

Ethics Potpourri

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1. What Changes in the Law and Faster Innovation and Copying May Mean

a. The Law is Less Favorable Toward Patents.

Patent lawyers know that a trend started in about 2006 and continued throughout 2019 which, broadly stated, saw the Supreme Court and Congress lead the way toward making patents more difficult to obtain, to assert, and to defend. For example, *KSR* weakened the ability to overcome unpatentability or avoid invalidity under Section 103. David Hricik, *Will Patenting Make as Much Sense in the New Regime of Weakened Patent Rights and Shorter Product Life Cycles?*, 20 Vand. J. Ent. & Tech. 457 (2017). Likewise, it became easier for a patent examiner to reject a claim, or a court to invalidate one, because the claimed invention covered “ineligible subject matter.” *See id.* The “insolubly ambiguous” high barrier to showing invalidity for indefiniteness was knocked down. *See id.*

And, of course, the increase in difficulty in obtaining and defending the validity of a patent were amplified by *Inter Partes* Review. In that procedure, Congress vitiated the presumption of validity and did so in a context where claims were construed more broadly (though that changed). *See id.* Further, the PTAB makes no no effort to construe claims to sustain patentability. *See id.*

Infringement has also become more difficult to prove. *See id.* For example, prosecution history estoppel is easier to find and the doctrine of equivalents more difficult to utilize. *See id.* Means-plus-function claims similarly have been narrowed. *See id.* In two of three cases, the Supreme Court narrowed the scope of induced infringement, and it became easier to avoid infringement through the doctrine of “patent exhaustion.” *See id.*

Further still, the Supreme Court made patent litigation more difficult or riskier for the patent owner.¹ It did so in various ways.

First, the Court increased the number of potential challengers to a patent by allowing even those who took a license under a patent to challenge its validity while continuing to honor the license.² The Court permitted a licensee to sue for a declaratory judgment of invalidity even while continuing to pay under the license. This allowed the licensee to avoid the consequences of breaching the license, thus enabling a party to avoid breaching the license while challenging the validity of the licensed patent.³ In a related case, the Court also rejected the Federal Circuit’s holding that a licensee bears the burden to show infringement if he or she brings suit for a declaration that its products do not infringe, holding instead that the patentee must establish infringement of the licensed products.⁴

Second, in *TC Heartland*, the Court made it more difficult to enforce a patent by significantly reducing which districts could serve as proper venue for patent infringement suits. In *TC Heartland*

¹ The Supreme Court also made patent litigation riskier when it issued *Cuozzo Speed Technologies, LLC v. Lee*, 136 S. Ct. 2131 (2016), which held that the USPTO had the power to enact regulations which make it easier to challenge issued patents.

² *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118 (2007)

³ *See generally*, Alan D. Miller & Michal S. Gal, *Licensee Patent Challenges*, 32 Yale J. on Regulation 122 (2015) (discussing other contractual provisions that might prevent licensee challenges).

⁴ *Medtronic, Inc. v. Mirowski Family Ventures, LLC*, 134 S.Ct. 843 (2014).

LLC v. Kraft Food Groups Brands LLC,⁵ the Court reversed the Federal Circuit’s 25-year old interpretation, thus markedly reducing the proper venues to file patent infringement suits. This reduced the ability of patentees to sue in districts which they might perceive as more patentee-friendly, such as the Eastern District of Texas. To the extent that a broader range of proper venues allowed patentees to obtain greater recoveries, and in the marginal case where suit could not be economically brought in the fewer remaining proper venues, the decision in *TC Heartland* reduced the value of patents to obtain coercive relief.⁶ Further, while it was easy for patentees to have proper venue in many venues prior to *TC Heartland*, not only are fewer venues proper, but identifying which venue is proper can be expensive and, in some instances, uncertain—meaning that defendants can choose to increase enforcement costs by contesting venue.⁷

To understand the impact of the next few cases requires a brief overview of patent litigation costs. Patent litigation is very expensive—median costs have generally ranged from \$600,000 for cases worth less than \$1 million, to about \$2 million for cases valued in the \$10 to \$25 million range.⁸ If the general rule is that each side must bear its own costs, then the patentee has the leverage of the cost: if the accused infringer does not settle, the worst thing that could happen to the patentee is that it will bear its own costs. The costs to non-practicing entities are for obvious reasons generally lower than for businesses. First, they likely have fewer documents, witnesses, and other evidentiary burdens to bear, and second, their attorneys often work on a contingent fee basis. These asymmetrical costs allowed, some argue, for non-practicing patentees to extract unfair settlements in weak cases. But if a losing patentee can be forced to bear the business opponent’s costs, then that leverage is reduced; therefore, increasing the likelihood that a patentee will be ordered to pay the attorneys’ fees of the accused infringer makes patent enforcement riskier, reducing leverage.

The Court did exactly that. Section 285 of the Patent Act has long permitted a district court to award fees to a prevailing party—either a prevailing patentee or infringer—in “exceptional cases.”⁹ In 2005, the Federal Circuit held that a court could award the prevailing party attorney fees only if it showed clear and convincing evidence that loser’s case was both objectively baseless and had been subjectively litigated in bad faith.¹⁰ Ten years later, the Court in *Icon Health & Fitness, Inc. v. Octane Fitness, LLC* rejected that interpretation, stating that the Federal Circuit’s interpretation of Section 285 was so demanding that it rendered the statute “largely superfluous.”¹¹

Instead, the Court interpreted Section 285 to more readily permit fee shifting. According to the Court, a prevailing party could obtain fees if the district judge found by preponderant evidence that it had been merely “uncommon, rare, or not ordinary,” or if it was “simply one that stands out from the others with respect to the substantive strength of a party’s litigating position (considering both the governing law and the facts of the case) or the unreasonable manner in which the case was

⁵ *TC Heartland LLC v. Kraft Foods Groups Brands LLC*, 137 S.Ct. 1514 (2017).

⁶ See generally, Ana Santos Rutschman, *Patent Venue Exceptionalism after TC Heartland v. Kraft*, 25 U. Miami Bus. L. Rev. 29 (2017).

⁷ For a discussion of the uncertainties of identify proper venue for entities under the general venue statute, see John P. Lenich, *A Simple Question that Isn’t So Simple: Where to Entities Reside for Venue Purposes*, 84 Miss. L. J. 253 (2015).

⁸ AIPLA Economic Survey.

⁹ 35 U.S.C. 285.

¹⁰ *Brooks Furn. Mfg., Inc. v. Dutailier Int’l, Inc.*, 393 F.3d 1378, 1381-82 (Fed. Cir. 2005).

¹¹ *Icon Health & Fitness, Inc. v. Octane Fitness, LLC*, 134 S.Ct. 1749 (2014).

litigated.”¹² A study published two years after *Octane* found that the number of requests for attorneys’ fees had increased over 50%, and actual awards had increased 100%.

On its face, the impact of *Octane* on the coercive power of patents is neutral, since its same relaxed standard applies whether the patent owner or accused infringer prevailed. However, there are two points to note. First, *Octane* was decided when the Court was concerned about “patent trolls” and their ability to leverage the coercive power of patents with the costs of litigation to extract “unfair” settlements.¹³ Second, and consistent with the view that the decision was directed toward reducing the power of patentees, “*Octane* drastically increased the rate that accused infringers’ motions are being granted, while slightly decreasing the rate that patentees’ fees motions are being granted.”¹⁴ Thus, “accused infringer defendants should rationally be emboldened to litigate a suit, while patentee plaintiffs will rationally be more hesitant to file suits.”¹⁵ Finally, subjecting a small entity, including a typical patent enforcement entity, to the potential for paying millions of dollars in fees makes patent litigation less effective.¹⁶

The consequence of these decisions, separately and as a whole, is to make patent litigation more difficult and riskier.¹⁷ runs the risk of ignoring the self-selection problem. That fact reduces the coercive power of patents, which, in turn, reduces the incentive to file for a patent as well as the value of already-issued patents in any secondary market.¹⁸

There’s still more.

The Court issued opinions that, I believe mistakenly, courts have interpreted to narrow the circumstances in which injunctions are available to a prevailing patentee. In doing so, the Court substantially altered the fundamental property right inherent in a property—namely, the right to exclude others.

¹² *Id.* at 1756.

¹³ See generally, Aria Soroudi, *Defeating Trolls: The Impact of Octane and Highmark on Patent Trolls*, 35 Loy. L.A. Ent. L. Rev. 319 (2015).

¹⁴ Scott M. Flanz, *Octane Fitness: The Shifting of Patent Attorneys’ Fees Moves into High Gear*, 19 Stan. Tech. L. Rev. 329 (2016).

¹⁵ *Id.* See also Hannah Jiam, *Fee-Shifting and Octane Fitness: An Empirical Approach Toward Understanding “Exceptional,”* 30 Berkeley Tech. L.J. 611 (2015); Lionel M. Lavenue, Seann D. Damon & R. Benjamin Cassady, *Making the Nonprevailing Party Pay: The Statistics of Exceptional Cases Two Years After Octane and Highmark*, 8 No. 6 Landslide 26 (2016).

¹⁶ A case decided in the same term as *Octane*, *Highmark Inc. v. Allcare Health Mgmt. Sys., Inc.*, 134 S.Ct. 1744 (2014), reversed the Federal Circuit’s holding that a determination that a case was exceptional was reviewed de novo, holding instead that an abuse of discretion standard applies. While this is a neutral rule—giving discretion to a district judge does not on its face seem anti-patent—it does reduce the ability of the Federal Circuit to reverse district courts. Assuming the Court believes the Federal Circuit favors patentees too much, this decision deprives the Federal Circuit of the ability to reverse district judges who may not share that bias.

¹⁷ The degree to which it has done so is subject to debate, since the decision is new, the data thin, and self-selection a problem. E.g., Lemley, 95 Tex. L. Rev. at 25, 28-29 (arguing that selection effect could not explain why win rate has remained constant).

¹⁸ Kent Richardson, 2016 Brokered Patent Market, ROL Grp (available at <https://www.law.berkeley.edu/wp-content/uploads/2016/09/Richardson-Investment-Portfolios-Buying-Selling-Litigation.pdf>) (noting that “litigation risks” were “much higher than had been reported.”)

A patent is a form of property, and the *sine qua non* of why we call something “property” is it carries the right to exclude, not to merely obtain damages from someone who uses the property without the owner’s consent.¹⁹ Consistent with that belief, the Federal Circuit had held in *MercExchange, L.L.C. v. eBay, Inc.* that “the general rule is that a permanent injunction will issue once infringement and validity have been adjudged,” thus permitting denial only in unusual circumstances, such as “when ‘a patentee’s failure to practice the patented invention frustrates an important public need for the invention,’ such as protection of public health.”²⁰ In that case, after a jury had found that eBay infringed a valid patent owned by MercExchange, the district court denied entry of a permanent injunction, in part because MercExchange did not actually practice the invention, but instead was (what is now called) a non-practicing entity. The Federal Circuit reversed the denial of injunctive relief, instead applying its general rule.

The Supreme Court unanimously reversed the Federal Circuit.²¹ In doing so, the Court rejected the Federal Circuit’s “general rule” that an injunction should follow a finding of infringement of a valid patent, and instead required that district courts apply the traditional four-factor test applied in equity. By rejecting the Federal Circuit’s general rule, the Court plainly made it more difficult for a patentee to obtain injunctive relief. Patentees cannot rely on the general rule to be that they have the right to exclude; they instead have the right to seek damages from those who use their property, and perhaps may obtain injunctive relief.²²

The impact of *eBay* has been uneven. Studies have confirmed that district courts are less likely to grant non-practicing entities injunctive relief after *eBay*, and some commentators view district courts as having “effectively interpreted the decision to create de facto rules denying injunctive relief to certain categories of patentees like non-competitors and non-practicing entities.”²³ Data shows that non-practicing entities obtain injunctions against continued infringement between 7% and 16% of the time.²⁴ Although limited data suggests that the Federal Circuit is likely to reverse denials, the fact that a non-practicing entity has about a 10% chance of obtaining a permanent injunction from a district court impacts the secondary market for patents, where non-practicing entities buy patents. To that extent, the value of a patent is reduced and,

¹⁹ A property right permits an owner to refuse to permit others to use the property, while a liability rule allows the others to use the property, subject to paying damages. *See generally*, Ryan T. Holte & Christopher B. Seaman, *Patent Injunctions on Appeal: An Empirical Study of the Federal Circuit’s Application of eBay*, 92 Wash. L. Rev. 145, 160 (2017) (“Under a property rule, an entitlement can only be taken or transferred with the owner’s consent, which the owner is free to withhold,” but a “liability rule denies the holder of the [property or right] the power to exclude others.”); Mark A. Lemley & Eugene Volokh, *Freedom of Speech and Injunctions in Intellectual Property Cases*, 48 Duke L.J. 147 (1998) (“Our approach is therefore consistent with the traditional view that intellectual property should be protected by means of a property rule (a presumptive entitlement to injunctive relief) rather than a liability rule.”)

²⁰ *MercExchange, L.L.C. v. eBay, Inc.*, 401 F.3d 1323, 1339 (Fed. Cir. 2005).

²¹ *eBay Inc. v. MercExchange, LLC*, 547 U.S. 388 (2006).

²² When an injunction is denied, courts award damages for infringement occurring after the date of judgment. [Citation to example cases]

²³ Ryan T. Holte & Christopher B. Seaman, 92 Wash. L. Rev. at 190. That trend is odd, given that the Court in *eBay* rejected the approach of the district court, which had held that a non-practicing entity could *never* obtain injunctive relief. *eBay*, 547 U.S. at 393. One study suggests that the Federal Circuit may be trying to fight that trend. *See* Holte & Seaman at 190.

²⁴ *Id.* (citing studies).

further, it reduces the incentive to file for a patent in the first instance. Thus, the Court's *eBay* decision has made patents less valuable.

But in two cases the Court increased available remedies over the Federal Circuit's approach. In the first case, *Halo*²⁵ the Supreme Court rejected the restrictive approach of the Federal Circuit toward allowing "enhanced" damages to patentees who proved infringement. Under Section 284 of the Patent Act, a district court "may increase" actual damages up to three times. The Federal Circuit had held that damages could be increased only if the district court found by clear and convincing evidence the accused infringer "acted despite an objectively high likelihood that its actions constituted infringement of a valid patent," without regard to the accused infringer's state of mind.²⁶ Thus, an accused infringer could avoid paying more than actual damages by showing it was not objectively reckless.

The Supreme Court reversed, holding that the Federal Circuit had interpreted the statute too rigidly and had insulated "someone who plunders a patent—infringing it without any reason to suppose his conduct is arguably defensible—"so long as his attorney can create some colorable defense."²⁷ Rejecting both the clear and convincing standard and the two-part test, the Court nonetheless cautioned district courts to reserve awards of enhanced damages "for egregious cases typified by willful misconduct."²⁸ *Halo* clearly made it easier to recover enhanced damages upon proof of willful infringement of a valid patent and so, to that extent, expanded remedies.²⁹

In the second case, the Court eliminated an equitable defense that otherwise barred recovery of certain damages. Under 35 U.S.C. 286 a patentee may to recover damages for infringement occurring within six years of filing the claim. However, the Federal Circuit had held *en banc* in 1992 in *A.C. Aukerman Co. v. R.L. Chaides Constr. Co.*,³⁰ that equity could prevent recovery even for damages within that six-year period if the defendant established that the patentee's undue delay had caused it prejudice. The Supreme Court rejected that approach in 2017 in *SCA Hygiene Prods. Aktiebolag v. First Quality Baby Products, LLC*,³¹ holding that there was no exception to the Patent Act available in equity. To that extent, the decision increases damages over the Federal Circuit's approach.

Thus, although expanding relief in two narrower ways—allowing for easier recovery of enhanced damages for willful infringement and eliminating laches as a bar to damages—the Court narrowed damages in other ways, and *eBay* fundamentally narrowed the coercive power of patents. As a result of *eBay*, patentees are less likely to be obtain coercive injunctive relief against infringement.

²⁵ *Halo Electronics, Inc. v. Pulse Electronics, Inc.*, 136 S.Ct. 1923 (2016).

²⁶ *In re Seagate Tech., LLC*, 497 F.3d 1360 (Fed. Cir. 2007) (en banc).

²⁷ *Halo Elec.*, 136 S.Ct. at 1933.

²⁸ *Id.* at 1935.

²⁹ See Eileen Hintz Rumfelt, *The Halo Effect*, 59 No. 8 DRI for Def. 75 (Aug. 2017) (suggesting that the same increases in the number of requests for fee awards, and the increase in the number of awards, after *Octane* will occur in willful infringement after *Halo*).

³⁰ 960 F.2d 1020 (Fed. Cir. 1992) (en banc).

³¹ 137 S.Ct. 954 (2017).

Finally, all of these legal changes are taking place at a time when the speed of innovation – the need to get products to market more quickly, and the speed at which they are replaced – is increasing. Last week’s disruptor is this week’s victim. Products and services must get into the market more quickly and will be there for a shorter period of time. MySpace anyone?

b. Faster Innovation Leads to Shorter Product Life Cycles but Also Quicker Copying but Patenting Remains a Two-Year Process, Followed by an IPR.

A blog post on Ericsson.com explains the impact of technology on the speed of innovation quite well:

As we’ve previously discussed, innovation and technology are tightly interlaced. Two very notable ways technology propels innovation forward is that it boosts tinkering and experimentation, and that in itself accelerates innovation processes.

Not long ago experimentation with new technologies was only possible by multinational corporations or government-funded research labs. Today, affordable technology – digital and other – makes it possible for most enterprises – big and small – to experiment with ideas and concepts in whole new ways, and also in reality instead of only in test labs.

For example, it’s now possible to test products and services online at a very low cost, as well as test out updates, alterations and tweaks. Prototyping has become available to all through easy to use software and 3D printing. AI can simulate various market scenarios based on available real-life data. Virtual reality makes it possible to create completely new types of blueprints that actually make products and services come alive for real, and thus make them possible to evaluate prior to building or manufacturing them.

Digital technology and the new technologies that it enables (like AR, VR and AI) cut the traditional industrial age innovation process short. What used to take years of planning, testing, and executing can now be accomplished in months and sometimes even weeks.

Another way emerging technologies – AI in particular – can speed up innovation, is by removing obstacles of uncertainty or lack of information. Continuously identifying and ruling out hypotheses at a quick pace will no doubt make the innovation process more focused and effective in generating strong solutions. AI, being far superior to humans in analyzing big amounts of data in an instant, cuts innovation processes significantly. Data is the protein of AI systems: if there is a sufficient amount of data, AI will be able to increase the speed of innovation.³²

Faster innovation is in part why product life cycles across many industries are shortening. A useful summary of how to analyze product life cycles are at <https://www.consuunt.com/product-life-cycle/>. It explains there are four factors that are particularly pertinent to the analysis:

³² <https://www.ericsson.com/en/blog/2018/6/3-ways-that-new-technologies-are-accelerating-innovation>

Analysis of different Product Life Cycles: Conclusions

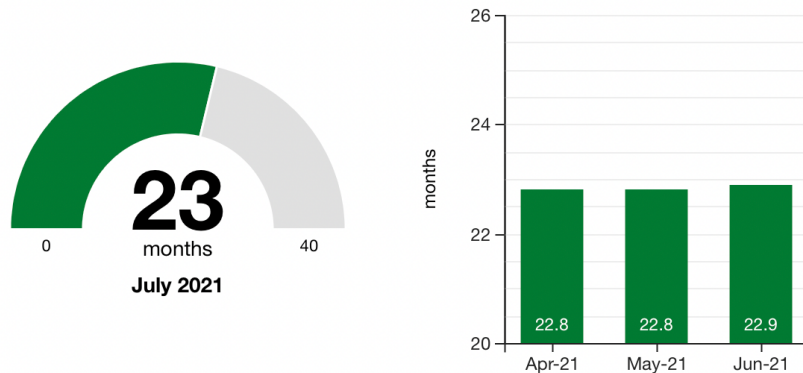
- Well established products are those whose Popularity remains constant over the years.
- The Newer a Concept is, the flatter its Growth stage will be.
- People tend to trust more in what they know best.
- If a product is Easy to Copy, its popularity will decline sooner than later.
 - No matter how big or important is the company. Remember Amazon's Kindle.
- By comparing different Life Cycles of different Seasons (in Google Trends) you can obtain valuable information about a Product and what customers value most.
 - In Seasonal Products, of course.

Pertinent here, the simpler the invention and the easier it is to copy, the shorter the life cycle. But, because of technology, more inventions are “simpler” and “easier to copy” than ever before. The same technology that allows Ericsson to 3D print allows competitors to do so.

The ease of copying is the critical factor which technology implicates, and which the weakening patent system and delay of patent protection can frustrate. That is, if a product comes and goes before a patent issues, what good is a patent? Compounding this, if for a particular invention technology allows copying to occur before the patent issues and the patent issues after the product life cycle is over, there is little reason to obtain a patent. Finally, on top of all of that, if the product is one that can be 3D printed, then infringement can occur in distributed and hard-to-detect forms.

To the extent that a product comes and goes before a patent issues, then patenting makes less sense than ever. The September 21, 2021 patent pendency remains just under two years:

Traditional Total Pendency



c. Takeaways

1. Trade Secrets as an Alternative to Patenting.

To obtain a patent, an applicant must disclose the information necessary to make and use the invention. Understandably, the unwillingness to do so when the information is a business' trade secret is one reason businesses forego patenting.³³ Given the weakened protection afforded to patents, depending on the industry and the particular invention, the cost-benefit analysis may in more instances favor trade secrets.

In that regard and as noted above, by enacting the Federal Defend Trade Secrets Act,³⁴ Congress for the first time provided federal trade secret protection.³⁵ Practitioners should consider this option in light of likely near-term changes in the particular industry and in light of the invention.

Related to this, given the vagaries of Section 101, when an application itself covers AI, a practitioner should carefully consider if subject matter should be patented, whether it can. *See* Kate Gaudry and Rodney Rothwell, *Informed Drafting and Prosecution of Software and AI Patents*, November/December Landslide 27 (Dec. 2019)(breaking down possible patentable aspects of inventions in the AI space under *Alice*). Section 101 is discussed more fully below, and should be discussed as appropriate with a client.

2. An Injunction May be the Driver but not a Reality

³³ Ted Sichelman & Stuart J.H. Graham, *Patenting by Entrepreneurs: An Empirical Study*, 17 Mich. Telecomm. & Tech. L. Rev. 111, 173 (2010).

³⁴ 18 U.S.C. § 1836.

³⁵ *See generally*, Richard F. Dole, Jr., Identifying the Trade Secrets at Issue in Litigation Under the Uniform Trade Secrets Act and the Federal Defend Trade Secrets Act, 33 Santa Clara High Tech. L.J. 470 (2017)

In addition to the foregoing, the potential for injunctions can be the key driver in the patenting decision. As shown above, that potential is diminished. Clients may not understand that the decreased capacity to use patents to obtain coercive relief may reduce those other benefits of patenting.

For example, venture capitalists have looked at possessing patents as a factor in whether to make an investment.³⁶ But part of the reason for that is the coercive aspect of the patent rights.³⁷ To the extent that patents no longer indicate correct business strategy, patenting will no longer be looked at as a positive. Likewise, while an inventor may believe receiving a patent is a positive “credential,” a business must weigh that benefit against the costs of obtaining a patent in light of the reduced coercive benefit the patent brings to the business. Finally, to many businesses, the costs of enforcing patents is a key reason to forego patenting altogether.³⁸ Clients should be aware that those costs now include having to defend a post-grant proceeding. More broadly, because asserting a patent means jeopardizing it, it means losing all other benefits associated with patenting.

Practitioners whose clients obtain patents for reasons other than the coercive benefit may need to counsel clients more closely. It may be that patent law does not matter to a particular client’s decision to invest in a patent application and incur its attendant costs,³⁹ but coercive rights may be the determining motivation for a particular client to apply, or not.

3. Prosecute More Effectively and Efficiently

When patenting is the best choice, practitioners can take steps to get more benefit from a patent. They can speed up prosecution, allow for damages before issuance, and draft claims in a way to address 3D printing. In a particular case, none of these steps may be best for a client, or some combination may be appropriate. Some of these steps are outlined below.⁴⁰

A. Use Track One or Other Existing Procedures to Reduce Delay

The USPTO has adopted procedures that, while more expensive than traditional prosecution, rapidly speed up the time to issuance from the typical twenty-five months.⁴¹ There are four potential

³⁶ See Ted Sichelman & Stuart J.H. Graham, *Patenting by Entrepreneurs: An Empirical Study*, 17 Mich. Telecomm. & Tech. L. Rev. 111 (2010); Joseph Hadzima, Bruce Bockmann & Alexander Butler, *IP in early stage commercial and investment success*, iam magazine (March/April 2010); Lemley, *Surprising Resilience*, 95 Tex. L. Rev. at 41.

³⁷ Ted Sichelman & Stuart J.H. Graham, *Patenting by Entrepreneurs: An Empirical Study*, 17 Mich. Telecomm. & Tech. L. Rev. 111 (2010);

³⁸ *Id.* at 167-68.

³⁹ Lemley, *Surprising Resilience*, 95 Tex. L. Rev. at 49.

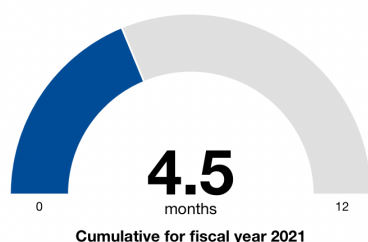
⁴⁰ Practitioners for clients in certain fields have already faced shorter product life cycles, and have adopted practices such as using requests for continued examination, rather than traditional continuation practice, to speed up prosecution. See generally, Warren K. Mabey, Jr., *Deconstructing the Patent Application Backlog... a Story of Prolonged Pendency, PCT Pandemonium & Patent Pending Pirates*, 92 J. Pat. & Trademark Off. Soc’y 208 (2010) (discussing backlog generally); Mark A. Lemley & Bhaven Sampat, *Examining Patent Examination*, 2010 Stan. Tech. L. Rev. 2, 28 (2010) (computer and software practitioners much more likely to use RCE rather than continuations).

⁴¹ To be clear, during regular prosecution there are ways to speed up examination, such as by appropriately asking for an examiner interview. The focus here is on ways outside of regular prosecution to reduce delay.

means to reduce the time to issuance, among them: (1) Track One Prioritized Examination and (2) the First Action Interview Pilot Program. Each procedure has its own requirements, but each potentially reduces the twenty-four month delay significantly:

As for Track One:

Track One Pendency From Petition Grant To Allowance

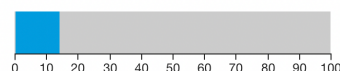
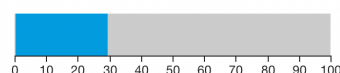


Track One Pendency From Petition Grant To Allowance is the average number of months from the Track One petition grant date to the date a Notice of Allowance is mailed by the USPTO. The term "pendency" refers to the fact that the application is pending or awaiting a decision.

The Track One allowance number displayed is the average for all Track One applications that have received an allowance in fiscal year 2020.

As for the First Action Interview Pilot Program:

First Action Allowance Rate - First Action Interview Pilot cases vs. all new cases



July 2021

Patent applications that have received a first office action allowance are applications that have been examined by USPTO patent examiners and determined to be eligible for a patent upon first review. The FAIP first action allowance rate, or percent allowed, is calculated by dividing the number of FAIP applications that received a first office action allowance by the total number of first actions completed on all FAIP applications since inception of the pilot. The first action allowance rate for new, non-continuing applications is calculated by dividing the number of new, non-continuing applications that have received a first action allowance by the total number of first actions completed since the beginning of the fiscal year.

[For more information on the First Action Pilot, please click here.](#)

In addition, AI can be used to sift through examiner data to identify which art units, or perhaps even examiner, may be best-suited for a particular application: because there is “widespread variability in allowance prospects across art units and examiners,” practitioners should come “armed with statistical information (*e.g.*, allowance rates, average number of final office actions, average number of appeals, reversal rates for appeals, allowance rates after an examiner interview, *etc.*) pertaining to the art unit, the examiner, and the supervisory patent examiner” handling the application. *Id.*

B. Try Prosecuting to Get Damages Upon Publication.

Ordinarily, damages for patent infringement are available only after issuance. However, Section 154(d) of the Patent Act permits damages for “infringement” occurring before issuance, but only in narrow circumstances. The statute provides:

[A] patent shall include the right to obtain a reasonable royalty from any person who, during the period beginning on the date of publication of the application . . . and ending on the date

the patent is issued—(A)(i) makes, uses, offers for sale, or sells in the United States the invention as claimed in the published patent application or imports such an invention into the United States . . . and (B) had actual notice of the published patent application.⁴²

Thus, the three essential requirements for a successful damages claim are that the defendant (1) on or after the date the application is published; (2) infringes “the invention as claimed” in the published application; and (3) had actual notice of the published application. In some circumstances, therefore, a patent practitioner should consider providing a copy of an application to anyone known to be “infringing” a claim in the application.⁴³

Generally, the USPTO publishes a patent application eighteen months after it was filed. Given the average pendency of twenty-four months, this could provide six additional months of damages. Given that more products will have shorter product life cycles, six months of damages may constitute a significant amount of damages from a particular product.

Practitioners should consider in appropriate cases an even more refined prosecution tactic. First, it may be useful to file an application with a narrow claim set in order to get them published, and then allowed, and continue prosecution. Second, if a practitioner amends claims, it may be useful to request republication⁴⁴ of the claims as amended if issuance of those claims is anticipated.

C. Draft Claims with 3D Printing in Mind

Patents typically claim either a product, a process of making a product, or a process of doing some task (though they can also claim a product made by performing a claimed method). Imagine, for example, a claim to a new smoking pipe. Imagine 3D Printer Company makes 3D printers, a third-party, Author, writes a CAD file that will allow that 3D printer to make an infringing pipe, a website—“CADster”—distributes all sorts of CAD files, including Author’s and, finally, a consumer buys a 3D printer, downloads Author’s CAD file from CADster, and prints an infringing pipe.

In this scenario, the consumer would directly infringe (and, if the patent contained a claim to make the pipe using a 3D printer, that claim, too, would be infringed). But, for the reasons stated above and as others have observed, suing every consumer is simply not viable as a practical matter.

A direct infringement claim against any other potential defendant will fail. Author has not made a pipe, nor has CADster sold (or transferred) a pipe, and 3D Printer Company did not make a pipe. Some have argued that someone who writes (Author) or sells (CADster) the CAD file “sells” the invention.⁴⁵ This is simply incorrect: a file with software to make a patented pipe is not the sale of the patented pipe. Even if a CAD file provides instructions on how to make a pipe, it is not a pipe; likewise, a 3D printer capable of printing a pipe is not a pipe. Others have suggested that courts may attempt to create new approaches to the application of product claims to 3D printing.⁴⁶ While anything

⁴² 35 U.S.C. 154(d).

⁴³ Actual notice need not come from the patent owner, but the patent owner can satisfy that requirement. See *Rosebud LMS Inc. v. Adobe Sys., Inc.*, 812 F.3d 1070 (Fed. Cir. 2016).

⁴⁴ 37 C.F.R. 1.221.

⁴⁵ Timothy R. Holbrook & Lucas S. Osborn, Digital Patent Infringement in an Era of 3D Printing, 48 U.C. DAVIS L. REV. 1319 (2015).

⁴⁶ See Tabrez Y. Ebrahim, 3D Printing: Digital Infringement & Digital Regulation, 14 Nw. J. Tech &

is of course possible, efforts to blur the lines between a method claim—describing how to make something—and a product claim—the thing made—runs against the plain language of the Patent Act, and raises concerns about the definiteness and enablement of a such a claim.

The pipe patent owner could, however, assert *indirect* infringement: that Author, CADster, or 3D Printer Company either induced or contributed to the direct infringement by the consumer. For reasons others have explained, these theories will likely fail as a matter of law or, even if potentially successful, raise difficult enforcement issues.⁴⁷

What this means is that practitioners should consider including claims that broaden the potential for infringement.⁴⁸ Plainly, claims that are directed to using a 3D printer to make a product, or the process of making the product by using a 3D printer, will only capture the consumer. The other possible way to provide patent protection in this context is to claim, not the product, but rather a CAD file that enables the product to be made. That claim runs into a fundamental limitation on patents: printed matter is not eligible for patenting.⁴⁹ Assuming a CAD file could be claimed, however, the practitioner would still have to fully describe and enable that claim.

D. Trim Portfolios More Rapidly

U.S. utility patents expire either 17-years after they issued or 20-years after the application which led to them was first filed, depending on when the application was filed.⁵⁰ However, in order to keep a patent in force, the owner must every few years pay to the USPTO “maintenance fees.”⁵¹

Given the fact that, generally speaking, the future holds shorter product life cycles, it may make less sense in some industries for clients to continue paying these fees for obsolete products. To put this thought into concrete terms:

- DVDs were just being introduced in 1997, but actual players did not become widely and cheaply available until the year 2000.⁵²
- In 1995, 8 MB of RAM had become the norm, up from 4 a year before;⁵³
- Rewritable CDs first appeared in 1997.⁵⁴
- In late 1997, only 22% of Americans had access to the Internet from home, work, or school.⁵⁵

Intell. Prop 37 (2016).

⁴⁷ Timothy R. Holbrook & Lucas S. Osborn, Digital Patent Infringement in an Era of 3D Printing, 48 U.C. DAVIS L. REV. 1319 (2015).

⁴⁸ See Steven J. Schwarz, Esq., Meaghan H. Kent, Esq., Tamatane J. Aga, Esq., and Briana C. Rizzo, Additive Manufacturing, Increasing Intellectual Property, 35 Westlaw J. 5 (Aug. 11, 2017).

⁴⁹ See *id.*

⁵⁰ See Margaret M. Dunbar, *Law Changes Affects Patents in Force*, 38-June Adocate (Idaho) 13 (June 1995).

⁵¹ See generally, *Patent Maintenance Fees*, <https://www.uspto.gov/patents-maintaining-patent/maintain-your-patent>

⁵² https://en.wikipedia.org/wiki/DVD_player

⁵³ <http://www.relativelyinteresting.com/wp-content/uploads/2012/02/fall1+1995+computer.jpg>

⁵⁴ <https://www.philips.com/a-w/research/technologies/cd/cd-family.html>

⁵⁵ <https://www2.census.gov/programs-surveys/demo/tables/computer-internet/1997/p20-522/tab11.pdf>

- In 1996, the average amount of time spent on line, for those who had access, was 30 minutes each month.⁵⁶

Because of exponential innovation, the future ten years from now will look as different from today as technology today looks from three to five years ago. Just rewritable CDs are no longer a significant portion of computer storage, today's "cutting edge" technology of SSD memory and the like will probably appear just as antiquated – but not in twenty years, but in five years. Practitioners in fields where this rapid shift will occur need to consider it in advising clients.

2. The Importance of Monitoring Conflicts of Interest

It is important for outside counsel to take reasonable care to spot their own firm's conflicts, those of co-counsel, those of their experts, and those of opposing counsel. Inside counsel should be sure outside counsel is doing so. The reason why counsel must monitor its own firm's conflicts, and those of its experts, is obvious, since a conflict can result in disqualification, discipline, malpractice, or simply embarrassment or loss of business. Less obvious may be the need to monitor conflicts of co-counsel or opposing counsel, but doing so is important because 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).

Further, there may be the potential for an opposing counsel, or its expert, to misuse information exchanged in discovery or during a transaction. That may require putting prosecution bars (or other forms of protective orders) in place to protect a client.

Monitoring for breach of such agreements is critical. For example, in *Gilead Scis., Inc. v. Merck & Co., Inc.*, 888 F.3d 1231 (Fed. Cir. 2018), opposing counsel was subject to a prosecution bar, but used information disclosed by the opponent to narrow claims of a pending application to read on the opponent's product. In the later suit, the accused infringer proved the claims would not have been narrowed but-for the misuse of information, and so the claims were held unenforceable due to unclean hands against the accused infringer.

Further still, inside counsel need to monitor for their own conflicts. There are two forms of common problems: one occurs when a corporation hires a new lawyer who had worked for a competitor, and the lawyer represents the new employer in a matter adverse and substantially related to a matter in which the lawyer had represented the former employer. See *Dynamic 3D Geosolutions LLC v. Schlumberger Ltd.*, 837 F.3d 1280 (Fed. Cir. 2016) (Acacia's legal department and outside counsel disqualified because Acacia hired lawyer from Schlumberger who had worked on matter substantially related to patent suit against Schlumberger). See generally, John K. Villa, *Corporate Law Department as a "firm" – Imputed Disqualification*, 1 Corporate Counsel Guidelines 3:4 (2019); John K. Villa, *Limitations on Working for Competitors*, 1 Corporate Counsel Guidelines 3:34 (2019).

A second problem arises when in-house counsel inadvertently form attorney-client relationships due to "cooperation clauses" common in shared prosecution, joint venture, and license agreements. In-house lawyers may find themselves being deemed to represent, in addition to their

⁵⁶ http://www.slate.com/articles/technology/technology/2009/02/jurassic_web.html

corporate employer, the other party to such an agreement.

As to the conflicts of opposing counsel, the need arises from the fact that some courts hold that many conflicts are waived if not timely raised by the adversely affected client. *See, e.g., P&L Development LLC v. Bionpharma Inc.*, 2019 WL 357351 (M.D.N.C. Jan. 29, 2019) (*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 and Tenth Circuits, 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).

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. If the client finds one, the threat of a counterclaim – for fee disgorgement or malpractice – exists, and the claim for past-due fees may be a wise choice. Further, a client can sue for fee disgorgement where a lawyer has earned them with an undisclosed conflict, causing the lawyer to pay back some or all fees even if the client had not been damaged. *See Burrow v. Arce*, 997 S.W.2d 229 (Tex. 1999) (denying summary judgment on claim for damages, and at the same time discussing the independent equitable remedy of fee forfeiture and its application, and remanding for further proceedings).

This section begins by addressing client identity, and then catalogs the various conflicts of interest that arise in patent practice, including prosecution and litigation.

a. Confusion About Client Identity

A recurrent problem arises when a practitioner believes that she represents one prosecution client but, later, someone claims to have *also* been a client. If a lawyer is deemed to represent more than one client, it can create conflicts of interest, and there may be no privilege among the joint clients, and if in-house counsel is deemed to represent someone other than the corporate employer, the entire in-house legal department may be disqualified. *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 involving those two clients).

b. Inventors Claiming to Also Have Been 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. 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 *Barkearding v. Whitaker*, 263 So.3d 1170 (Ct. App. La. 2018) (inventor reasonably believed he had been represented by lawyers); *Beasley v. Avery Dennison Corp.*, 2006 U.S. Dist. LEXIS 74033 (W.D. Tex. Oct. 4, 2006).

Engagement letters can reduce misunderstandings – and strategic behavior. 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.

Finally, even if a practitioner does *not* represent the inventor, in all states, lawyers owe duties to unrepresented persons. For example, many states have a rule similar to Model Rule 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.

c. Shared Prosecution Clauses Creating Implied Attorney-Client Relationships.

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 a recent example, 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. *See also Takeda Pharmaceutical CO. Ltd. v. Zydus Pharmaceuticals (USA) Inc.*, 2019 WL 3284673 (D. N.J. June 6, 2019) (denying motion to disqualify based upon firm's representation of client who had joint defense agreement with moving party).

d. Corporate Affiliates Claiming to Also be a Client

Corporate clients often include "outside counsel guidelines" that purport to require a law firm representing any part of a corporate enterprise from being adverse to any affiliated entity; law firms generally use engagement letters which state that, often with some exceptions, the law firm may be adverse to any other entity other than the entity actually retaining the firm. If one of these forms does not effectively define client identity, *see Dr. Falk Pharma GmbH v. Generico, LLC*, 916 F.3d 975 (Fed. Cir. 2019), then courts apply a multi-factor test that turns on factors such as interoperability of phone lines and other circumstances that may not be intuitive. *See id.*; *GSI Commerce Solutions, Inc. v. BabyCenter, LLC* 618 F.3d 204 (2d Cir. 2010).

In its most recent case, the Federal Circuit applied the same test as in *Dr. Falk* and *GSI* to hold a law firm's representation of one entity constituted, for conflicts purposes, the representation of an affiliate. In part it stated:

Appellants have demonstrated a high degree of operational overlap between the affiliates. Even aside from legal work specifically, Mr. Brodsky notes that Trimble Inc. and its subsidiaries share their "voice-over-IP phone system, online training platform, employee recognition program, computer network, and Human Resources Information System"; "payroll and finance" services; and "office space." And as to legal work, appellants have shown significant overlap in the handling and management of legal matters particularly relevant to the case at hand. While PerDiem emphasizes that attorneys specifically employed by Trimble Transportation originally engaged the Davidson firm, it does not dispute that attorneys for Trimble entities share responsibilities among the various entities and, more particularly, that Trimble Inc.'s Chief Intellectual Property Counsel, Mr. Brodsky, has both worked with the firm regarding Trimble Transportation matters and overseen and managed the present lawsuit.

Appellants also have established that an adverse loss to Trimble Inc. here would have a direct adverse impact on Trimble Transportation. Trimble Transportation is a wholly owned subsidiary of Trimble Inc., and Mr. Brodsky notes that that "financial statements from each of Trimble [Inc.]'s businesses, including Trimble Transportation, are also combined ... to report to investors in Trimble [Inc.]'s overall corporate financial statements."

Trimble Inc. v. PerDiemCo LLC, 802 Fed. Appx. 556, 559–60 (Fed. Cir. 2020) (unpublished). *See Keeffe Commissary Network, LLC v. Beazley Ins. Co.*, 2020 WL 4673782 (Aug. 12, 2020) (relying on engagement letter that specified the firm's representation of one entity was not representation of other parts but discussing possible "mission creep" where affiliates could become additional clients).

3. When is a Representation “Adverse” to a Current or Former Client?

Model Rule 1.7 contains two prohibitions concerning conflicts of interest between two current clients: 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.” Under the principle of imputed disqualification, if one lawyer may not undertake a representation, generally no lawyer in the firm can. Clients can consent, under some circumstances, after full disclosure.

Likewise, Model Rule 1.9 prohibits a lawyer who had previously represented a client from representing another client in a matter that is “materially adverse” to the former client and is “substantially related” to the prior representation. *See Altova GmbH v. Syncro Soft SRL*, 320 F. Supp.3d 314 (D. Mass. 2018) (analyzing whether a law firm may “drop” a current client so that it may be adverse to it, so long as the adverse matter is not substantially related to the “prior” representation, and holding the law firm could not and disqualifying it).

The 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.

a. Suing a client is adverse, as is defending a client against another client’s claim. *Southern Visions, LLP v. Red Diamond, Inc.*, 370 F. Supp.3d 1314 (D. Ala. 2019); *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*, *Pressman-Gutman Co., Inc. v. First Nat’l Bank*, 459 F.3d 383 (3d Cir. 2006).

b. Asserting ownership of a patent by one client against another is adverse. *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).

c. Adversity working behind scenes when client is opponent. 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). *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). If a firm would be disqualified if it appeared in court, it can't avoid disqualification by simply acting only out of 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").

d. Client is not an adverse party but lawyer seeks adverse discovery from it. Discovery of a client constitutes 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); *Committee 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).

e. Suit may have adverse legal consequences on client. 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 (2015). 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 Axxcan 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.⁵⁷ 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...”⁵⁸ 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 the information together that was to be used against its own client.

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.

⁵⁷ Phila. B. Ass’n. Prof. Guidance Comm. Op. 2012-11 (Jan. 2013).

⁵⁸ *Id.*

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 pre-serving the Respondents' continued importation of devices that incorporate Google's Android technology," and, to the extent that Digtude'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 Digtude 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 Digtude'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 Digtude. Pepper Hamilton has already established an ethical screen. With this ethical screen in place, Pepper Hamilton attorneys working on this investigation on behalf of Digtude cannot access Google's confidential information, and Pepper Hamilton attorneys working on behalf of Google cannot access confidential information in the current investigation. Digtude 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 Digtude 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 Digtude 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.

f. Parallel patent litigation. Applying these lessons to patent litigation reveals the poorly lit lines. Foremost, suppose, as happens, 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.⁵⁹

g. Prosecution adversity. “Subject matter conflicts” arise when a firm prosecutes similar applications for different clients. There are two separate issues to be concerned about: adversity between clients, and a material limitation on the lawyer’s ability to represent one client because of his relationship with another client. *See generally*, Leonard Raykinsteen, *Ethical Considerations in Intellectual Property Law*, 99 J. Pat. & Trademark Off. Soc’y 47 (2017); Thomas F. Maffei & Debra Squires-Lee, *Important Professional Responsibility Developments for Patent Lawyers and Patent Litigators*, 28 No. 4. Intell. Prop. & Tech. L.J. 12 (Apr. 2016); David D. Dodge, *Direct Adversity, Clients, and Conflicts*, 52-Apr. Ariz. Att’y 10 (Apr. 2016).

With respect to adversity, there are easy cases on both ends of the spectrum. Some instances are plainly conflicts; others, plainly not.

At the end of the spectrum, is clear that a lawyer could not represent a junior and senior party to an interference, or the patentee and petitioner in an IPR proceeding. Not only are those two clients adverse, but a lawyer may not even ask for consent from clients who have claims against each other in a proceeding to represent each of them in that proceeding. The USPTO Rules as well as most state rules provide that a lawyer may not even ask for consent to represent two clients with claims against each other to represent both of them in that proceeding. At the other end, simply representing clients who economically compete in the market place is not a conflict.

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

⁵⁹ *Multimedia Patent Trust v. Apple, Inc.* 2011 U.S. Dist. LEXIS 46237, 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).

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*, 30 F. Supp.3d 314 (D. Mass. 2018). The facts of this case 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!

h. Opinion Adversity. Courts and bar associations have stated that giving an opinion of counsel about a client's patent to another client is adverse. 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.

Similarly, the Illinois federal district court in *Andrew* excluded an opinion given to one client about another client's patent. 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.

4. When is an Adverse Representation "Substantially Related" to a Prior Representation of a now-Former Client?

Various circumstances can make it difficult to determine precisely when, if ever, an attorney-client relationship ended. Yet 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. 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). *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); *Ehrlich 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 “substantial relationship.” 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. What struck me as quite concerning was that 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.

5. Recent Inequitable Conduct and Unclean Hands Cases

Despite the Federal Circuit effort to cabin inequitable conduct in *Therasense* in recent cases the Court has affirmed holdings of unenforceability.

Most recently, in *Belcher Pharma, LLC v. Hospira, Inc.*, 11 F.4th 1345 (Fed. Cir. 2021), the Federal Circuit affirmed a district court's finding of inequitable conduct by the patentee's chief science officer for withholding material information. The claim covered l-epinephrine formulations at pH between 2.8 and 3.3 and with specific impurity level limitations. During prosecution, the examiner had cited a prior art reference disclosing a wider pH range of 2.2 to 5.0, but the applicant overcame that rejection

by representing that that its narrower range was a critical element of the invention which had been necessary to prevent racemization of the l-epinephrine.

However, Belcher's Chief Science Officer (Rubin) had tested samples from two competing products (JHP & Sintetica) and knew each were within both the claimed pH range and the claimed impurity level. Moreover, during prosecution, Rubin communicated with the FDA about these samples. In addition, Rubin had known of a reference (Stepensky) that disclosed an overlapping pH range (3.25 to 3.7). None of this was disclosed.

Rubin testified that he helped draft the patent application, including the claims, and also helped craft responses rejections, thus making him subject to the duty of candor. Further, the district court found the claims were obvious in light of the withheld art, and the patentee did not appeal that finding. Thus the information was material. As is often the case, there was no direct evidence that Rubin had intended to deceive the USPTO, but the district court found sufficient circumstantial evidence in the form of the FDA discussions including the fact Rubin had modified the claimed pH range to the narrower range to be able to rely on data from the Sintetica product as a reference to expedite FDA approval

One case in particular presents what could be a dramatic expansion of district court power because of the lax approach to appellate review. In, *GS Cleantech Corp. v. Adkins Energy LLC*, 951 F.3d 1310, 1323 (Fed. Cir. 2020), the trial court found inequitable conduct based upon the failure to disclose that the claimed invention had been on-sale. The trial court had granted summary judgment on that issue, and then held a bench trial on the remaining elements of inequitable conduct. It found inequitable conduct and the patentee appealed the judgment.

On appeal, ordinarily the "on-sale bar is a question of law with underlying questions of fact." *Robotic Vision Sys., Inc. v. View Eng'g, Inc.*, 249 F.3d 1307, 1310 (Fed. Cir. 2001). *Accord, The Medicines Co. v. Hospira, Inc.*, 881 F.3d 1347, 1350 (Fed. Cir. 2018). Thus, whether the patented invention had been on sale and whether the invention had been ready for patenting should have been reviewed, at least, for clear error since a "district court's findings of materiality... for clear error." *Am. Calcar, Inc. v. Am. Honda Motor Co.*, 768 F.3d 1185, 1189 (Fed. Cir. 2014). *Accord, Regeneron Pharm., Inc. v. Merus N.V.*, 864 F.3d 1343, 1351 (Fed. Cir. 2017). But the *GS Cleantech* panel reviewed this fact finding for "abuse of discretion." Further, the *GS Cleantech* panel reviewed the finding of intent to deceive for "abuse of discretion," a review which is also much more deferential than precedent would lead a practitioner to expect: "This court reviews the district court's factual findings regarding what reasonable inferences may be drawn from the evidence for clear error." *Therasense, Inc. v. Becton, Dickinson and Co.*, 649 F.3d 1276, 1291 (Fed. Cir. 2011). Finally, the *GS Cleantech* panel never analyzed equitable balancing — given the circumstances, should the entire patent be held unenforceable? Nothing in *Therasense* changed the rule that, if the accused infringer meets its burden of showing both materiality and intent, "then the district court must weigh the equities to determine whether the applicant's conduct before the PTO warrants rendering the entire patent unenforceable." *Therasense*, 649 F.3d at 1287. All of those procedural laxities give greater power to district courts to find inequitable conduct outside the guardrails established by *Therasense*.

Another Federal Circuit case is worth discussion. In *Regeneron Pharm., Inc. v. Merus N.V.*, 864 F.3d 1343 (Fed. Cir. 2017), the district court held a bench trial and held that people substantively involved in prosecution of the patent-in-suit knew of but-for material references, which were not disclosed. Although the district court had intended to hold a separate trial on intent to deceive, instead

it held that the patentee's discovery abuses (and other apparent misconduct) warranted an adverse inference of intent to deceive. The discovery abuses were related to the inequitable conduct issue. Accordingly, it held the patent unenforceable for inequitable conduct.

On appeal, the panel split (Judge Newman dissenting), but affirmed 2-1, holding that the withheld art was in fact but-for material and that the district court had not abused its discretion by, under regional circuit law, imposing an adverse inference (more on that, the key and troublesome issue, below). Specifically, the panel majority held that the district court had not abused its discretion under regional circuit law by imposing an adverse inference of specific intent to deceive because of litigation misconduct during efforts to enforce the patent. That inference is what allowed the district court to hold the patent unenforceable.

An unclean hands case is of interest. In *Gilead Sciences, Inc. v. Merck & Co., Inc.*,⁶⁰ opposing counsel was subject to an "understanding" that employees who received certain information would not be involved in prosecution, but an employee violated that understanding by using information disclosed in confidence to narrow claims of a pending application to read on the disclosing party's product. In the later suit, the accused infringer proved the claims would not have been narrowed but-for the misuse of information, and so the claims were held unenforceable due to unclean hands against the accused infringer.

Related to these recent cases, the Federal Circuit recently affirmed an award of attorneys' fees after finding inequitable conduct, emphasizing, however, that a finding of inequitable conduct does not require an award of fees but merely authorizes it. *Energy Heating, LLC v. Heat on-the-fly, LLC*, ___ F.4th ___, 2021, WL 4782468 (Oct. 14, 2021) (collecting cases).

6. Inequitable Conduct as a Conflict

When a lawyer litigates a patent that he or his firm obtained for the client (or its assignee) and the accused infringer makes an allegation of inequitable conduct arising out of the attorney's conduct, potential conflicts between lawyer and client arise.

Inequitable conduct is an affirmative defense to patent infringement that requires proof that a person substantively involved in prosecuting the patent intentionally misrepresented or failed to disclose material information to the PTO and did so with an intent to deceive.⁶¹ If inequitable conduct is found, then the patent (and perhaps even related patents) may be held by the court to be unenforceable, even though valid.⁶² In addition, the patent owner may be required to pay the attorneys' fees of the accused infringer.⁶³

An allegation of inequitable conduct based on the prosecuting attorney's misconduct is likely to create a significant risk that the lawyer's representation of the client will be materially limited by

⁶⁰ 888 F.3d 1231 (Fed. Cir. 2018).

⁶¹ See Lisa Dolak, *As If You Didn't Have Enough to Worry About: Current Ethics Issues for Intellectual Property Practitioners*, 82 J. PAT. & TRADEMARK OFF. SOC'Y 235, 237–38 (2000).

⁶² Although materiality and intent to deceive have long been the words used as the elements for inequitable conduct, the Federal Circuit dramatically altered their meaning in *TheraSense, Inc. v. Becton, Dickinson & Co.*, 649 F.3d 1276, 99 USPQ2d 1065 (Fed. Cir. 2011).

⁶³ *Brasseler, U.S.A. I, L.P. v. Stryker Sales Corp.*, 267 F.3d 1370, 1386, 60 USPQ2d 1482 (Fed. Cir. 2001).

the lawyer's personal interests.⁶⁴ If the patent is unenforceable due to the attorney's misconduct, the client will have a claim against the lawyer for the harm caused.⁶⁵ Normally, of course, these allegations arise during litigation in which the trial counsel did not prosecute the patent, and so trial counsel can provide conflict-free advice to the client as to the strengths of the defense, the risks of continuing to assert the patent, and whether a malpractice claim against the prosecution counsel is appropriate. However, a prosecuting-litigator faced with an allegation that a patent she prosecuted is unenforceable likely is not in position to provide the same candid advice in a detached manner. For example, the client may be best served by settling the case at a steep discount, or dismissing it altogether, but the lawyer—because her conduct may be the cause of the reduction in value of the case—may be unable to dispassionately give the client that advice because doing so highlights the fact that her own prior conduct was what harmed the client's case. The prosecuting-litigator's personal interest in denying or downplaying the allegations may constitute a material limitation on her ability to provide competent legal advice to her client.

7. The USPTO's Electronic Signature Requirement

37 C.F.R. § 1.4(d) governs electronic signatures on documents filed with the Office and provides in part:

(2) S-signature. An S-signature is a signature inserted between forward slash marks, but not a handwritten signature as defined by paragraph (d)(1) of this section. An S-signature includes any signature made by electronic or mechanical means, and any other mode of making or applying a signature other than a handwritten signature as provided for in paragraph (d)(1) of this section. Correspondence being filed in the Office in paper, by facsimile transmission as provided in § 1.6(d), or via the Office electronic filing system as an attachment as provided in § 1.6(a)(4), for a patent application, patent, or a reexamination or supplemental examination proceeding may be S-signature signed instead of being personally signed (i.e., with a handwritten signature) as provided for in paragraph (d)(1) of this section. The requirements for an S-signature under this paragraph (d)(2) of this section are as follows.

(i) The S-signature must consist only of letters, or Arabic numerals, or both, with appropriate spaces and commas, periods, apostrophes, or hyphens for punctuation, and the person signing the correspondence must insert his or her own S-signature with a first single forward slash mark before, and a second single forward slash mark after, the S-signature (e.g., /Dr. James T. Jones, Jr./); and

(ii) A patent practitioner (§ 1.32(a)(1)), signing pursuant to §§ 1.33(b)(1) or 1.33(b)(2), must supply his/her registration number either as part of the S-signature, or immediately below or adjacent to the S-signature. The number (#) character may be used only as part of the S-signature when appearing before a practitioner's

⁶⁴See MODEL RULES OF PROF'L CONDUCT r 1.7(a)(2) (AM. BAR ASS'N 2018).

⁶⁵Clients whose patents have been held unenforceable have sued their lawyers for breach of fiduciary duty and malpractice. For example, in *Lex Tex Ltd. v. Skillman*, 579 A.2d 244, 16 USPQ2d 1137 (D.C. 1990), the Federal Circuit had held the patents unenforceable, which had resulted in the reversal of a \$9 million judgment in favor of the patentee. In this suit, Lex Tex, the patentee, sued its prosecution counsel for having failed to have disclosed the prior art to the PTO nearly twenty years earlier.

registration number; otherwise the number character may not be used in an S-signature.

(iii) The signer's name must be:

(A) Presented in printed or typed form preferably immediately below or adjacent the S-signature, and

(B) Reasonably specific enough so that the identity of the signer can be readily recognized.

(3) Electronically submitted correspondence. Correspondence permitted via the Office electronic filing system may be signed by a graphic representation of a handwritten signature as provided for in paragraph (d)(1) of this section or a graphic representation of an S-signature as provided for in paragraph (d)(2) of this section when it is submitted via the Office electronic filing system.

(4) Certifications—

(i) Certification as to the paper presented. The presentation to the Office (whether by signing, filing, submitting, or later advocating) of any paper by a party, whether a practitioner or non-practitioner, constitutes a certification under § 11.18(b) of this subchapter. Violations of § 11.18(b)(2) of this subchapter by a party, whether a practitioner or non-practitioner, may result in the imposition of sanctions under § 11.18(c) of this subchapter. Any practitioner violating § 11.18(b) of this subchapter may also be subject to disciplinary action. See § 11.18(d) of this subchapter.

(ii) Certification as to the signature. *The person inserting a signature under paragraph (d)(2) or (d)(3) of this section in a document submitted to the Office certifies that the inserted signature appearing in the document is his or her own signature. A person submitting a document signed by another under paragraph (d)(2) or (d)(3) of this section is obligated to have a reasonable basis to believe that the person whose signature is present on the document was actually inserted by that person, and should retain evidence of authenticity of the signature. Violations of the certification as to the signature of another or a person's own signature as set forth in this paragraph may result in the imposition of sanctions under § 11.18(c) and (d) of this chapter.*

(Emph. added.)

There is also non-binding commentary that consistent with the regulation. For example, in 2004 the Office provided the following comment when adopting the original version of the regulation:

Paragraph 1.4(d)(2)(i) also defines who can insert an S-signature into a document. Section 1.4(d)(2)(i) requires that a person, which includes a practitioner, must insert his or her own signature using letters and/or Arabic numerals, with appropriate commas, periods, apostrophes, or hyphens as punctuation and spaces. The "must insert his or her own signature" requirement is met by the signer directly typing his or her own signature on a keyboard. *The requirement does not permit one person (e.g., a secretary) to type in the signature of a second*

person (e.g., a practitioner) even if the second person directs the first person to do so. A person physically unable to use a keyboard, however, may, while simultaneously reviewing the document for signature, direct another person to press the appropriate keys to form the S-signature.

69 FR 56482, 56485 (Sept. 21, 2004) (emph. added).

Similarly, MPEP Section 502.02(II) states:

As established in the reproduced language above, the rules of submitting correspondence including electronic signatures to the USPTO require that the signer of the correspondence insert his/her own signature onto the document to be submitted, after the document has been completed. Thus, *support staff preparing draft documents for review and approval by a registered patent practitioner should not insert the registered patent practitioner's signature into the prepared draft document*, and should instead include a blank, a placeholder (e.g., /draft/), or other designation in place of the patent practitioner's signature, to be replaced by the patent practitioner physically typing his/her own signature into the document after the document is complete and prior to submission to the USPTO.

Alternatively, a patent practitioner may hand-sign correspondence to be submitted to the USPTO (as opposed to applying an electronic "S-Signature" in accordance with USPTO rules). A digital reproduction of a hand-signature however, if applied electronically, is also treated as an electronic S-Signature, subject to the requirements of 37 CFR § 1.4(d)(2) (including the requirements to place the electronic signature between forward slashes and the requirement that the electronic signature must be inserted by the person signing the correspondence).

Thus, practitioners generally must place her own electronic signature on each filed document, with a narrow exception for a practitioner who is "physically unable" to do so.