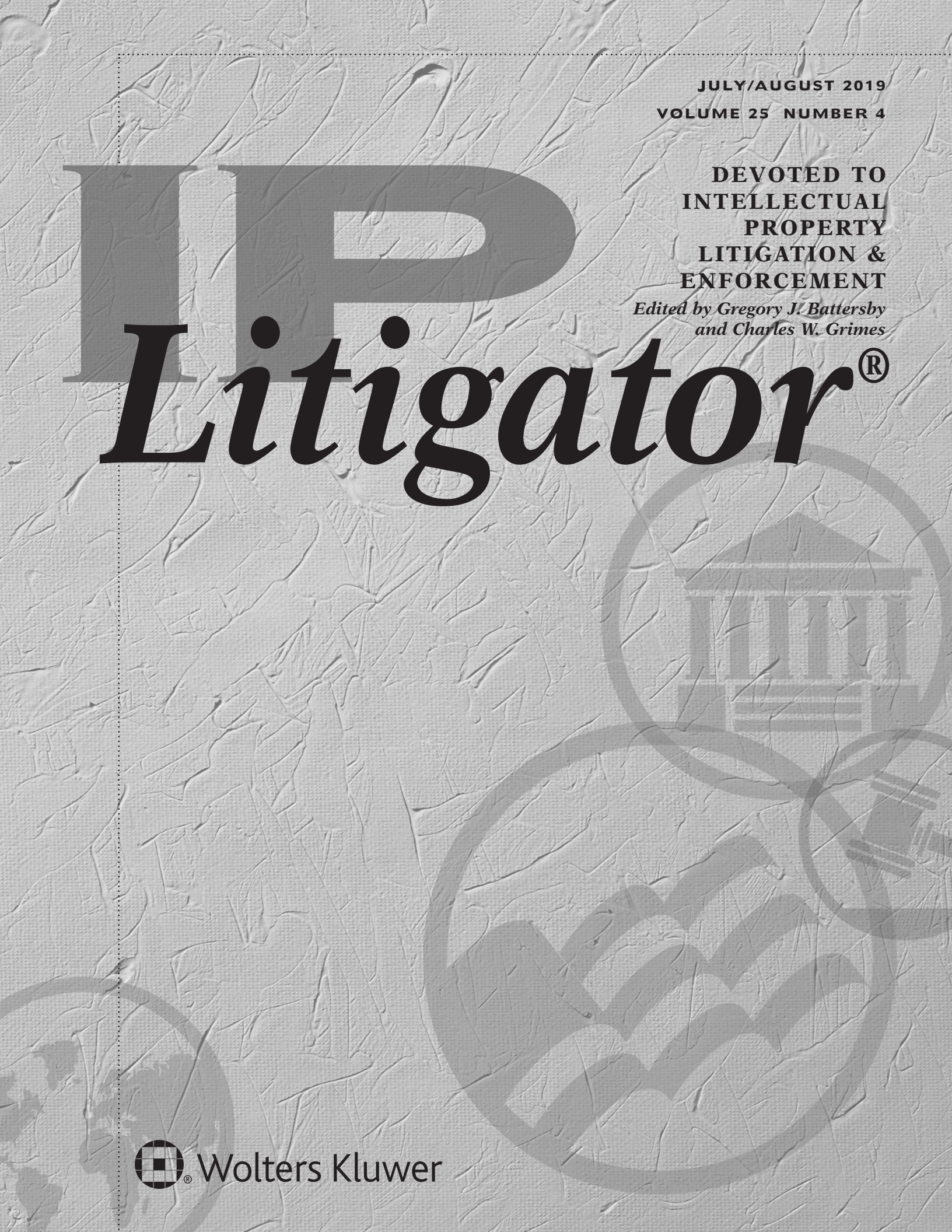
JULY/AUGUST 2019
VOLUME 25 NUMBER 4

IP Litigator®

DEVOTED TO INTELLECTUAL PROPERTY LITIGATION & ENFORCEMENT

Edited by Gregory J. Battersby and Charles W. Grimes



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Conflict of Interest Issues for Intellectual Property Lawyers: Problems and Solutions

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Lawyers and law firms practicing in all types of areas regularly face difficulties in diagnosing and dealing with conflicts of interest. But IP practitioners face particular quandaries in connection with potential conflicts that less specialized practitioners do not. This article focuses on issues that are specific to an IP practice. These conflict issues most frequently manifest themselves by motions to disqualify counsel in IP litigation in the aftermath of nonlitigation work previously performed by the lawyer or the lawyer's firm. They can also arise as disciplinary complaints or in law suits alleging legal malpractice or breach of fiduciary duties. Sometimes, alleged conflicts of interest in IP matters may also be linked to claims of inequitable conduct that could impact a client's underlying IP rights, or increase the costs in upholding these rights.

In this article, we look at three aspects of IP practice that complicate the handling of conflicts of interest: (1) the difficulties in identifying adverse parties at the outset of a representation; (2) ambiguities in identifying all "clients;" and (3) the potentially broad application of the "substantial relationship test" used for former clients. On the plus side, we will look at opportunities to address conflict issues with advance waivers in view of the sophistication of many IP clients and the relatively clear boundaries of IP-related work.

Identifying "Adverse" Parties

Under Rule 1.7(a)(1) of the ABA Model Rules of Professional Conduct, the most common and usually the most obvious conflicts are those in which "the representation of one client will be directly adverse to another client." Litigation between private parties comes with expressly identified adversaries. So, representing Jones in a suit styled as "*Smith v. Jones*" provides instant notice that Smith will be an adverse party. Similarly, in nonlitigation matters, a transaction between Smith and Jones, say for the negotiation of a commercial lease by Smith of a building owned by Jones, provides the same obvious notice of the identity of the adverse party. In such instances, a law firm's data base can quickly flag whether Smith is a former or current client of the firm.

One characteristic of IP practice, however, is that some matters may not involve easily identified adverse parties. If, for example, an IP practitioner is prosecuting a patent for Jones, it may not be obvious whether there are *any* adverse parties, much less the identity of such parties. While a review of prior art may reveal parties who might arguably be impacted by the issuance of the patent, the determination of whether it rises to adversity in the legal sense as to a particular party may require an assessment of the scope of the respective claims. In the context of the law of conflicts in IP practice these situations have become known as "subject matter conflicts." The name derives from the potential overlap of the scope, or subject, of the claims.

Dealing with Subject Matter Conflicts

Maling v. Finnegan, Henderson, Farabow, Garrett & Dunner, LLP, 42 N.E. 3d 199 (Mass. 2015) is a seminal case on subject matter conflicts. In *Maling*, a law firm had two clients, each seeking a patent for a separate type of screwless eyeglass technology, and the firm succeeded in obtaining a patent for each client. The second client to obtain its patent learned about the firm's representation of its competitor and sued for legal malpractice, breach of fiduciary duty, and inequitable conduct. In affirming the trial court's dismissal of the complaint, the appellate court stated that "two clients competing in the same technology area for similar inventions is not a per se violation

of Mass. R. 1.7." *Id.* 42 N.E.3d at 201. The court noted that the two clients "were not adversaries in the traditional sense, as they did not appear on opposite sides of litigation." *Id.* at 203. Accordingly, the determination of whether the clients were "directly adverse" depended on whether the claims overlapped, thereby encroaching on the legal rights of the other. The fact that the clients are in *economic* competition is not sufficient to show *legal* adversity. The court in *Maling* analogized the situation to *Curtis v. Radio Representatives, Inc.*, 696 F. Supp. 729 (D.D.C. 1988), in which a firm sought radio broadcast licenses from the FCC on behalf of two clients who were economic competitors and no conflict of interest was found.

As *Maling* makes clear, however, it would be wrong and dangerous to treat its ruling as implying that subject matter conflicts are of no concern. Rather, potential conflicts of this sort call for careful consideration and raise the question of whether the clients should be informed of the firm's dual representations. Furthermore, as stated in *Maling*, what begins as a subject matter conflict can develop into a directly adverse conflict if, for example, one of the clients initiates an interference proceeding before the PTO. The lesson therefore is that special diligence is required at the outset of the representation to determine whether subject matter conflicts may exist, and even if they do not involve overlapping claims, consideration of whether another sort of conflict is likely to arise in the future from the circumstances.

IP firms should have conflict screening procedures that elicit sufficient intake information so that such potential conflicts will be flagged and have a mechanism whereby the circumstances can be reviewed and assessed before undertaking a problematic representation.

Identifying All Clients

While, as noted above, some aspects of IP matters potentially make the identification of adverse parties difficult, other aspects of IP practice can also complicate the ability to fully identify all of a lawyer's own "clients" when undertaking a new matter. The problem arises from the multiplicity of persons who have, or may claim or have, an interest in an invention or idea, and who may participate, to one degree or another, in confidential discussions with counsel. These persons may include licensees, investors, the inventor, the inventor's employer, and others with a financial interest.

The case of *Meriturn Partners, LLC v. Banner and Witcoff, Ltd.*, 31 N.E.3d 451 (Ill. App. 2015) provides an illustration. In that case, an IP law firm was retained by Company A, which was contemplating the acquisition of Company B, in order to perform due diligence on the viability of Company B's IP portfolio. The firm therefore entered into a retainer agreement with Company A to perform this work. After the acquisition, problems with Company B's IP surfaced. In the legal malpractice suit against the firm, other investors joined as plaintiffs with Company A, claiming to have been co-clients, also entitled to recover for their losses. Notwithstanding the absence of any retainer agreement between the firm and this outside investor group, the court found that an implied attorney–client relationship was formed as a result of the firm's inclusion of these investors in confidential client communications conducted during the course of its work. The court noted that the firm "never attempted to limit the scope of the representation" to Company A and "never expressed any concern about exchanging confidential information." *Id.* 31 N.E.3d at 456.

In view of the various parties who may have a stake in the success of the prosecution of a patent or a trademark, IP practitioners need to provide clarity as to the specific persons and entities for whom they are willing to enter into an attorney–client relationship and those for whom they are not. When such disputes are presented to a court by a purported client, the court will have a binary choice as to whether there was, or was not, such a relationship. And in making that determination the burden of showing clarity is usually placed on the lawyer. IP lawyers should therefore ensure that nonclients are excluded from confidential communications.

Another vehicle by which IP practitioners may find themselves with a broader than expected circle of persons to whom they are deemed to owe fiduciary duties are the use of joint defense groups, or other common interest groups, in the handling of a matter involving multiple parties with overlapping interests. In *In re Gabapentin Patent Litigation*, 407 F. Supp.2d 607 (D.N.J. 2005), an IP lawyer who had previously participated in a joint defense group in the course of representing a client was disqualified, along with his entire firm, from a subsequent matter because the new representation was adverse to one of the separately represented members of the prior group. In reviewing the terms of the written Joint Defense Agreement and the confidential information that was shared among the lawyers participating in the group, the court found that "an implied attorney-client relationship arose" between the lawyer and one of the other members of the group. *Id.* 407 F. Supp.2d at 614.

Participation in a joint defense group will not always result in such a finding. D.C. Bar Legal Ethics Opinion 349, states that "[j]oint defense agreements do not create 'former client' conflicts under Rule 1.9 because members of a joint defense group do not become the lawyer's 'clients' by virtue of such agreements." That Opinion

also states, however, that "a lawyer who participates in a joint defense agreement may acquire contractual and fiduciary obligations" to members of the group that may lead to potential conflicts based on the particular facts. That Opinion also suggests that provisions in such agreements waiving any future claims of a conflict of interest from participation in the group may be enforceable. But at the least, participation in such groups creates potential hazards that lawyers should be alert to. Such agreements can include waivers of conflicts of interest based on mere membership in the group.

The Substantial Relationship Test as Applied to Former IP Clients

Another category of conflicts are those relating to former clients. New matters in which a lawyer will be adverse to a *former* client are far less likely to constitute a conflict of interest than where a matter will be adverse to a *current* client. That's because conflicts of interests with respect to former clients are dealt with in Rule 1.9, which prohibits representations only where the new matter "is the same or [] substantially related to" a prior representation. This relatively narrow protection for former clients is used because the overall fiduciary duty of client loyalty ceases upon the termination of an attorney–client relationship. Thus, questions as to the "substantial relationship" test form the battleground for most disputes regarding conflicts of interests with former clients.

Given the fact-dependent nature of the issue, the former client and the lawyer may have sharply different perspectives on whether a new matter is substantially related to a prior representation. These disputes often arise in the context of a motion to disqualify counsel. In addressing these controversies, court decisions reflect a wide range of perspectives. By far the broadest theory, and therefore one often presented on behalf of former clients seeking to claim a conflict, is the "playbook theory." This theory replaces the usual comparison between the scope of a prior representation with a new one, with a focus on whether a lawyer has been so broadly exposed to a former client's overall practices and decisionmaking process that virtually any new matter against the former client should be deemed substantially related.

In *Nasdaq, Inc. v. Miami International Holdings, Inc.*, 2018 WL 6171819 (D.N.J. Nov. 26, 2018), the court, in upholding a magistrate judge's grant of a motion to disqualify, found the playbook theory applicable where a law firm had handled Nasdaq's IP work over a 10-year period, but had handled no further legal work in the last 7 years. The court found that the law firm had become familiar with the company's "strategic approaches to managing its technology and inventions." *Id.* The court concluded that the law firm "possessed information relating generally to Nasdaq's patent prosecution strategy and approach to defending the validity of its patents and knowledge of what Nasdaq protected as trade secrets . . ." *Id.*

The concern here is that, if other courts adopt the notion implicit in *Nasdaq* that corporate clients have confidential strategies in their approach to IP issues that render them vulnerable to any lawyer familiar with them, then any sustained IP representation of a former client by a firm may be used to bar the firm from subsequent IP matters that are adverse to the former client for years to come. Such a view would unduly restrict IP practitioners in their practice.

Advance Waivers as a Potential Solution for IP Practitioners

Although IP practitioners face particular obstacles in avoiding conflicts of interest, it's not all bad news. There are other aspects of IP practice that present opportunities to use advance waivers, provided that the waiver provisions are specifically tailored and arise from meaningful discussions with the client.

For one thing, IP clients are often (though not always) sophisticated purchasers of legal services. This is particularly so when the IP client has in-house counsel or is otherwise separately represented. This client-sophistication, together with the identifiably circumscribed nature of IP work, provides an opportunity for law firms to pin-point IP work as an area that can sensibly be carved out from ordinary rules of imputation that would otherwise apply to future legal work by the firm in unrelated matters.

Reliance on advance waivers, however, can be dangerous if they are mere boilerplate provisions that are not tailored to a particular client. The vast majority of large law firms regularly include advance waiver provisions in their standard retainer agreements. While there is nothing unethical in including such advance waivers in retainer agreements when clients are represented by in-house (or outside) counsel, courts have often been unwilling to enforce such standard provisions when they are challenged by a firm's former or current clients. Courts are more likely to enforce such provisions when they are specific in carving out a particular type of legal work and when its scope results from a genuine negotiation that reflects the interests and concerns of the client as well as the law firm. The requirement of "informed consent" is much easier to show when such arms-length and unhurried discussions take place.

Indeed, the historic acceptance of the notion of advance waivers was premised on the supposition that

such discussions would take place between law firms and sophisticated clients. In D.C. Bar Legal Ethics Opinion 309, the D.C. Bar Ethics Committee quoted from ABA Ethics Opinion 93-372, summarizing the basic scenario upon which advance waivers would be permissible, stating:

> [T]he manner in which clients—particularly commercial clients—use lawyers is quite different than the past. The days when a large corporation would send most or all of its legal business to a single firm are gone. Today, 'when corporate clients with multiple operating divisions hire tens if not hundreds of law firms, the idea that, for example, a corporation in Miami retaining the Florida office of a national law firm to negotiate a lease should preclude that firm's New York office from taking an adverse position in a totally unrelated commercial dispute against another division of the same corporation strikes some as placing unreasonable limitations on the opportunities of both clients and lawyers. ABA Formal. Op. 93-372 (1993).'

The lawyers in a specialized practice group within a law firm, such as an IP group, often will have relatively little professional interaction with other lawyers in the firm in the handling of their work. They might also be geographically consolidated in one or two law firm offices. Before an IP group in a firm initiates an attorney–client relationship with a new corporate client, therefore, it makes sense for the client and the firm to review the overall reach of their respective operations and identify areas in which the law firm can anticipate particular types of future matters that other lawyers in the firm might undertake that would be wholly unrelated to the IP work and be adverse to the client. This could create the starting point for a discussion about an appropriate advance waiver provision.

Frank and candid discussions between prospective clients and lawyers at the outset of their relationship regarding such areas of potential concern, with real back-and-forth between them, is one of the most reliable ways to reduce the chances of future misunderstandings, or worse, feelings of betrayal, that can lead to costly and unproductive controversies.

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