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Conflicts in Patent Prosecution: Avoiding the Ethical Pitfalls

Minimizing Risks of Malpractice Liability and Ethics Sanctions

TUESDAY, DECEMBER 4, 2018

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Conflicts in Patent Practice

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October 2018

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1. The More Common Consequence of Conflicts: Loss of Business and Fees.

Lawyers must monitor for their own firm's conflicts, those of co-counsel, those of their experts, and those of opposing counsel. The reason why a lawyer must monitor for his own firm's conflicts is obvious, as a conflict can result in disqualification, discipline, malpractice, or simply embarrassment or loss of business.

But, disqualification is not the most common and immediate problem caused by conflicts. Foremost, if a former client has failed to pay fees or expenses, and the lawyer sends a demand letter for payment, clients will often examine whether the lawyer earned those fees while facing a conflict of interest, or committed some apparent malpractice during the representation, or over-charged the client. The threat of a counterclaim – for fee disgorgement because of a conflict of interest or malpractice – exists, and the claim for past-due fees may be an unwise choice.

The importance of spotting conflicts, and the risk of failing to do so, was recently emphasized by the California Supreme Court in addressing the propriety of fee forfeiture. This claim, or remedy in some states, allows for disgorgement of fees earned while under an undisclosed conflict, causing the lawyer to pay back some or all fees -- and even if the client had not been damaged. The court's opinion, while not a patent case, is of concern to all lawyers and should be especially for patent lawyers because conflicts of interest are hard to spot.

The case is *Sheppard, Mullin, Richter & Hampton, LLP v. J-M Mfg. Co*., __ P.3d __ (Cal. Aug. 30, 2018). Boiled down, the firm represented a J-M Mfg., in a qui tam action against a number of public entities while representing one of the public entities in an unrelated and small matter. The firm billed 10,000 hours in the qui tam action and 12 to the public entity, South Tahoe.

South Tahoe moved to disqualify the firm, and that motion was granted over the firm's argument that South Tahoe had agreed to a broad waiver of conflicts long before the matter for J-M had even existed.

Later, J-M refused to pay the final $1 million of the $3 million the firm had billed it. The firm sought arbitration in accordance with its fee agreement with J-M, which also contained a broad waiver clause. In response, opposed arbitration and J-M sought disgorgement of the $2 million it had paid, since the firm had earned it while having a conflict of interest.

Despite its objection, J-M was compelled to arbitrate. The arbitrators found in the firm's favor, though stating the firm should have disclosed the conflict. When the firm moved to confirm the award, J-M opposed it. Eventually, J-M prevailed in the California high court. The court concluded that it could set aside an arbitral award based upon an illegal contract, and that the ethical rules provided a basis for so finding. It rejected the idea that a broad blanket waiver of "unrelated" conflicts in the engagement letter permitted the firm to represent J-M while representing South Tahoe without informing both clients of the conflict. It also held the arbitration clause was unenforceable given that the contract was unenforceable. As a result, the arbitral award of $1 million in unpaid fees was vacated.

If there is a silver lining, the court held that the firm could pursue relief under a *quantum meruit* theory and not have to disgorge all of the $2 million it had received, nor lose any claim to the $1 million it was still owed. In the regard, the court wrote:

> When a law firm seeks compensation in *quantum meruit* for legal services performed under the cloud of an unwaived (or improperly waived) conflict, the firm may, in some circumstances, be able to show that the conduct was not willful, and its departure from ethical rules was not so severe or harmful as to render its legal services of little or no value to the client. Where some value remains, the attorney or law firm may attempt to show what that value is in light of the harm done to the client and to the relationship of trust between attorney and client. Apprised of these facts, the trial court must then exercise its discretion to 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.

The notion that a lawyer under a conflict of interest can be forced to forfeit fees is not new. See *Burrow v. Arce*, 997 S.W.2d 229 (Tex. 1999) (explaining existing case law on why attorneys' fees earned under serious conflicts of interest could be subject to disgorgement even without proof of damage caused by conflict). The notion that broad blanket waivers are unenforceable is likewise not news: while there is some greater acceptance by courts of blanket waivers, they are still ordinarily not enforceable. *See generally,* Am. B. Ass'n. Formal Eth. Op. 05-436 (May 11, 2005).

What these cases means for patent lawyers is also clear: because conflicts of interest are difficult to identify (as shown below, particularly under the *Altova* case). Not spotting a client, or not knowing for sure if one exists, increases the risk that a client could (a) avoid enforcement of an arbitration clause; (b) avoid paying for some or all fees earned under a conflict of interest; and (c) assert fee disgorgement as to fees already paid means that lawyers must monitor for conflicts more closely and, if pondering asserting a claim for unpaid fees, to carefully assess conflicts.

Less obvious is the need to monitor conflicts of co-counsel or opposing counsel: sometimes co-counsel's conflict can be imputed to a firm. *See Freeman v. Chicago Musical Instrument Co.*, 689 F.2d 715 (7th Cir. 1982); *Emblaze Ltd. v. Microsoft Corp*., 2014 U.S. Dist. LEXIS 74992 (N.D. Cal. May 30, 2014); *Buckley v. Airshield Corp.,* 908 F. Supp. 299 (D. Md. 1995).

This section catalogs the various conflicts of interest that arise in patent practice, including prosecution and litigation

2. Conflicts Because of Confusion About Client Identity

A recurrent problem in prosecution arises when a practitioner believes that she represents one client (or some but not all putative clients) but, later, someone claims to have *also* been a client. This arises in various contexts, the common ones which are discussed here, and creates multiple problems, summarized here and discussed below.

First, an implied attorney-client relationship can create conflicts of interest, which can lead to disqualification or malpractice. In the cases below, lawyers who seemingly believed they had one client ended up having two, which resulted in breach of fiduciary duty claims, legal malpractice claims, and other problems.

Second, if a lawyer represents two clients in a matter, that can prevent assertion of privilege if there is a dispute among the "joint" clients. (It also requires the lawyer disclose to each joint client information it needs to make informed decisions, and often requires the lawyer to make certain disclosures at the outset of a joint representation. lawyer deemed to represent more than one client in a matter can lose privilege over all communications with the "real" client. *E.g., Loop AI Labs Inc. v. Gatti,* 2016 WL 730211 (N.D. Cal. Feb. 24, 2016) (analyzing whether firm jointly represented two clients and whether firm could assert privilege in dispute between them).

Related to the foregoing, if a lawyer does *not* represent a person, the lawyer may owe the person the obligation to clear up any misunderstandings. For example, many states (and the USPTO) have a rule similar to American Bar Association Model Rule of Professional Conduct 4.3, which states:

> In dealing on behalf of a client with a person who is not represented by counsel, a lawyer shall not state or imply that the lawyer is disinterested. When the lawyer knows or reasonably should know that the unrepresented person misunderstands the lawyer's role in the matter, the lawyer shall make reasonable efforts to correct the misunderstanding. The lawyer shall not give legal advice to an unrepresented person, other than the advice to secure counsel, if the lawyer knows or reasonably should know that the interests of such a person are or have a reasonable possibility of being in conflict with the interests of the client.

A. Inventors Asserting They Are, or Were, Also Clients.

The law is generally clear that, without more, a practitioner does not represent an inventor solely because the inventor executed a power of attorney to a practitioner retained by the inventor's employer to prosecute an application, at least where the inventor has an obligation that assigned the invention to the employer. The Federal Circuit in *Sun Studs* believed that at least based on general agency principles and not any state law, the execution by an employee of a power of attorney for the benefit of his employer did not create an express or implied attorney-client relationship: "In the present case there was not even a 'technical' attorney-client relationship between Chernoff and Hunter because of the prior agreement that all rights in the invention belonged to Sun Studs." *Sun Studs, Inc. v. Applied Theory Assocs., Inc.,* 772 F.2d 1557, 1568 (Fed. Cir. 1985). Several courts have held that a practitioner prosecuting a patent application for an employer does not have an attorney-client relationship with an employer's inventor. *E.g.*, *Emory Univ. v. Nova Biogenetics, Inc.,* 2006 U.S. Dist. LEXIS 67305 (N.D. Ga. Sept. 20, 2006) ("a firm prosecuting a patent application on behalf of a company does not form an attorney-client relationship with any individual inventor required to assign his rights to the company").

These cases provide comfort. However, none of them, and in particular none of the Federal Circuit cases, analyzed federal preemption, but that seems to be the basis of this view. But the conclusion that a power of attorney does not create an attorney client relationship, where the power is given to a lawyer to provide legal services, could directly conflict with state law. A court could reject the Federal Circuit approach Further, if the *Sun Studs* holding is instead of "Federal Circuit" law that preempts state law, it appears to have been based either upon "Ninth Circuit" or Oregon law. If so, practitioners have no guidance where other law—presumably their own state's law—controls.

In addition, ambiguity or a fact question requiring trial by jury can arise if the practitioner in the course of prosecuting the application met with the inventor and casually referred to the inventor in correspondence or billing records as a "client." In one case, the court found the practitioner had represented inventors in prosecuting patents, reasoning:

> In this case, appellee expressly appointed Brooks and Kushman to advance its position in the Patent and Trademark Office. To further that effort, appellee supplied Brooks and Kushman with confidential information. Furthermore, appellee agreed to pay one half of the attorney fees. Finally, Brooks and Kushman were aware that one half of the fees would be indirectly paid by appellee and that appellee would directly benefit from the successful prosecution of the patent application. From these circumstances, the trial court could properly infer that appellee reasonably believed that Brooks and Kushman owed duties to appellee to the same extent that the firm owed duties to appellant and that the confidential information supplied to Brooks and Kushman would not subsequently be used to degrade its interests. Therefore, the factual finding that Brooks and Kushman had an attorney-client relationship with appellee is supported by substantial evidence and will not be disturbed.

Henry Filters, Inc. v. Peabody Barnes, Inc., 611 N.E.2d 873, 877–78 (Ohio Ct. App. 1992). *See also Beasley v. Avery Dennison Corp*., 2006 U.S. Dist. LEXIS 74033 (W.D. Tex. Oct. 4, 2006).

B. Other Side of Shared Prosecution Agreement or License.

It is common for different entities to have input into prosecution, as where a licensee has input into prosecution of pending applications. In such circumstances, the parties likely can assert a “common interest” privilege so that third parties cannot access their communications. However, courts continue to conflate the existence of a common interest with implied joint attorney client relationships.

In the most recent example (others are in my book), DePuy Orthopaedics, Inc. ("DePuy") entered into a research agreement with Orthopaedic Hospital ("OH"). OH would develop products and DePuy would pay a royalty if any were commercialized. Some patent applications were filed. OH later contended that DePuy had developed products that required it pay OH a royalty; DePuy refused, and OH brought a declaratory judgment. *See DePuy Orthopaedics, Inc. v. Orthopaedic Hosp.,* 2016 WL 7030400 (Dec. 1, 2016).

In the course of the lawsuit, OH moved to compel all documents from DePuy related to prosecution of the patent applications. DePuy refused to provide the documents. In doing so, it conceded that the parties shared a common interest with respect to the patent applications, but contended that DePuy’s in-house attorney did not jointly represent both OH and DePuy when doing so.

The court held that as a matter of law DePuy’s in-house lawyer represented both it and OH. In doing so, it applied the test for determining whether a lawyer represents a client. Thus, because the lawyer jointly represented both OH and DePuy, nothing was privileged between them in this dispute.

As I've written, this is legally incorrect. The issue isn't whether DePuy's in-house lawyer represented one client, but whether she represented two. When that is the issue, courts that appropriately analyze this issue recognize that a different analysis is required. For example, implying a joint-client relationship can create conflicts of interest. Further still, with respect to in-house counsel, this could create the unauthorized practice of law (for example, if she were not licensed in the state where the activities occurred, but registered by the state, and the "representation" went beyond that necessary to practice before the USPTO. It could also result in liability by in-house counsel to third parties, and in-house counsel typically don't have malpractice insurance.

This same fact pattern has bitten several outside firms and in-house counsel before. Any time a lawyer is prosecuting patents where there is some agreement where a "non-client" has input -- a joint venture agreement, a license, a joint development agreement -- the lawyer should be extremely careful to ensure that the "non-client" knows it is not a client.

And even that may not be enough. Connecticut Informal Ethics Opinion 2012-02 addressed a prosecution agreement which expressly stated that in-house counsel was not representing the inventors at the other company. Nonetheless, the opinion stated:

> In our opinion, when A1 as an attorney practicing in Connecticut seeks to secure letters patent from the PTO for the inventors as applicants and potential patentees, and beneficially for the corporate assignee-owners C1 and C2, A1 is practicing law in Connecticut and thereby has an attorney client relationship with C1 and C2,and with their respective inventor-employees. A1 is representing all the inventors as applicants, in accord with PTO practice. A1 is representing Cl, irrespective of the fact that A1 is an employee of Cl. See RPC 1.13. A1 also represents C2 since C2 is assignee of the interests of its employees; and, C2 has authorized A1 to do patent lawyer work on behalf of its employee-inventors. Even under one scenario where A1 may communicate with C2 and C2's inventor-employees only through C2's in-house attorney A2, and where C2 is said not to be receiving any advice from Al, it is only A1 who represents as a lawyer the interests of C2 and C2's inventor-employees before the PTO. (And in the course of that practice A1 receives client confidential information, treated below.) We are informed that the R&D agreement between corporations C1 and C2 will have a provision declaring that Al's representation of C2 before the PTO is not intended by C1 and C2 to create an attorney client relationship between A1 and C2. However, the nature of the activity in which A1 is engaged and the attendant facts determine that there is an attorney client relationship, as above. The agreement between the two corporations does not alter that.

C. Forming Entities or Advising Groups Without Definitive Assignments and Inventorship

Two related disciplinary decisions from the OED illustrate how things can snowball quickly out of control where a lawyer loses sight of the fact that she represents both clients, not just one. *In re Blackowicz,* Proc. No. D2015-13 (USPTO May 11, 2015); *In re Newman,* Proc. No. D2015-14 (Nov. 11, 2015). In these companion cases, Newman was a partner at a firm and he tasked Blackowicz, an associate, to represent Client A and Client B who co-owned a trademark application. In separate matters, the two lawyers also represented Client B's father, uncle, and a company owned by Client B's father.

They did not make any disclosures to any of the clients about the benefits, and risks, of joint representation. In addition, during the representation of Clients A and B, the lawyers copied the father and uncle on emails concerning the trademark application, and billed the work to the father's company.

Of course, a dispute developed between Clients A and B. Instead of withdrawing, the lawyers communicated with the son and father about the dispute, and discussed abandoning the joint application and filing an application for an identical mark, but in the name of another of the father's companies. The associate abandoned the application without consulting Client A, and then filed an application on the identical mark for the father's other corporation. When Client A found out about this, the associate filed a petition to reinstate the joint application – even though this was directly adverse to the father's corporation.

The OED suspended the associate for 30 days, required him to re-take the MPRE (and get at least an 85 on it), and required that his legal work be monitored during a 13-month probation. The partner got the same – but an 18-month probation.

A recent case finding unethical conduct by a lawyer representing commonly-owned entities in trademark litigation provides another illustration of joint client conflicts. In *Lectric Ltd., Inc. v. DGW, Inc.,* 2017 WL 1149335 (March 28, 2017), Lectric sued DGW sued DGW for trademark infringement. DGW counterclaimed, asserting that General Motors ("GM") not Lectric, owned the rights to the mark. During discovery, Lectric learned that Parts Place, Inc. ("PPI") might have been commissioning DGW to make parts with the infringing marks, and that JVI Holdings, Inc. ("JVI") had registered similar marks. Accordingly, it amended its complaint to add PPI and JVI as defendants, asserting that they, too, infringed its trademark and that JVI's registration were invalid.

The same attorney who had represented the sole original defendant, Williams, filed answers on behalf of both PPI and JVI and an amended answer for DGW. All three asserted that GM owned any rights in the mark (which GM denied). DGW and PPI asserted, in the alternative, that the mark was generic. JVI, for obvious reasons, did not join that defense. Lectric then moved to disqualify Williams from representing the three defendants, pointing out that JVI's position on genericness was inconsistent with that of Williams' other two clients. Williams withdrew from representing DGW, but argued that PPI and JVI did not have conflicting interests, in part because one man – Mr. Improta – was the sole owner of each one. The court disagreed: because JVI held similar marks, and so a finding that Lectric's marks were generic could affect it, the court found Williams' clients had differing interests. The court reasoned that Williams "placed itself in the position of possibly choosing for which client to advocate at the expense of another." *Id.* The court required Williams to obtain the informed consent of each client, after full disclosure, but – to protect DGW and them – struck their answers and gave them permission to replead.

Several of the cases below disciplined patent practitioners as a result of representing individuals who had differing interest, such as representing two clients and deciding only one of them had conceived of subject matter disclosed in an application. *See In re Ramberg,* Proc. No. D2017-12 (USPTO Off. Enrollment & Discipline Feb. 14, 2017) (lawyer represented two entities and two individuals with no engagement letter, did not determine inventorship, asked one individual to assign his rights to other's entity, then concluded he was not an inventor and tried to withdraw from that client's matters, then, eventually, both clients' matters); *In re Radanovic,* Proc. No. D2014-29 (USPTO Off. Enrollment & Discipline Dec. 16, 2014) (attorney represented two individuals as inventors, and after dispute developed, requested opinion from third-party patent attorney on inventorship, but only let one of the two clients talk to the attorney but also continued to represent both after dispute developed); *see also Carter v. ALK Holdings, Inc.,* 605 F.3d 1319 (Fed. Cir. 2010) (analyzing sanctions, unrelated to merits, as to whether attorney had conflicting interest when inventorship was disputed).

D. Engagement Letters and Other Risk Management.

Engagement letters and "non-engagement" letters can reduce misunderstandings. But they must be read: forms can be dangerous.

In *Synergy Tech & Design Inc. v. Terry,* 2007 U.S. Dist. LEXIS 34463 (N.D. Cal. May 2, 2007), a practitioner had been retained to file a provisional patent application and provided to the corporate-assignee a letter that specifically explained that the practitioner's representation of the corporation did not entail representation of any individuals in the corporation, such as its employees, officers, or directors. The person who signed the letter on behalf of the corporation alleged that he had contributed subject matter disclosed in the provisional patent application and sought to disqualify the practitioner when a dispute between him and the corporation resulted. Because the letter had clearly stated that the practitioner's representation of the company did not mean the practitioner represented the individual, the motion to disqualify was denied.

Compare that to *Hydrogen Master Rights, Ltd. v. Weston,* 2016 WL 7411523 (D. Del. Dec. 22, 2016). There, a lawyer drafted an engagement letter stating the firm would represent four individuals who were seeking to form a partnership and, once the entity was formed, the firm would represent the entity, not them. A dispute developed, and one of the four, Coats, sued the other three and the partnership.

The lawyer appeared to represent the partnership. Coats moved to disqualify the lawyer, asserting that Coats was a former client and the matter was substantially related to the work the lawyer had done for Coats, including forming the partnership. The trial court granted the motion to disqualify. It first held that the lawyer had represented Coats, and that he was now adverse to Coats in a matter which involved seeking to rescind a document that he had drafted as part of forming the partnership, and so was adverse to his former client in a substantially related matter.

Other practical ways to reduce problems are to be careful to not refer to non-clients as "clients" in work records, to be careful when responding to e-mails asking for "advice," or which indicate the recipient is confused about the lawyer's role. Particular with joint prosecution agreements, discussed below, the potential appears high for either real misunderstanding or strategic behavior. In this regard, some courts hold that some conflicts can be waived if not timely raised by the adversely affected client. *See, e.g.,* In re *Metoprolol Succinate Patent Litig.*, 2006 U.S. Dist. LEXIS 1328 (E.D. Mo. Jan. 17, 2006) (finding waiver due to delay); *Buckley v. Airshield Corp.*, 908 F. Supp. 299 (D. Md. 1995) (no waiver under facts presented). Some courts, such as the Fifth Circuit, hold that certain objections cannot be waived by the client, but instead are matters for the court to resolve. *See* David Hricik & Jae Ellis, *Disparities in Legal Ethics Standards Between State and Federal Judicial Systems: An Analysis and a Critique*, 13 GEO. J. LEGAL ETHICS 577 (2000).

3. Concurrent Conflicts: Adversity and Pulling Punches?

A. Basic Conflicts Principles.

Most states, and the USPTO, pattern their disciplinary rules after the American Bar Association Model Rules of Professional Conduct. The Model Rule governing current clients, Model Rule 1.7, contains two prohibitions: a lawyer (a) may not represent one client "directly adverse to another client;" and (b) may not "represent a client if the representation of that client may be materially limited by the lawyer's responsibilities to another client." The two prohibitions are commonly termed "adversity" and "material limitations" (or, as I prefer to call it, "pulling punches").

Under the principle of imputed disqualification, *see, e.g.,* Model Rule 1.10, if one lawyer may not undertake a representation, generally no lawyer "associated with" the firm can. (This includes partners, associates, and "of counsel" type relationships.) If a conflict exists, clients can consent, under some circumstances, after full disclosure. Most states do not require consent be in writing, but "prefer" that it is or require it be "confirmed" in writing. This paper effectively now looks at when consent is needed (certain representations cannot be consented to, however, under Model Rule 1.7(b)), focusing primarily on "adversity."

Courts have generally interpreted Model Rule 1.7 to mean what it says: a lawyer may never be adverse to a current client, unless the client consents, waives any objection, or the lawyer demonstrates that there are exceptional circumstances that would serve either a professional or societal interests that would outweigh the public's perception of impropriety. *See Transperfect Global, Inc. v. Motionpoint Corp.*, 2012 U.S. Dist. LEXIS 85649 (N.D. Cal. June 20, 2012); *Concat LP v. Unilever PLC*, 350 F. Supp. 2d 796 (N.D. Cal. 2004) (explaining that prohibition applies strictly, even if matters are totally unrelated) (collecting cases). Generally, too this obligation is imputed to all lawyers associated with a firm: if one lawyer is representing a company in a matter, no lawyer may be adverse to that client, even in a matter completely unrelated to the representation of the client.

B. Adversity: Litigation.

1. Suing a client is adverse, as is defending a client against another client's claim.

This is adverse. *Oxford Sys., Inc. v. Cellpro Inc.*, 45 F. Supp.2d 1055 (W.D. Wash. 1999). Likewise, representing a plaintiff against a defendant who impleads a third party defendant who is a client is adverse: if the non-client is liable to the plaintiff, then the impleaded client is liable to the defendant. *Richmond Am. Homes of N. Cal., Inc. v. Air Design, Inc.*, 2002 Cal. App. Unpub. LEXIS 6948 (Cal. App. July 25, 2002) (finding adversity because procedural rules allow third-party defendants to defend against a third-party complaint by alleging that the defendant had no liability to the plaintiff); *Pressman-Gutman Co., Inc. v. First Union Nat'l Bank,* 459 F.3d 383 (E.D. Pa. 2004), *on* *reconsideration,* Pressman-Gutman Co., Inc. v. First Union Nat'l Bank, 2004 U.S. Dist. LEXIS 23991 (E.D. Pa. Nov. 30, 2004), *mand. denied, Pressma*

2. Providing Litigation Support to Firm Adverse to Client.

Error! Bookmark not defined.A firm that cannot represent a party opposing a current client in litigation also cannot help some other firm to do the same thing, trying to avoid adversity solely by not making an appearance in court. *E.F. Hutton & Co. v. Brown*, 305 F. Supp. 371, 378–79 (S.D. Tex. 1969) (disqualifying New York firm that had represented employee from assisting Houston firm from litigating against him in substantially related matter). If a firm would be disqualified if it appeared in court, it ordinarily cannot avoid a conflict by by not formally appearing in court. *See Patriot Sci. Corp. v. Moore,* 2006 U.S. App. LEXIS 9285 (Fed. Cir. Apr. 12, 2006) ("it does not matter that [the lawyer] was acting as a litigation consultant, rather than [the adverse party's] attorney"). *But cf. Touchcom, Inc. v. Bereskin & Parr*, 2008 U.S. App. LEXIS 23271 (Fed. Cir. Oct. 6, 2008) (refusing to rule on whether counsel who had not entered an appearance on appeal was disqualified).

The significance of this is that a lawyer is assisting a firm to create legal positions and arguments that will directly impact a client, potentially through an adverse judgment.

3. Taking adverse discovery from a client.

Adverse discovery from even a non-party client can constitute an "adverse representation" that triggers the conflict of interest rules. *See* ABA Ethics Op. 92-367 (1992) (discovery against current client is an "adverse representation"); *In re* Cendant Corp. Sec. Litig., 124 F. Supp. 2d 235, 241 (D. N.J. 2000*); Comm. on Legal Ethics v. Frame,* 433 S.E.2d 579 (W.Va. 1993). A few courts have extended this concept to former clients. *See, e.g.*, *Selby v. Revlon Consumer Prods.,* 6 F.Supp. 2d 577 (N.D. Tex. 1997); *Swanson v. Wabash, Inc.*, 585 F. Supp. 1094, 1097 (N.D. Ill. 1984). *n-Gutman Co., Inc. v. First Nat'l. Bank*, 459 F.3d 383 (3d Cir. 2006).

4. Asserting in litigation that one client, not another, owns a patent, or that one client, not another, is an inventor.

Alzheimer's Institute of Am. v. Elan Corp. PLC, U.S. Dist. LEXIS 147471 (N.D. Cal. Dec. 22, 2011) (firm found itself attempting to withdraw from cases because its clients were each asserting ownership of patents-in-suit). *See id.*

5. Suing a non-client but success will cause liability by the client to that defendant

There are circumstances "in which a lawyer's pursuit of a client's lawsuit or defense may be at odds with or detrimental to the interests of a person or entity that has not been joined in the litigation but is being represented by the lawyer in a different litigation or transactional matter." ABA/BNA *Lawyer's Manual on Professional Conduct* 51:111 (2001). Identifying precisely when this sort of indirect adverse representation becomes an ethical violation is "difficult." *Id.*

For example, representing a plaintiff against a defendant who impleads a third-party defendant who is a client is adverse: if the nonclient is liable to the plaintiff, then the impleaded client is liable to the defendant. *Richmond Am. Homes of N. Cal., Inc. v. Air Design, Inc.*, 2002 Cal. App. Unpub. LEXIS 6948 (Cal. App. July 25, 2002) (finding adversity because procedural rules allow third-party defendants to defend against a third-party complaint by alleging that the defendant had no liability to the plaintiff); *Pressman-Gutman Co., Inc. v. First Union Nat'l Bank*, 459 F.3d 383 (E.D. Pa. 2004), *on reconsideration*, *Pressman-Gutman Co., Inc. v. First Union Nat'l Bank*, 2004 U.S. Dist. LEXIS 23991 (E.D. Pa. Nov. 30, 2004), *mand. denied*, *Pressman-Gutman Co., Inc. v. First Nat'l. Bank*, 459 F.3d 383 (3d Cir. 2006). *See also Axcan Scandipharm, Inc. v. Reed Smith, LLP,* 2007 Phila. Ct. Com. Pl. LEXIS 78 (Mar. 26, 2007) (suit based on damages caused by firm that violated duty of loyalty and confidentiality and seeking disgorgement of fees).

Similarly, adversity can arise short of actual impleading of the client such as when a lawyer in a case against a non-client will give the non-client the ability to seek indemnity against a client. *See Snapping Shoals Elec. Mbrshp. Corp. v. RLI Ins. Corp.,* 2006 U.S. Dist. LEXIS 45226 (N.D. Ga. July 5, 2006) (firm disqualified from asserting claim against non-client that would result in a client owing the non-client indemnity). *See* NHBA Eth. Comm. Formal Op. 1989–90/17 (Aug. 25, 1990). In that opinion, the committee concluded that a firm could not represent a general contractor in pursuing a claim against a lender where doing so would expose its other client, a developer, to a claim by the lender. (Although, the opinion is couched in terms of material limitations, the issue could also be viewed as one of adversity.). The lawyer is quite literally making the case against his own client. Similarly, adversity can arise short of actual impleading of the client, such as when a lawyer in a case against a nonclient will give the nonclient the ability to seek indemnity against a client. *See also Commonwealth Scientific & Industrial Research Organisation v. Toshiba Am. Info. Sys., Inc.*, 2008 U.S. App. LEXIS 22114 (Fed. Cir. Oct. 23, 2008) (indemnity obligation from client to accused infringer created adversity, but disqualification denied on other grounds).

The Philadelphia Bar Association saw a similar easy answer when it was asked whether a firm could prepare a letter – part of the step toward litigation -- for Client A in which the firm will take the position that Client A's generic version of a drug did not infringe Client B's patent – a patent the firm has had nothing to do with. The Philadelphia Bar Association concluded that preparing the letter was adverse to Client B.[1] The Committee wrote that the "confidence of the opinion [sic?] that there is no infringement" and the lawyer's belief that the entry of Client A into the generic market for Client B's branded drug would have very little economic impact on Client B "do not serve to eliminate the adversity…"[2] The act of preparing for the suit – just like the act of participating out of court in a pending suit – is adverse because the lawyer was putting

[1] Phila. B. Ass'n. Prof. Guidance Comm. Op. 2012-11 (Jan. 2013).
[2] *Id.*

the information together that was to be used against its own client.

6. A suit for a patentee against a non-client will result in an injunction that impacts a client's business.

A decision from the International Trade Commission (ITC) involving a motion to disqualify brought by Google against the Pepper Hamilton firm is one of the rare cases actually litigating the issue and only economic harm and no legal conflict of interest. *In the Matter of Certain Portable Communication Devices,* Inv. No. 337-TA-827 (Order No. 7 Feb. 13, 2012). (In the interests of full disclosure, I served as an expert retained by Pepper Hamilton in this matter.)

In that case, Pepper Hamilton was prosecuting a few patent applications for Google. It undertook to represent a patentee, Digitude, in an exclusion proceeding before the ITC. Digitude was seeking an order preventing importation of certain cell phones and other devices.

Google was not a defendant, and its products and services were not accused of infringing the patent. Nonetheless, the accused products used Google's Android software, and that software allegedly satisfied one element of the claim-in-suit. Google intervened in the proceeding, contending that Pepper Hamilton was adverse to it because Google was a member of a consortium (the "Open Handset Alliance") that provided, free of charge, the Android software as an open source product to the device makers. Further, the Open Handset Alliance specifically disclaimed any warranty of non-infringement when doing so.

The staff recommended denying the motion to disqualify, and the administrative law judge (ALJ) did so. The ALJ rejected several arguments presented by Google to establish adversity despite the usual indicia under the burden of proof required in the ITC:

> Based on the foregoing, I find that Google has not clearly demonstrated that Pepper Hamilton's representation of Digitude is "directly adverse" to Google. Any finding of a violation of Section 337 in this investigation will not impact Google's legal interests because of the wording of the Apache 2.0 license under which Android is licensed [which disclaimed the warranty of non-infringement]. Moreover, I find that Google did not provide the full factual background when it asserted that Android is a "Google product," as the evidence establishes that Android is an open source project run through the Open Handset Alliance, whereby the software is provided at no cost and everyone is invited to contribute. Google asserts that Pepper Hamilton's representation of Digitude is adverse to Google's business interests as well. Google offers no evidence regarding how Google's business interests will be harmed through this litigation. Instead, Google offers a

declaration from its in-house Litigation Counsel that makes conclusory assertions such as “Google has a strong interest in preserving the Respondents’ continued importation of devices that incorporate Google’s Android technology,”and, to the extent that Digitude’s infringement claims are directed to Android, “Google’s legal and business interests are harmed.” Such unsupported assertions do not demonstrate that Google’ s business interests will be harmed if Digitude obtains relief against the respondents’ Android-based products. Google argues that respondents in this investigation who make products that do not run the Android operating system may assert Google’s patents or technology as prior art that invalidates Digitude’s patents, thereby requiring Pepper Hamilton to attack Google’s prior art patents or technology. Google offers no evidence that any Google patent or technology is being asserted as prior art in this investigation, making Google’s argument pure speculation. The mere possibility that Google prior art will be relied upon in this investigation does not give rise to a Rule 1. 7 violation.

Google raises a concern regarding Google’s possible involvement in this investigation as a third party. Pepper Hamilton has assured Google that it will not seek any third party discovery from Google in the current investigation. (See Ex. F to Google Mot.) Pepper Hamilton has also assured Google that if another party seeks third party discovery from Google and a deposition takes place, no Pepper Hamilton attorney will examine a Google witness. (Id) I find that these assurances are sufficient, and that Pepper Hamilton will be held to these promises, and the other promises included in Mr. Zemaitis’ January 20, 2012 letter. (Id) Pepper Hamilton shall have no involvement in any Google third party discovery in this investigation. This prevents any potential direct adversity from arising.

Google also raises a concern regarding the confidentiality of its information. Google has not offered any evidence that its confidential information has been viewed or used by Pepper Hamilton attorneys representing Digitude. Pepper Hamilton has already established an ethical screen. With this ethical screen in place, Pepper Hamilton attorneys working on this investigation on behalf of Digitude cannot access Google’s confidential information, and Pepper Hamilton attorneys working on behalf of Google cannot access confidential information in the current investigation. Digitude offered declarations from the Pepper Hamilton attorneys who have made an appearance in this investigation, with each declaration stating that the attorney has not, inter alia, performed legal work for Google or accessed any

> Google confidential information while at Pepper Hamilton. Moreover, there is a physical separation of any hard copy documents, as Pepper Hamilton's work for Google takes place in its Pennsylvania and Delaware offices, while Pepper Hamilton's work for Digitude takes place in its Massachusetts and Washington, DC offices. I find that the actions taken by Pepper Hamilton serve as a reasonable precaution to keep the confidential information of Google and Digitude separate. Pepper Hamilton shall ensure that these safeguards are kept in place.
>
> In sum, I find that Google has not met its heavy burden in demonstrating that Pepper Hamilton should be disqualified from representing Digitude in this investigation.

Id. (citations omitted). The ALJ in *In the Matter of Certain Baseband Processor Chips and Chipsets, Transmitter and Receiver (Radio) Chips, Power Control Chips, and Products Containing Same, Including Cellular Telephone Handsets*, USITC Inv. No. 337-TA-543 (Order No. 29 Mar. 9, 2006) reached a similar conclusion.

Facing somewhat distinct facts, the Federal Circuit reached a different conclusion in a rare case where the movant sought to disqualify a lawyer from representing a party on appeal in *Celgard, LLC v. LG Chem., Ltd.*, 2014 U.S. App. LEXIS 24742 (Fed. Cir. Dec. 10, 2014). Conflict-free firms were representing a patentee in a suit against a lithium battery supplier. That supplier was the only source of specialized batteries that Apple uses. The patentee obtained a preliminary injunction against the battery supplier. Apple was not a party to the suit against the battery supplier.

At that point, Jones Day appeared in the trial court and to handle the appeal. Jones Day had realized that it could not be adverse to Apple, and so structured its relationship with the patentee to avoid counseling the patentee in any matter against Apple, including licensing negotiations. On appeal, Jones Day refused to withdraw and Apple moved to intervene to disqualify Jones Day.

The Federal Circuit granted the motion in an unpublished disposition. The court held that this was not merely permitted economic adversity but was adverse because "Apple faces not only the possibility of finding a new battery supplier, but also additional targeting by [Jones Day's client, the patentee] to use the injunction as leverage in negotiation a business relationship." To the court, this meant Jones Day was adverse "in every relevant sense."

The differing results in *Google* and the Jones Day appeal illustrate the difficult issues that arise, and line drawing needed, in patent litigation. Lawyers cannot simply look at the parties to the suit.

7. Suing a non-client knowing the patentee is, or will, sue a client on the same patent.

Suppose a patentee approaches a firm with a list of possible infringers. The firm determines that of the five possible targets, one is a client of the firm. As shown above, the firm cannot represent the patentee against its client, since that is adverse. Also as shown above, it cannot act adversely even though not appearing in court by acting through some other firm in that suit. As a result, suppose the patentee-client retains the firm, but only to sue the non-client defendants. It retains another firm to act separately and file suit against the first firm's client. Is the first firm, nonetheless, disqualified from representing the patentee against non-clients?

More than a few district courts have addressed this issue in the context of patent litigation. Naturally, they split on their answer to the question, but focused on whether arguing a *Markman* construction in the case against the non-client that could be used against the client in the other case was enough to constitute "adversity." In the earliest case, *Enzo Biochem, Inc. v. Applera Corp.*, 468 F. Supp. 2d 359 (D. Conn. 2007), the court found no adversity; a month later, the second court in *Rembrandt Technologies, LP v. Comcast Corp.*, 2007 U.S. Dist. LEXIS 9027 (E.D. Tex. Feb. 8, 2007) did. Other courts have continued this split, and so the analysis is fact-intensive. *Milwaukee Elec. Tool Corp. v. HILTI, Inc.,* 2015 WL 1898393 (E.D. Wis. Apr. 27, 2015); *Multimedia Patent Trust v. Apple, Inc.* 98 U.S.P.Q.2d 1655 (S.D. Cal. Apr. 29, 2011). *See also Parallel Iron, LLC v. Adobe Sys. Inc.,* 2013 U.S. Dist. LEXIS 29382 (D. Del. Mar. 4, 2013).

C. Adversity: Opinions about a client's patents.

Courts and bar associations have stated that opining for one client about another client's patent is adverse.

First, Virginia Opinion 1774 in substantial part states:

> You have presented a hypothetical situation in which an associate attorney ("Associate") in a law firm is assigned a case in which he is asked to write a validity opinion for Client A regarding a patent that Client A is attempting to invalidate. While reviewing this assignment, Associate discovers that the patent in question is held by B, another current client of the firm ("Client B"). Associate brings the issue to his Supervising Partner, suggesting to Supervising Partner that there is a conflict and that in order to proceed with this project, they need to obtain consent from both clients. Supervising Partner disagrees, reasoning that Client A would be adversely affected if Associate did not proceed with the analysis, since Supervising Partner had put in a substantial amount of time on the project before Associate discovered Client B's involvement, and the patents that the firm wrote for Client B were in a different technology than that of the patent Client A is challenging.

> Under the facts you have presented, you have asked the committee to opine as to what steps are necessary for the attorneys involved in this situation to take in order to be able to write the validity opinion which Client A requested, assuming the opinion involves Technology X and the firm represents Client B regarding patents in Technology Y. The appropriate and controlling disciplinary rules relative to your inquiry are Rule 1.7…
>
> Applying this provision to the facts you presented, the Committee finds that there is a conflict which, absent consent from both clients, precludes Associate and Supervising Partner from providing further representation and proceeding to prepare the validity opinion for Client A, in light of the discovery that Client B holds the patent in question. Even though another attorney in the firm represents Client B on patents involving different technology than that involved in the patent in question, nevertheless, assisting Client A to invalidate a patent which Client B holds places the attorneys involved in a position directly adverse to an existing client. Invalidating a patent which Client B holds could be detrimental to Client B and could adversely affect the relationship between Client B and the firm. Rule 1.7 (a) directs that representation of Client A can only continue if the attorneys reasonably believe that the representation will not adversely affect the representation of Client B and both clients consent after consultation. Comment 3 to Rule 1.7 is instructive:
>
>> As a general proposition, loyalty to a client prohibits undertaking representation directly adverse to that client without that client's consent. Paragraph (a) expresses that general rule. Thus, a lawyer ordinarily may not act as advocate against a person the lawyer represents in some other matter, even if it is wholly unrelated.
>
> It is the Committee's opinion, therefore, that consent must be obtained from both clients after full disclosure in order to continue representation and work for Client A. Under Rule 1.10, none of the attorneys in a firm "shall knowingly represent a client when any one of them practicing alone would be prohibited from doing so" by Rule 1.7. Disqualification under Rule 1.10 may be waived as provided by Rule 1.7. Thus one must consider the fact situation presented from the point of view of the attorney handling Client B's patents. Could he, if alone, represent Client A and prepare a validity statement challenging another patent of Client B? If not, then neither Associate nor Supervising Partner can do so without the consent required by Rule 1.7. It is the opinion of the Committee, based on the facts herein, that the attorney representing Client B would not be able to represent Client A in these matters and therefore everyone else in the firm is disqualified unless consent is obtained from both clients.

Second, the Illinois federal district court in Andrew Corp. v. Beverly Mfg. Co., 415 F. Supp.2d 919 (N.D. Ill. 2006), excluded an opinion given to one client about another client's patent – which the defendant was using to avoid willful infringement. In that case, the accused infringer tried to rely on an opinion of counsel to defend against a charge of willful infringement. The lawyers who had drafted the opinion, however, had, at the time the opinion was written, been affiliated with a firm that was also representing the patentee. When the accused infringer sought to admit the opinion, the patentee objected. The district court held that the opinion was inadmissible because the opinion was deemed to not be competent:

> Barnes & Thornburg's conflict, which arose from the concurrent representation of both Andrew and Beverly, who were adverse to one another, prevents Barnes & Thornburg from being able to provide the type of competent, independent advice and opinion letters that the law requires … . The only remedy available to enforce adherence to the Rules of Professional Conduct is, to the extent possible, place the parties in the position they would have been in had counsel acted competently in accordance with the Rules of Professional Conduct. Consequently, it appears that to be fair and to uphold the integrity of the profession, no opinion letter by Barnes & Thornburg while laboring under the unwaived conflict of interest, should be used in any manner in this case.

In a third case, the Fulbright firm had provided a non-infringement opinion to a corporation. Later, certain assets of that corporation were acquired by a third party. Fulbright was then retained by the patentee to sue that third party for infringement. The third party settled the case but then sued Fulbright for breach of fiduciary duty. Fulbright was awarded summary judgment, because the third party had only acquired certain assets of Fulbright's former client and so had not succeeded to the attorney-client relationship between Fulbright and its former client.

In addition to adversity, a "pulling punches" claim could be brought by the recipient of the opinion, contending the firm had been materially limited in its ability to give an objective opinion due to its obligations to the owner of the patent. Clearly, opining for one client about another client's patent presents risks.

D. Adversity During Prosecution.

1. Picking Sides in Inventorship Disputes

Asserting one client, but not another, is the inventor, is adverse. *See In re Ramberg,* Proc. No. D2017-12 (USPTO Off. Enrollment & Discipline Feb. 14, 2017) (lawyer did not determine inventorship, asked one individual to assign his rights to other's entity, then concluded he was not an inventor and tried to withdraw from that client's matters, then, eventually, both clients' matters); *In re Radanovic,* Proc. No. D2014-29 (USPTO Off. Enrollment & Discipline Dec. 16, 2014) (attorney represented two individuals as inventors, and after dispute developed, requested opinion from third-party patent attorney on inventorship, but only let one of the two clients talk to the attorney but also continued to represent both after dispute developed).

2. Claim Shaving.

Deciding that one client is entitled to claims, not the other, has been held to be adverse. In *Sentinel Products Corp v. Platt*, 64 U.S.P.Q.2d (BNA) 1536 (D. Mass. 2002), a law firm prosecuted patents for two clients, Sentinel and Knaus. The evidence showed that the firm had filed applications for Sentinel and then two weeks later filed applications for Knaus. There was evidence that the firm changed the disclosure provided to it by Sentinel, but no evidence that changes had been made to avoid Knaus' application. However, the firm's attorneys testified that they thought the applications "overlapped" and lacked a "patentable difference." Knaus' application was issued first, and Sentinel's claims were then rejected in light of Knaus. Sentinel narrowed its claims to avoid Knaus, and eventually Sentinel was issued patents with narrower claims.

Not only was there evidence that the claims of one client, Sentinel, had been narrowed to avoid reading on the claims of the other client, Knaus, but also Sentinel's application was rejected in light of the other client's patents, which the firm had obtained for it. Despite this evidence, the court granted the attorneys' motion for summary judgment, holding that—although "the defendants may have had a conflict of interest when they simultaneously represented Knaus and Sentinel—there was no evidence that the plaintiff had been damaged as a result of this alleged breach of fiduciary duty," and further stating that:

> At best, the evidence shows that Sentinel's applications were delayed and narrowed because of Knaus's patents. What is not shown by any of the evidence offered is that if Sentinel had been represented by a different, conflict-free attorney, it would not have experienced the same delays and narrowing. That is to say, Sentinel has not offered evidence to prove that the [the lawyers] intentionally or inadvertently pulled their punches in prosecuting Sentinel's interest. Instead, it appears that any potential or actual conflict of interest was not the cause of Sentinel's difficulties. Though the Knaus patents themselves may have limited Sentinel's ability to achieve broad patents, there is no evidence offered that if Sentinel had had different representation, its patent applications would have fared any better. The client will not need to show that the patents interfered; it will contend that they *should have interfered* but the practitioner "pulled her punches" in order to obtain coverage for the favored client.

This illustrates that the client will not need to show that the patents interfered; it can contend that they should have interfered, but the practitioner "pulled her punches" in order to obtain coverage for the favored client.

3. Antedating Another Client's Patent.

A case in California, provides the cautionary tale for the need for adequate keywords in a firm's client database, even if the issue of overlapping claims was not the primary issue. In *Vaxiion Therapeutics, Inc. v. Foley & Lardner LLP,* 2008 U.S. Dist. LEXIS 51171 (S.D. Cal. Dec. 4, 2008), Vaxiion argued that its law firm, Foley & Lardner, had breached its fiduciary duty to Vaxiion when it simultaneously represented it and a competitor in proceedings before the PTO. In this case, a PCT application was filed for Vaxiion one day late such that it could not claim benefit to the earlier of two provisional applications. In another Foley & Lardner office and with another attorney, another PCT application was filed on behalf of an Australian company, EnGeneIC, which had claims covering some aspects of the same technology. And, because of the missed date in the PCT application, EnGeneIC would end up having the earlier priority date rather than Vaxiion. Thus, the issues here were one of both keywords and missed dates.

Vaxiion moved its patent application to another firm because of the missed date. EnGeneIC remained a client of Foley & Lardner. During the prosecution of EnGeneIC's application, the Vaxiion nonprovisional application was cited in the rejection of some of EnGeneIC's claims. Foley & Lardner then sought to antedate the Vaxiion application. The USPTO withdrew the rejection over Vaxiion's application and applied a patent owned by Vaxxion. While Vaxiion argued that no conflict check was performed by Foley & Lardner before taking them on as client, they could provide no evidence as to what conflict check was performed relating to EnGeneIC.

4. Targeting Claims on a Client.

Courts have not decided, yet, whether intentionally drafting a claim for one client to cover another client's product is adverse. The issue has been raised, however, but not adjudicated. In the only published case, the court wrote: "Pfizer further alleges that P & E tailored UR's patent application to cover" the product of its other client. G*.D. Searle & Co., Inc. v. Pennie & Edmonds LLP,* 801 N.Y.S.2d 233 (N.Y. Sup. Ct. 2004).

5. Information Misuse and Candor/Confidentiality Problems.

A lawyer who uses text from one client's application in another can create problems. *Tethys Bioscience, Inc. v. Mintz, Levin, Cohn, Ferris, Glovsky & Popeo, PC*, 93 U.S.P.Q.2d 1248 (N.D. Cal. June 4, 2010) (addressing breach of fiduciary duty, conversion, and other claims); *Cold Spring Harbor Lab. v. Ropes & Gray,* 2011 U.S. Dist. LEXIS 77824 (D. Mass. Jan. 13, 2012) (lawyer used text from earlier application to describe claimed inventions in later filed case). In addition, Rule 56 issues can arise. *See* David Hricik, *The Risks and Responsibilities of Attorneys and Firms Prosecuting Patents for Different Clients in Related Technologies*, 8 TEX. INTELL. PROP. L.J. 1 (2000). (They can also create prosecution bar issues arising from the opposing party's interests, not a co-client.. *See* Judge Finds McKool Smith Violated Prosecution Bar (https://patentlyo.com/hricik/2017/09/mckool-violated-prosecution.html)).

6. "Subject Matter Conflicts" as Such

Courts are holding that "merely" representing competitors is insufficient, but warn to monitor for similar disclosures that could lead to interfering claims and the problems above.

Recent cases have addressed whether two applications are "too close" to each other to create a conflict of interest through adversity. Though addressing the issue, they provided very little guidance. In late 2015, the high court of Massachusetts issued a decision in *Maling v. Finnegan, Henderson, Farabow, Garrett & Dunner, LLP*, 42 N.E.3d 199 (Mass. 2015). Boiled down, the court affirmed the grant of the firm's Rule 12(b)(6) motion to dismiss a complaint that in broad terms alleged that the Finnegan firm had a conflict because it represented the plaintiff and another client in obtaining patents claiming screwless eyeglass hinge inventions. There were two broad issues the court faced: when is prosecution of patents for one client adverse to another, and when are two patent applications so close that prosecuting them creates a material limitation on the lawyer's ability to represent either client.

With respect to adversity, this form of conflict is sometimes viewed as a "finite pie" conflict, where two clients are fighting for a resource that cannot meet both their demands. In *Maling*, the court relied on a case that I've cited for two decades now that involved a firm representing two companies each pursuing a license to a radio channel. The court reasoned there that so long as they were not fighting over the same channel, and there was no electrical interference between the two channels, there was no direct adversity and so no conflict. By analogy, the court's essential holding was that unless patent claims interfere or are to obvious variations of each other, there is no direct adversity. (The court also noted that giving an infringement opinion to one client about another client's patent would be adverse, but that was not alleged, apparently, here.)

With respect to material limitations, this form of conflict arises when a lawyer's obligations to anyone (including himself) precludes him from competently representing a client. The basic test is: imagine what a lawyer without the "obligation" would do; and then ask whether the obligation the allegedly conflicted lawyer had would result in a material limitation. Simple example: if a lawyer represents a car wreck plaintiff, the lawyer generally cannot cross-examine that plaintiff even in an unrelated matter if it doing so would involve, say, exposing eyesight problems that could be used against the plaintiff in the car wreck. The court in *Maling* contrasted the allegations in the complaint to situations where firms have shaved claims for one client to avoid another client's patent. There was nothing like that here, and nothing like what the court suggested might otherwise be a material limitation. The court ended with admonitions to lawyers to be sure to monitor for conflicts carefully, which brings up the next case, where the court granted a motion to disqualify based on a very odd assumption.

The case is *Altova GMBH v. Syncro Soft SRL*, No. 17-11642-PBS (D. Mass. July 26, 2018). The facts are a bit unclear, but it seems like Firm A represented Syncro Soft in three trademark-related matters. The first involved responding to a C&D letter from a third party in 2004. The second involved representing Firm A in responding to a C&D letter alleging trade dress and copyright infringement from the party moving for disqualification in this case, Altova, in April 2009 and ending in June 2009. Then in 2010 Firm filed a trademark registration for Syncro Soft and provided other assistance through 2014. The total number of hours on these matters: less than 50.

In October 2011, Firm A had begun to represent Altova in trademark matters and in June 2012 filed suit for Altova against an alleged trademark infringer. In other words, although Firm A had defended Syncro Soft from claims of trade dress and copyright infringement in 2009, from October 2011 through 2014, at least, Firm A was representing both Altova and Syncro Soft though not in matters where each was adverse to the other. The opinion is unclear whether Firm A represented Syncro Soft after 2014.

In June, 2017, Altova asked Firm A to assert a patent that Altova had obtained against Syncro Soft. In July, 2017, Firm A sent a letter to Syncro Soft "terminating" its attorney-client relationship with it (again, it's not clear the firm was doing anything after 2014). The firm did not explain why. It then filed the patent infringement suit for Altova against Syncro Soft.

Syncro Soft moved to disqualify Firm A. The court held that at the time the conflict arose, Syncro Soft was a current client of the firm. Thus, the rule governing current client conflicts, not former client conflicts, controlled. Under that rule, it is unethical for a law firm to be adverse to a current client of the firm. Thus, the firm was disqualified, the court noting that most courts do not permit lawyers to drop a client like a hot potato in order to have the former client conflict rule apply, which permits lawyers to be adverse to a former client, just not in a matter that is substantially related to the work the firm performed for its former client.

So, in many ways, the case is no news. But -- and this is a "wow" statement --the court stated that the firm should have known when Altova obtained its patent that Altova was reasonably likely to sue for patent infringement, and, again, there's no indication the firm obtained the patent for Altova or knew of its existence until Altova approached Firm A in June, 2017. The court nonetheless wrote:

> A reasonable lawyer should have known that there was a significant risk that Altova's interests would become adverse to Syncro Soft's concerning their competing XML products no later than November 2016 when Altova's patent issued, and then should have obtained written, informed consent from both clients or withdrawn from representing both parties on that matter. The companies were direct competitors who sold similar XML editor software products. Sunstein knew that Altova vigorously protected its intellectual property rights. In fact, Altova had previously sent Syncro Soft a cease and desist letter related to alleged copyright infringement involving this software. For these reasons, this patent dispute is not the type of unforeseeable development contemplated by Comment 5. See Mass. R. Prof. C. 1.7 cmt. 5.

Hopefully, the case won't be read as standing for the proposition that you need to monitor every patent one client obtains, to make sure you don't have a conflict.

Thus, ultimately "subject matter conflicts" do not exist. Interfering claims, claim shaving, and the like are the key actual problems. However, the question is whether statements in an office action response can be a conflict. There are no reported cases on this issue other than an infamous one, where a once prestigious firm allegedly narrowed claims to target the product of a competitor and advised the examiner, presumably in an office action, of that "fact:"

> No cases have been found which mirror the facts or the legal issue presented here: whether the law firm violated DR 5–105, and breached its fiduciary duty to plaintiffs, by representing two different patent clients in connection with related, though not necessarily identical, applications pending before the PTO, with knowledge of the likelihood that one client would sue, or attempt to license the other. The issue usually arises in the context of an ongoing litigation, where adversity is inarguable….
>
> P & E denies knowing that the UR intended to sue Pfizer once it obtained the ′ 850 Patent. However, P & E concedes that it knew that UR intended to obtain licenses from any potential infringers, including Pfizer.
>
> There is also evidence that P & E was contemplating representation of UR in its attempt to license Pfizer's use of the ′850 Patent.
>
> P & E's Abrams admits that once he became aware of the dual representation, he knew that a conflict existed. P & E now argues that this is only an admission to the extent that a conflict would have existed if UR decided to sue Pfizer for infringement. P & E was dismissed as counsel for Pfizer the day the ′850 patent was issued to UR.
>
> P & E claims that no conflict arose since P & E was not counsel when UR decided to sue Pfizer….
>
> There is no authority for granting summary judgment on that portion of plaintiffs' claim which seeks relief based on the violation of the disciplinary rules. Plaintiffs cannot be said to have established liability to entitle them to summary judgment on the claim for breach of a fiduciary duty. Triable issues of fact remain, not only the issue of damages. The factual issues raised by P & E regarding the issue of actual adversity, *e.g.,* whether litigation had actually been commenced while P & E was counsel to UR, whether licensing negotiations had commenced, whether the Merck Interference involved Celebrex or Vioxx, whether P & E attempted to amend UR's ′850 application to cover celecoxib are not dispositive of the disciplinary issues. With each of these arguments, P & E skirts the disciplinary issue: whether its representation of UR in connection with COX–2 inhibitor proceedings at the PTO, had the appearance of impropriety. Plaintiffs have alleged that P & E knew of Pfizer's co-promotion agreement with Searle for COX–2 inhibitors through its representation of Searle and Pfizer during the Searle–Merck interference, but did not disclose its conflicting representation of UR, or ask Searle or Pfizer to waive any potential conflict of interest. By March 1998, claim plaintiffs, P & E knew that plaintiffs owned Celebrex; that P & E chose to continue representing UR even after it knew that it was likely that

> UR would assert its patent against plaintiffs; and that from sometime in 1999 until the spring of 2000, P & E attorneys continued to advise UR on licensing and litigation strategies that could have an adverse impact on plaintiffs.
>
> P & E argues that plaintiffs have not shown how the Searle–Merck interference was a conflict of interest but fail to refute the existence of the appearance of impropriety. *P & E claims it did not tailor the claims of the ' 850 patent to cover Celebrex*; and, that P & E did not provide litigation or licensing advice targeting plaintiffs. However, P & E has not raised a question of fact regarding the allegations offered in support of plaintiffs' claim that P & E had knowledge of a potential conflict and failed to inform plaintiffs. Rather, P & E argues that plaintiffs' interests never actually became adverse while P & E was representing both parties, and that, therefore, there was no breach of fiduciary duty, or violation of the disciplinary rules. *The parties dispute whether P & E narrowed UR's '850 patent application to focus specifically on plaintiffs' COX–2 inhibitor,* and whether P & E's reliance on a UR scientist's findings were sufficient to support a claim for breach of fiduciary duty. As to the disciplinary rules, these arguments seem to be mooted by P & E's decision to continue representing plaintiffs and UR, after the Searle–Merck interference, without informing plaintiffs of the potential for a conflict.
>
> In keeping with the policy of prohibiting multiple conflicting representations without the clients' consent, P & E's representation of both plaintiffs and UR on related patent issues, without informing plaintiffs, without obtaining plaintiffs' waiver or consent, constitutes a breach of DR 5–105…. *The absence of a claim for consequential damages is itself not a bar to recovery, since plaintiffs' injury may be measured in the substantial attorneys' fees allegedly expended by plaintiffs if P & E was engaged in conflicting multiple representations.*
>
> Summary judgment is therefore denied and this matter will be set down for trial after full disclosure of the allegedly privileged documents.
>
> However, this Court has concluded that a violation of DR 105 has occurred and by a *copy of this order will report its findings to the Disciplinary Committee*.

G.*D. Searle & Co., Inc. v. Pennie & Edmonds LLP,* 801 N.Y.S.2d 233 (N.Y. Sup. Ct. 2004) (emph. added). Pennie & Edmonds, of course, became defunct shortly after this.

4. Former Clients: Adverse is Okay but not in "Substantially Related" Matters

The end of an attorney-client relationship is extremely significant for purposes of conflicts of interest since a lawyer may be adverse to a former client, but just not in certain categories of matters. If the representation has not ended, however, then the "per se" current client rule applies, discussed above. Which rule applies can be outcome determinative, since if the party seeking to disqualify a lawyer is a *former* client, the lawyer may be adverse to the former client, but just not in substantially related matters (and a few other areas, detailed below).

Various circumstances can make it difficult to determine precisely when, if ever, an attorney-client relationship ended. *See Mindscape, Inc. v. Media Depot, Inc.*, 973 F. Supp. 1130 (N.D. Cal. 1997) (lawyer was disqualified from unrelated adverse representation because he had not yet corrected mistake on patent by recording proper assignee); *Balivi Chem. Corp. v. JMC Ventilation Refrigeration*, LLC, 2008 U.S. Dist. LEXIS 2151 (D. Idaho Jan. 10, 2008) (reserving ruling on the issue for factual investigation as to when adversity arose).

Of course, if the lawyer and client expressly recognize the relationship has ended, such as by a letter from the lawyer to the client so noting, then the question is easy to answer. On the other end of the spectrum, if the lawyer is currently representing the client in a matter, then the representation is ongoing.

In between are the difficult cases, including those where a client has some history of consistently retaining the same firm to represent it in matters, but, at the time the adverse representation arises, the firm is not representing the party in a matter. *Int'l. Bus. Mach. Corp. v. Levin,* 579 F.2d 271 (3rd Cir. 1978); *Ehrich v. Binghamton City Sch. Dist.*, 210 F.R.D. 17, 25 (N.D.N.Y. 2002) (present client rule applies if "an attorney simultaneously represents clients with differing interests even though the representation ceases prior to filing the disqualification motion); *Gen-Cor, LLC v. Buckeye Corrugated, Inc.,* 111 F. Supp. 2d 1049 (S.D. Ind. 2000) (generally, "a client is a current client if the representation existed at the time the complaint was filed).

If the matter is over, then the issue becomes determining if the current matter bears a "substantial relationship" to the earlier representation. A February 22, 2018 order in *Merial Inc. et al. v. Abic Biological Labs. Ltd* (Sup. Ct. N.Y.), enjoined King & Spalding from representing Abic Biological Labs ("Abic") and Phibro Animal Health Corporation ("Phibro") in an ICC arbitration where Abic and Phibro were adverse to Merial Societe Par Actions Simplifiee ("Merial SAS"), which was a former K&S client.

The evidence appears to have shown that K&S had represented Merial SAS, and related entities, from 1998 to at least 2011 concerning transactions and litigation in the animal health and vaccine space. K&S had also for many years represented Phibro and related entities in the animal health and vaccine space.

Merial SAS was acquired by Boehringer Ingelheim GmBH ("Boehringer") in 2017, and K&S had represented an affiliate of Boehringer until December 2017. In the summer of 2017, Merial and Boehringer became cross-wise, and until then, none of the Merial parties knew that K&S had been representing Phibro.

In the summer of 2017, K&S wrote a letter to the person that it had often interacted with, the head of prosecution and litigation at Merial SAS (Dr. Jarecki-Black), explaining that K&S was representing Abic and Phibro in a licensing dispute they had with Merial SAS (and other entities). Dr. Jarecki-Black responded by asserting that K&S' representation presented a conflict of interest and demanding that K&S withdraw. A few weeks later, the firm refused, explaining in a letter that it had represented different corporate entities in the matters Dr. Jarecki-Black pointed to, the matters were in all events unrelated to the ICC licensing dispute, and no K&S lawyer who was working against Merial SAS in the ICC matter had represented it previously. In response, Merial SAS reiterated its positions, and its letter also made a new (and very odd) argument: because the license in dispute included a New York choice of law clause, a California lawyer from K&S who was representing Phibro was engaged in the unauthorized practice of law. In its final letter, K&S reiterated that there was no substantial relationship between its work for and the work against Merial SAS, and made short shrift of the odd argument about the unauthorized practice of law.

It seems the parties could not agree on who was right, and instead Merial SAS filed suit in New York seeking an injunction to prevent K&S from being adverse to it (and Boehringer, and affiliated entities) in the ICC.

The court enjoined K&S even though there was no overlap between patents or licenses K&S had worked on for Merial SAS and those in the ICC arbitration. Instead, the court noted that K&S "clearly knows a great deal about how the Merial entities approach issues relating to patents and licenses in the animal health and animal vaccine space." The trial court emphasized that Merial SAS had relied on 'a highly credentialed ethicist, Roy D. Simon" and noted that, although the decision was for the court to make, "King & Spalding offered no expert testimony to rebut Mr. Simon's expert opinion." The court then noted that "a reasonable lawyer like Mr. Simon came to the conclusion that King & Spalding's multiple representations of [Merial SAS entities] on issues meaningful to the limited number of players in the animal health and animal vaccine space would materially advance Abic and Phibro's interests vis-a-vis Merial" particular because Dr. Jarecki-Black "will play an integral role in Merial's defense" in the arbitration.

There are several things of note. First, it is unusual for actual injunctions to be sought (rather than disqualification), and usually injunctions are litigated quite differently from motions to disqualify, but K&S appeared to litigated this as a basic disqualification motion. Second, from the opinion, at least, the injunction was granted based upon what is called "playbook" information -- knowing how a client litigates or otherwise behaves, not actual specific confidential information -- which is also atypical in some jurisdictions. Third, and from afar, this was not correctly decided, which underscores the point that whenever a firm is faced with a disqualification motion, it should consider the need for expert testimony (and Professor Simon is a highly credentialed ethicist; I don't think he knows much about patents or licensing), and the need to show -- although it's the other side's burden -- there is no real risk of misuse of confidential information.