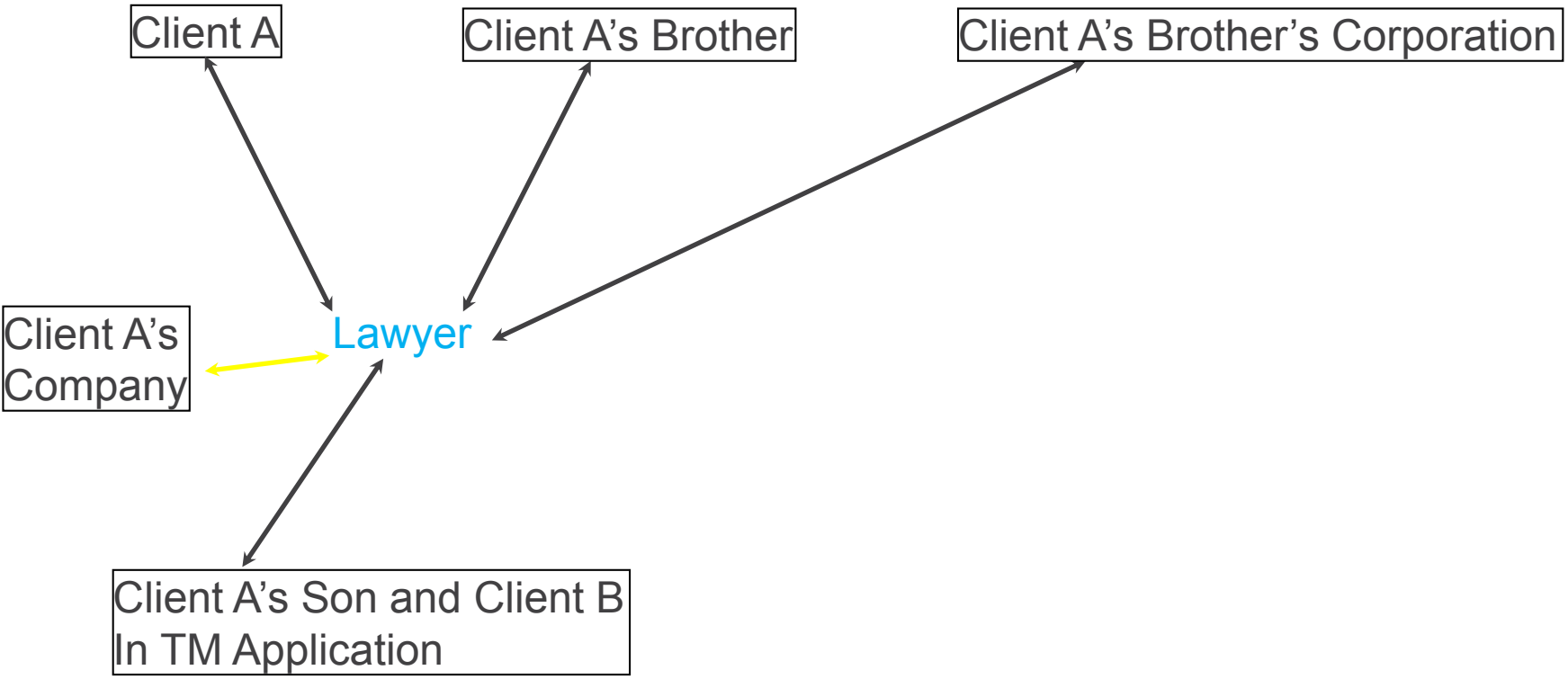
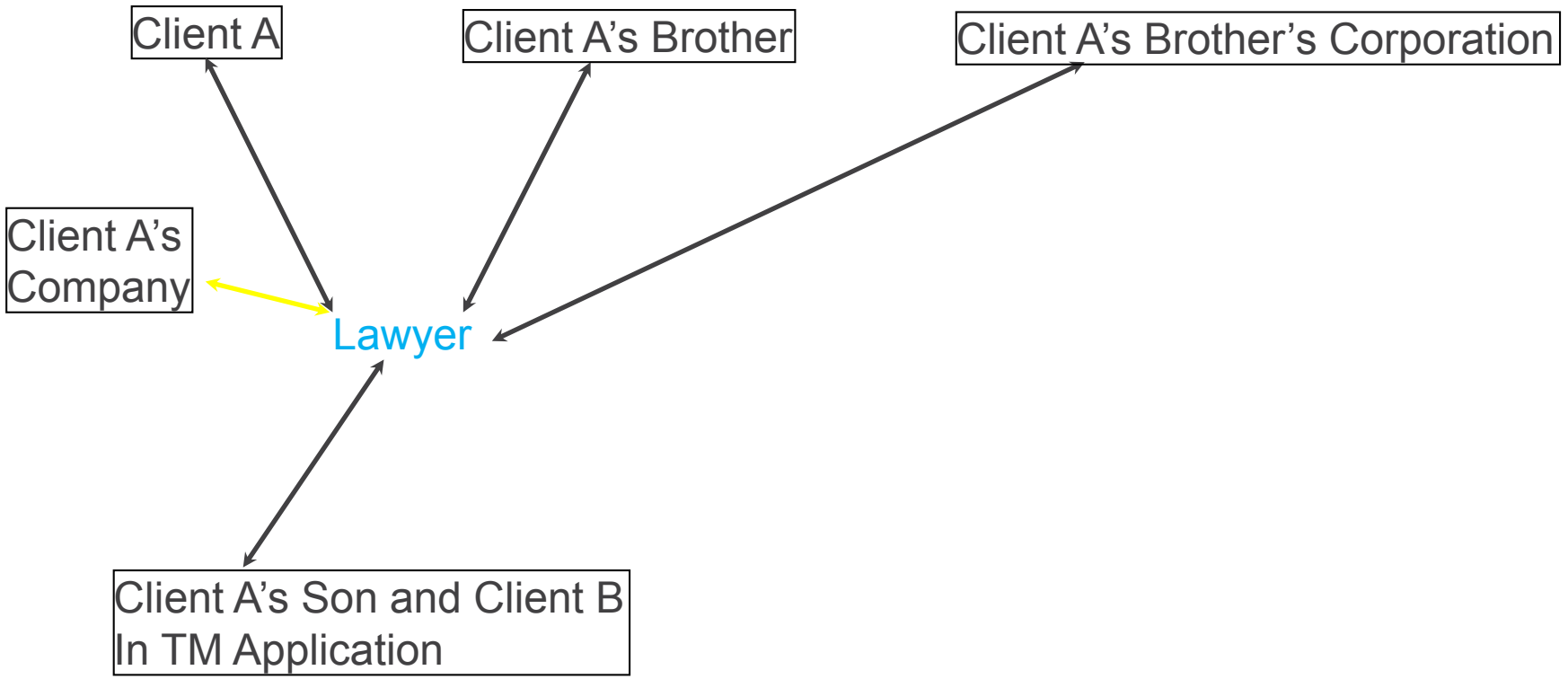


# *Conflicts: Joint Clients*



## Joint Clients: Assignee and Inventor?

- When an employee makes an invention subject to obligation of assignment, the lawyer representing the assignee will generally not have an attorney-client relationship with the inventor. *Sun Studs v. Applied Theory Associates*, 772 F.2d 1557 (Fed. Cir. 1985).

- But what about the inventor declaration and power of attorney?

    - One who grants a power of attorney for benefit of a third person does not automatically create attorney-client relationship between the grantor and the attorney. *Restatement (Second) of Agency* § 14H (1958).

    - "While the power of attorney may have some impact on our analysis of whether an implied attorney-client relationship was formed, it is certain that such a limited power of attorney did not create an express attorney-client relationship." *Int'l Strategies Group, Ltd. v. Greenberg Traurig, LLP*, 482 F.3d 1 (1st Cir. Mass. 2007).

## *Joint Development Agreements Creating A-C Relationships*

You're counsel (in-house or outside) for Client A.

You're prosecuting applications for Client A.

Client A & Party B have a shared prosecution agreement. (Joint development; license; other forms) which has this clause:

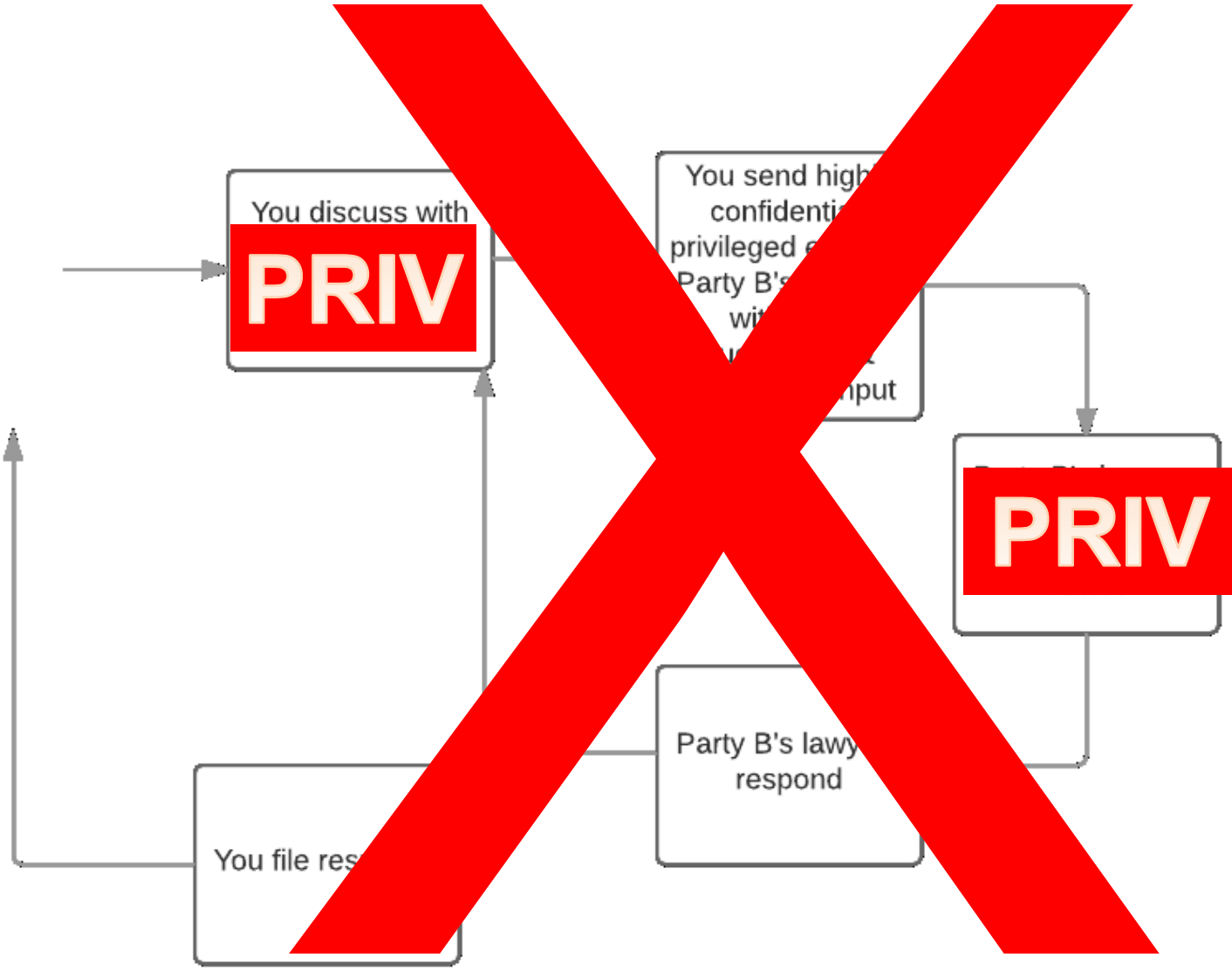
> "Client A shall manage and have the primary responsibility to file, prosecute, and maintain the patent applications, but Party B shall have reasonable opportunity to comment and advise on office actions, prosecution, and other filings."

Party B has its own lawyers representing it.

# *You Do Your Job*

- You send Party B's lawyers emails and updates, as required, and often you label them "privileged and confidential."
- Common interest privilege allows for privileged communications to be shared with non-client if non-client shares a common "legal" interest.
- All is good.

## *What's Everyo*



## *But then one day….*

You see Party B has done something "wrong."

Example: an application publishes that, you think, claims subject matter that rightfully belongs to your client (or the joint effort), but the application names only Party B inventors.

## *Suppose…*

You're prosecution counsel, and you take corrective action at USPTO.

- But then… Party B sues you for breach of fiduciary duty because, it says, you also represented it, not just Client A.

Your firm shows up to represent Client A in the lawsuit against Party B.

- But then… Party B moves to disqualify your firm because, it says, you were also Party B's lawyers.

In both, you object to producing communications with your client.

- But then… Party B moves to compel, saying you jointly represented it & Client A

## *DePuy Ortho. v. Ortho. Hosp. (12/16)*

In-house lawyer of Client DO.

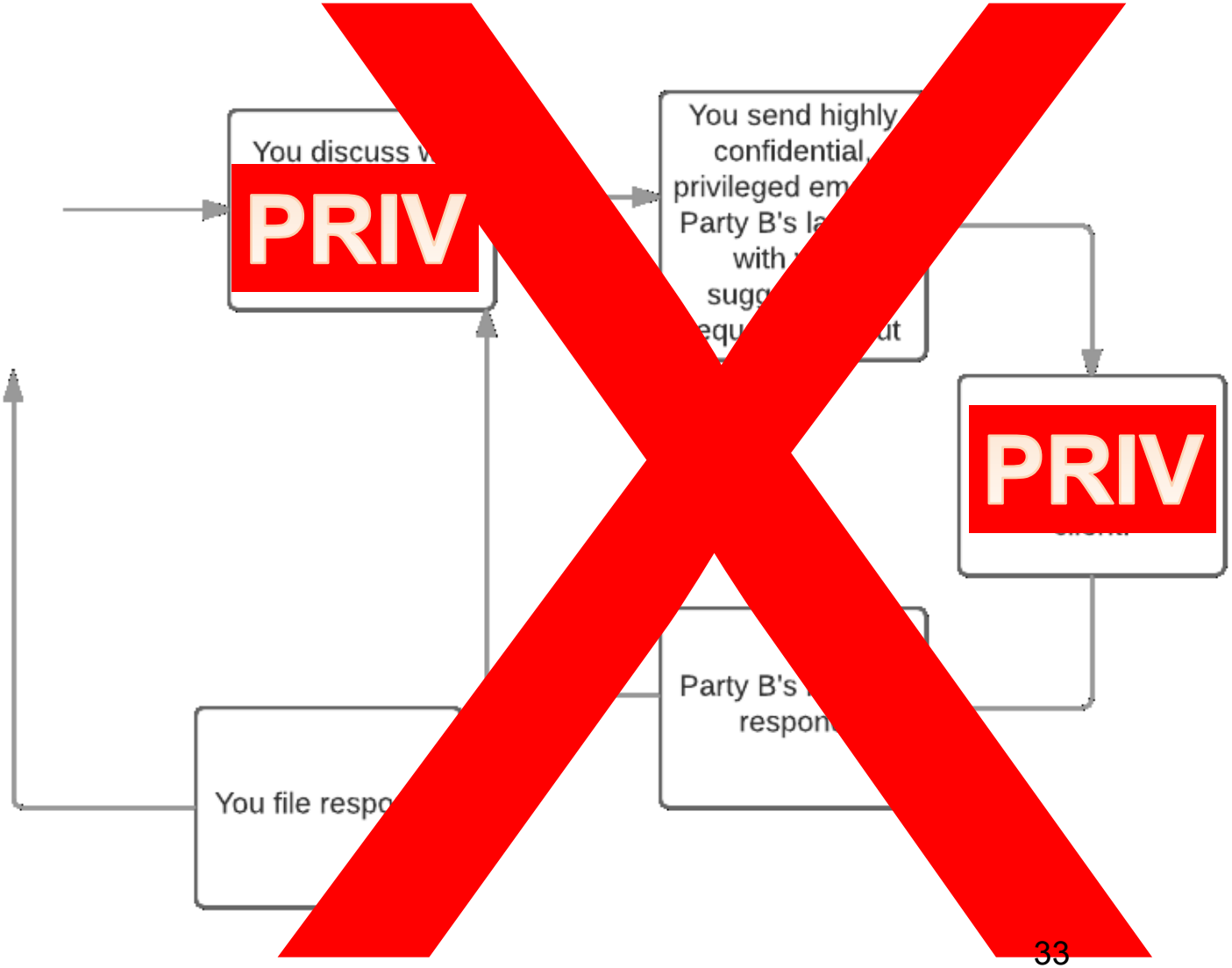
Client DO has joint development agreement with Party OH.

Client DO's lawyer prosecutes applications.

Dispute develops, and Party OH moves to compel all communications between DO and DO's in-house lawyer about prosecution.

Client DO concedes there is a common interest privilege, but asserts its lawyer never represented Party OH, so not joint clients.

Court: D's in-house lawyer represented both DO and OH as clients, so they were joint clients and so no privilege…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## *Max Planck v. Wolf Greenfield*

WG Firm files application, representing Whitehead while getting input from Max Planck, represented by its own lawyers.

Dispute develops, and suit is filed.

Max Planck asserts it was also a client and (a) moves to disqualify WG Firm and (b) sues it for breach of fiduciary duty.

Court holds WG Firm had represented both parties.

- Disqualified from representing long-time client.
- Suit proceeded… claim eventually dismissed on statute of limitations.

# *How Do You Spot This?*

- What does a reasonable conflict check require?
  - Indemnity can arise by contract.
  - UCC implies warranty of noninfringement.
- What if lawyer learns late in litigation other client must indemnify or is liable if there is breach of warranty?

## *What to do*

In future: Include a clause stating parties intend common interest privilege, but neither party's lawyer represents the other party. *But see* Conn. Informal Eth. Op. 201—12 (clause will not obviate AC relationship).

In existing relationships….?

## *What to do*

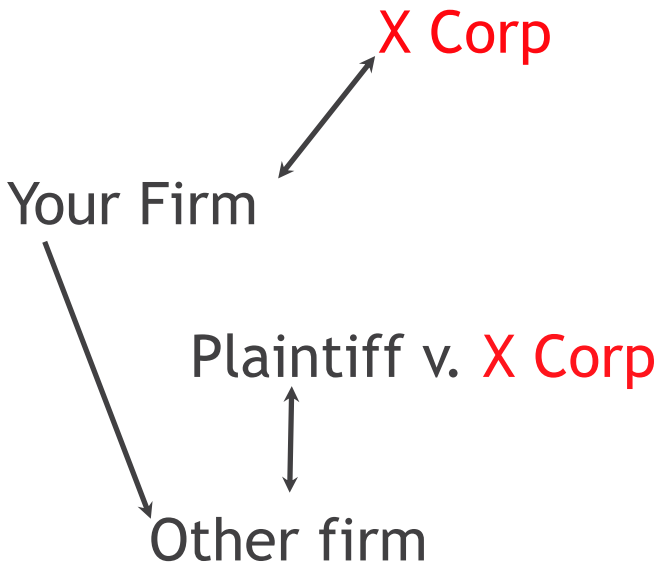
- Address in engagement letter when creating entity who you represent and whether representing one entity means you represent its corporate family.
- Be sure employed inventors understand you represent only the employer (especially if no assignment in place).
  - Do not represent joint inventors without knowing each is an inventor and having assignments clear (3 disciplinary proceedings in the past three years!).
- In prosecution context, watch out for the "cooperation" clause that continues to be a problem.

# *Step Three: What is "Adversity"?*

"simultaneous representation in unrelated matters of clients whose interests are only economically adverse"

Appearing in suit, ITC, IPR to represent opposing party to a client.

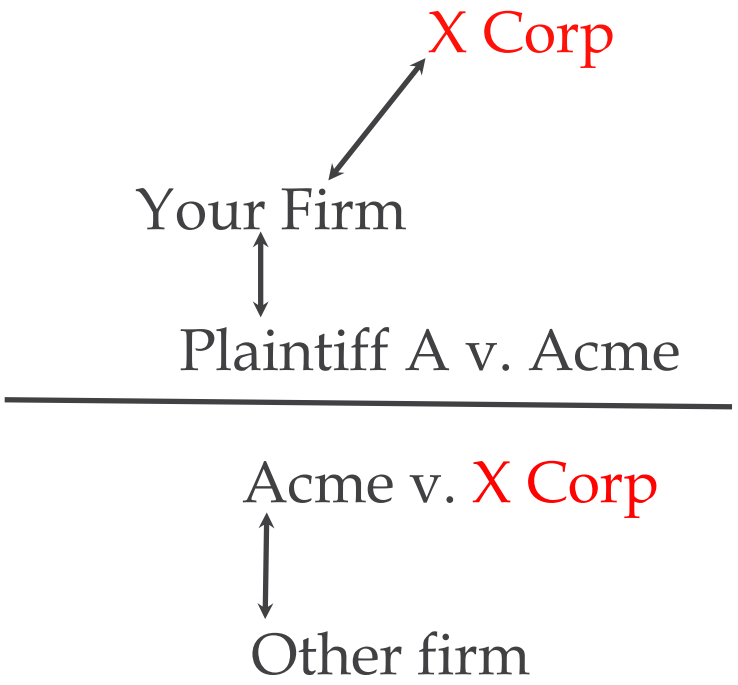
# *Helping Behind the Scenes*




A lawyer may not assist another firm to litigate against a current client of the lawyer: you're putting together the arguments and doing acts to hurt it.

# *Causing Later Liability*

- If your firm is successful, the defendant will later have an indemnity claim against another client.
- Courts hold this is adverse.

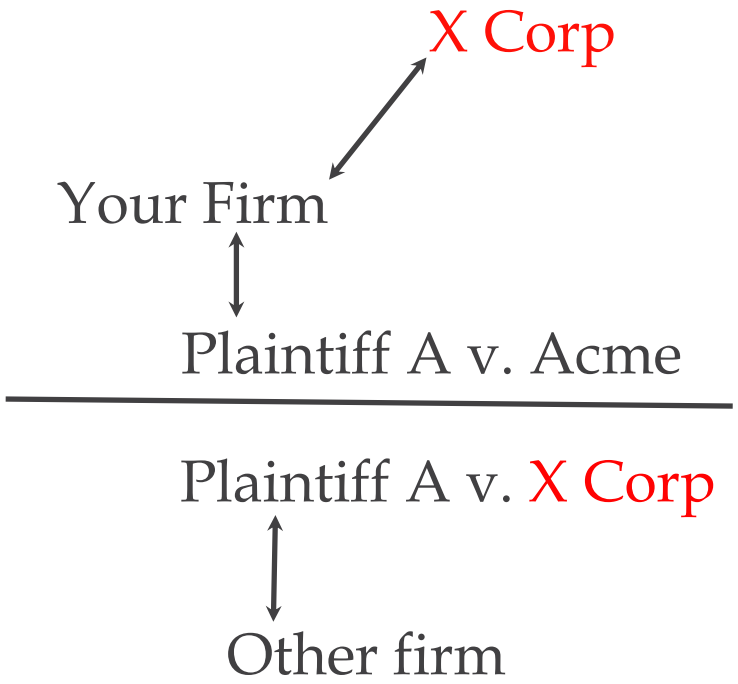


## *What if….*

- You represent patentee.
- In due diligence, you identify five potential infringers.
- One is a client.
- Can you represent the patentee against the other four?
- Maybe…

## *Strengthening the Case Against Your Client?*

Can your firm represent a patentee against a non-client if that same patentee, through separate counsel, sues a client of your firm on the same patent?



## *Depends how Sharp You're Making it…*

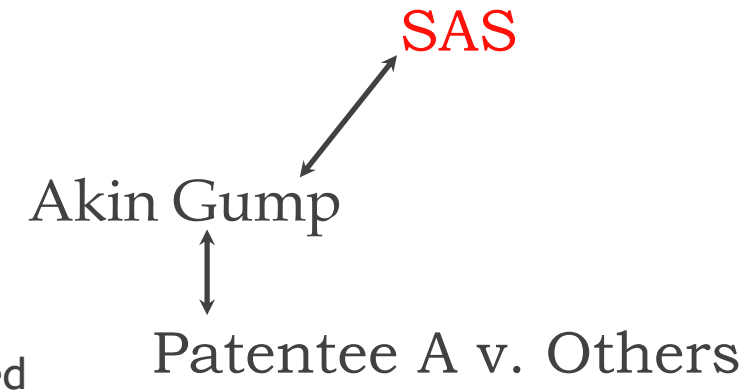
At least 4 non-defendant clients have intervened to DQ lawyers, with differing results. *See Milwaukee Elec. Tool Corp. v. HILTI, Inc.*, 2015 WL 1898393 (E.D. Wis. Apr. 27, 2015) (citing four cases) and *SAS Institute* (the fifth, discussed below)

## *Suppose….*

- You identify multiple infringers and you decide you can't sue one, a client.
- So, you carve out the suit against your own client…
  - Can you coordinate with the other firm that is suing your client?
    - If not, material limitation as a result?
    - Even if you sue and don't coordinate…

## *SAS v. Akin Gump*

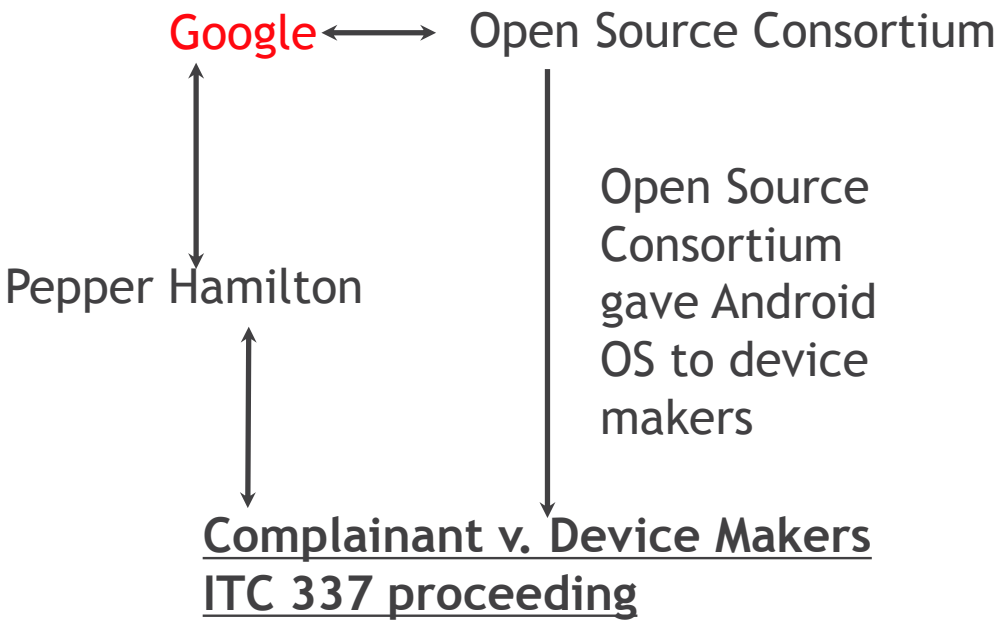
Court: not adverse to represent patentee despite knowing SAS would be sued later… (assembling the documents?)




*But* court found fee agreement breached fiduciary duty: it entitled AG to 20% of "all value received" from patent, even if AG not involved, stating AG's work was "the foundation and framework" for later patent enforcement. – *i.e.*, assembling the documents

CFA: If Patentee A were to sue SAS, other firm would represent it.

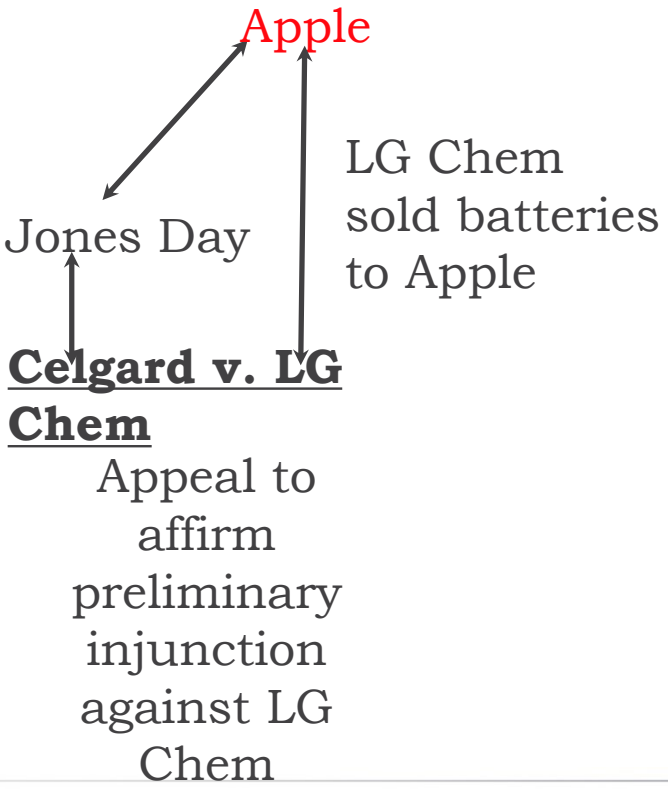
# *Economic Impact*
# *Injunction Case #1*




Google intervenes to DQ PH firm

No adversity even though lawyer was seeking to exclude phones using Android OS, costing Google money

# *Economic Impact: Injunction Case # 2*




Apple intervenes on appeal to DQ JD firm

CAFC disqualified JD from appeal because it "asserted the position that an injunction on behalf of one client should limit the activities of another" and Jones Day's representation would let Celgard use the injunction as leverage in business negotiations with Apple.

# *Opinion Conflicts*

The Authorities are Clear… But Too Clear?

## *Adverse?*

- Firm represents Client A in unrelated matters.

- Client B asks for opinion as to whether it infringes a patent Client A owns, or whether that patent is invalid.

- Is that adverse?

## *Opinions About Opinions*

*Gillette*: In *dicta*, adverse to advise client how to "avoid infringing" patent obtained for former client.

*Maling*: In *dicta*, adverse to give noninfringement opinion for one client about a current client's patent lawyer had obtained for it.

Va. LEO 1774: Adverse to give invalidity opinion to a client about another client's patent.

*Andrews v. Beverly*: Excluded non-infringement opinion because counsel represented patentee at time of opinion, because it "advised Beverly that its products did not infringe Andrew's patents, attacked Andrew's patents, provided potential litigation arguments and provided a factual basis for a potential defense against future claims by Andrew of willful infringement."

## *But…*

(1) Patents are sold regularly. Is there an obligation to check ownership before giving an opinion?

(2) What about the initial cut/quick look "opinions:" is that adverse? Where is the line?

# *Prosecution Conflicts*

Tough Questions with Few Clear Answers

## *The Tough Questions*

What about Subject Matter Conflicts?

Are you able to "represent zealously" both clients on the same subject matter?

Are you able to segregate arguments related to each client's patent application?

What is the perception that your clients have about your representation?

## *Maling v. Finnegan*

- Question presented: Does an actionable conflict of interest arise when attorneys in different offices of the same law firm simultaneously represent business competitors in prosecuting patents on similar inventions, without informing them or obtaining their consent to the simultaneous representation?
    - Answer: No, this is not a *per se* violation
- Finnegan (Boston office) represented plaintiff Maling in the preparation and filing of patent applications which led to 4 patents for screwless eyeglasses
- Finnegan (DC office) represented Japanese competitor in seeking patents for screwless eyeglass technology
- Maling claimed that because Finnegan declined to provide him with a legal opinion addressing similarities between the other clients' patents and his own patents, he was unable to obtain funding for his invention

## *Maling v. Finnegan*

- Maling alleged negligence (delay in filing the patents; similarity to the Japanese competitors' patents)
- Maling alleged breach of Fiduciary Duty
    - Rule 1.7 of the Massachusetts Rules of Professional Conduct: a lawyer shall not represent a client if the representation is "directly adverse" to another client, or where "there is a significant risk that the representation of one or more clients will be materially limited by the lawyer's responsibilities to another client, a former client or third person or by a personal interest of the lawyer."
- Court found no direct adversity even if both companies were competing for the same patent
- Court found that this inquiry is very fact dependent: here, no conflict because the companies were competing for different patents for similar devices and Finnegan was able to obtain patents for both clients; under different factual circumstances, such as where the claims are identical or obvious variants, or if there were an interference proceeding, or if a reasonable patent attorney believed such a proceeding was likely, there would have been a conflict

## *Maling v. Finnegan*

- Court found that Finnegan's representation of the Japanese firm did not "materially limit" its representation of Maling
    - No allegation of "claim shaving"
    - No allegation of how claims were narrowed
    - No allegation that client confidences were disclosed or used in any way to the other client's advantage
    - No allegation that Finnegan had agreed to provide an opinion letter, only that Finnegan had agreed to file and prosecute a patent for Maling's inventions

*Subject Matter Conflicts (Example 2)*

*Access International, Inc. v. Baker Botts, (Texas State Court 2016)*

- Baker Botts represented two companies vying for similar patents at the same time related to radio frequency identification tracking technology
- Plaintiff Axcess argued that Baker Botts sought to cover up the dual representation
- Texas state jury found Baker Botts liable for $40.5M in losses that Axcess claimed it suffered because it would have earned that much from licensing and royalty deals if it had “conflict-free” counsel
- Baker Botts was successful, however, in a motion for judgment that Axcess should have know of the injury in 2007, because its executives reviewed competitors’ patents listing Baker Botts as counsel at that time
- Lawsuit was thus untimely under the two-year statute of limitations

- Texas appeals court affirmed

- Axcess' expert witness' testimony hinged on what he believed the USPTO would have done, had an interference been initiated, and what the other company would have done, had Axcess initiated an interference and expanded its patent claims

- The court found that "Axcess had to prove—not just suggest or theorize, but prove with competent, non-speculative evidence—that the third parties would have actually taken such action."

- Objective vs. subjective case-within-the-case

  - ***Injury and damages are difficult to prove in these cases**

  - ***Statute of limitations are often important**

## *Key Questions*

Who is the client?

- inventor, parent company, subsidiary, trust

What field of intellectual property?

- Patents – inventors, assignees, joint ownership
- Trademarks – source of the goods

What is the subject matter?

Has everyone been counseled in advance of the representation?

## *Subject Matter Conflicts*

- Need to Look for:

  - Similar/related subject matter
  - Competitors in the marketplace
  - Inventor who worked for one of your clients is out on his own at a new company.

## *What's The Big Deal?*

- How do we learn chemistry?
- How do we build our knowledge base?
- Can we actually turn that knowledge off?
- Do you have "stock language" or "good definitions" that you include in certain patent applications? How do you decide when to use that stock language?
  - (Tethys Bioscience v. Mintz Levin & the Confidentiality of Patent Applications)

## *Examples*

Attorney at Big Law represents Microsoft in litigation against Apple.

Apple executive contacts a friend at Big Law to set up an estate plan.

Conflict?

## *Examples*

Attorney at Big Law represents Microsoft in patent litigation against Apple.

Apple executive contacts a friend at Big Law to work on patent portfolio.

Conflict?

## *Examples*

- Attorney represents Conagra for patents on prepared foods and methods/additives that allow them to be “shelf stable”.
- Attorney networks at Food Science Convention and meets someone at Cheesecake Factory who wants to discuss new patent application on method of treating cream cheese so that it is tolerant of temperature ranges.
- Conflict? Problem under USPTO new rules?

## *A Case Study*

- Large Firm in Northern California represents Applied Materials and Intel
- Large Firm files patent applications for both companies around semiconductor materials.
- One patent family for each company discloses and claims inorganic porous dielectric materials.

## *A Case Study (cont'd)*

- Office actions issue in both patent applications. One office action cites patents from Applied Materials against Intel patent application.
- How do you act as an effective advocate for Intel without attacking Applied Materials patents?

## *A Case Study (cont'd)*

- Declarations (regarding prior art references)
- Background Sections of Patent Applications
- Information Disclosure Statements
- New Expediting Process (distinguishing client's claims from public references)
- How do you handle these situations as practitioners?

## *How Do We Fix It?*

- Small Firm/Small IP Group
- Mid-Size Firm/1-2 Patent Prosecutors
- Large Firm/Large Prosecution Group
  - How do you choose who takes which client?
  - Attorneys who leave firm?
  - Appearance of impropriety
  - Massive Awards Against Law Firms/Increasing Price of Malpractice Insurance

## *Adequate System for Checking?*

- E-mail everyone in the group?
- Key Word Search/Update Conflicts Checking System
  - Use series of "Business Code Identifiers"
  - Specify intelligent key words
  - List all inventors and in-house counsel
  - List common competitors

*Conclusions…*