ETHICAL CONSIDERATIONS FOR IP CLIENT ENGAGEMENT AGREEMENTS

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Outline

- Are written agreements necessary.
- Client identification issues.
- Subject matter and advanced conflict waivers.
- Scope of representation.
- End of representation.
- Remedies for client breach of agreement.
- OCG provisions worth negotiating over.
Are Writings Required?

- ABA M.R. 1.5, PTO Rules, and most state rules say writing “preferable” but not “required.”
  - D.C., N.Y.: Written agreement for new clients.
  - Contingency fee.
- Maybe not “required” but duty to:
  - Consult about means for accomplishing client’s objectives.
  - Explain matter to extent needed for client to make informed decision.

- 37 C.F.R 11.104; ABA M.R. 1.4
Are Writings Required?

- No but . . .
- Must communicate “scope of the representation and the basis or rate of the fee and expenses . . . preferably in writing.”
  - 37 CFR 11.105(b); ABA M.R. 1.5(b)
- Conflict waivers “confirmed in writing”:
  - Current clients: ABA M.R. 1.7(a),(b); 37 CFR 11.107(a),(b)
  - Former clients: ABA M.R. 1.9(b), (b); 37 CFR 11.109(a),(b)
  - Business transactions with clients, including acquiring security interest adverse to client: ABA M.R. 1.8(a); 37 CFR 11.108(a)
ARE YOU MY CLIENT?
Who Is Client Matters

- **Current client conflicts**
  - Protects duty of loyalty and confidentiality.
  - Can’t go directly adverse to current client, even in a completely unrelated matter.
  - Can’t take on representation that materially limits your representation of current client.

- **Former client conflicts**
  - Protects duty of confidentiality only.
  - Can be directly adverse to “former” client if matter not “substantially related” to prior representation.
Entity Client

- A lawyer retained by an organization represents the organization acting through its “duly authorized constituents.”
  - 37 CFR 11.113(a); ABA Model Rule 1.13(a).
- But that general rules does not automatically insulate lawyer from claim that related entity also was a “client.”
  - E.g. Family of companies.
Entity Issues

- When you represent the parent, do you also represent its subsidiaries?
- When you represent a subsidiary, do you also represent the parent?
- Sister, cousins, distant relatives in entity—when you represent one, do you represent all?
- What does “client” believe regarding who is “the client”? 
Inventor Clients

- JV between Company A and B. Inventor 1 assigns to Company A. No assignment from Inventor 2. U.S. law firm hired by foreign associate, paid by and communicates with associate.

- Who is the client?
  - A – Foreign associate.
  - B – Inventors 1 and 2 jointly.
  - C – Company A and B jointly.
  - D – Company A and Inventor 2 jointly.
  - E – A, B and C.
Inventor Clients

- Best answer - D
  - A – Foreign associate – Generally considered agents of client, not client themselves.
  - B – Inventors with duty to assign not client.  
    - *Sun Studs v. Applied Assoc.*, 772 F.2d 1568 (Fed. Cir. 1985)
  - C – Normally assignees are the client.  Company A is.  Don’t know about Company B. 
    - Duty to inquire if inventor has duty to assign.
  - D – Company A and Inventor 2 joint clients.
Meriturn Partners, LLC

- IP lawyer interacted with all the investors; emails, conf. calls, etc.
- Advised all investors that patents were owned by deal participant; they weren’t!
- Jury found lawyer had lots of clients
- Court upheld $6m jury verdict
IP-Centric Conflicts

MR 1.7, 1.9
PTO § 11.107, 11.109
Subject Matter Conflicts

Conflicts When Representing Client In “Related” Technology

Maling v. Finnegan, Henderson, Farabow, Garrett & Dunner, LLP

- Technology conflict alleged
- No misuse of confidences proven
- Plaintiff did get his four patents
- What is “adversity” in prosecution practice?
- What disclosures should be made?
Maling v. Finnegan

Allegations:

- Firm represented competitors in eye glass hinge space;
- Client spent $100,000 in fees;
- Client invested millions in development, which he lost because of Masunaga patents.
Maling

Similar inventions?

Maling:
- Frame for securely holding a lens w/o need for screws, pins or bolts

Masunaga:
- Eyeglasses having screwless hinges which can avoid deflection of temples in vertical directions

Does substantially similar mean identical or only obvious differences in claimed invention?

No interference and both claimed inventions were patentable over prior art and each other.
Question Presented

Whether concurrently representing two clients seeking patents on similar inventions creates an actionable conflict of interest?
Key Holdings

1. Simultaneous representation of two prosecution clients competing in the same technology area for similar inventions not conflict *per se*

2. Not competing for “same patent” – not direct adversity conflict (not 102 or interference).

3. FH’s representation of C1 not “materially limited” by duty to C2. No “claim shaving.”

4. **Warning:** IP firms must implement “robust” conflict checking system to identify potential subject matter conflicts.

   *OED follows Maling* – expects IP firms to adopt “robust” subject matter conflict checking system.
Former Client Conflict in IP Setting

Gillette Co. v. Provost

- Patent prosecutor formerly did patent work for Gillette
- Moved to technological competitor as in-house counsel
- Founders touted lawyer’s ability to compete against Gillette
- Claims against lawyer dismissed

- Patents involved flash memory.
- Talon’s lawyers previously represented Toshiba on flash memory patents.
- D. Ct. held substantially related, DQ granted
How Close Is Too Close


- Patents involved server architecture.
- Biax lawyers previously represented Fujitsu on tech. included in servers.
- D. Ct. held not substantially related, DQ denied.
Advanced Waivers
“Advanced” Waiver Defined

- A conflict waiver “that is granted before the conflict arises and generally before its precise parameters (e.g., specific adverse client, specific matter) are known.”

- Advance waiver not “per se improper” but will be “sustained only where the client can be said to have given informed consent.”

Informed consent requires:
- consent specific to types of potentially adverse representations and types of adverse clients; or
- “the waiving client has available in-house counsel or other current counsel independent of the lawyer soliciting the waiver.”

Lawyer seeking advance waiver must disclose facts of which she is aware and “cannot seek general waiver when she knows of a specific impending adversity” unless disclosed.
Galderma v. Actavis

- Upholds open-ended advance waiver at to unrelated matters
- Advance waiver held enforceable
- Client: sophisticated purchaser of legal services
- Client repred by sophisticated GC
Advanced Waivers Struck Down

- Unduly general and unsophisticated clients (no informed consent & not represented by in-house counsel)
- Lack of complete explanation of advanced waiver clause
- Consent to litigate against client may require identification of that possibility, including names of parties, circumstances and other relevant information
Sheppard Mullin Advanced Waiver

- Firm failed to advise J-M about its prior relationship with South Tahoe and failed to advise South Tahoe about the J-M matter
- Broad consent to future conflicts of interest clause
- Appeals court denied SH any portion of $3.8M in fees billed for the Qui Tam action applying C.R. 3-310 re violation of fiduciary obligation
- Firm failed to obtain informed consent when it resumed work for South Tahoe from either J-M or South Tahoe

Sheppard Mullin Advanced Waiver

- Issues for S. Ct. of California Appeal:
  - May court rely on non-legislative expressions of public policy to overturn an arbitration award?
  - Can a sophisticated consumer of legal services, represented by counsel, give informed consent to “open-ended” advanced waiver of conflicts?
  - Even if conflict not waived, is disgorgement of all paid fees and preclude recovery of reasonable value of unpaid work proper where conflict caused no client damage and no bad faith found?
Scope of Engagement: When Does Representation End
Defining Scope Of Engagement

- Patent and TM rep. often involves multiple discrete transactions.
- Defining scope of engagement helps to define when representation ends.
- Turn Current into Former Client.
- Scope of representation may be limited if:
  - Reasonable under the circumstances; and
  - Client gives “informed consent.”

  ABA MR 1.2(c); 37 CFR 11.102(c)
Temporal-Based Limits

- Patent issued. Firm docket and promises to send reminder notices to client regarding maintenance fees.

- Meanwhile, Firm wants to sue client in unrelated matter.
  - Current client or former client?
  - Can this situation be handled by appropriate language in Engagement Agreement?
Minimizing Risk From Late-Paying, Non-Responding Client
Pre-Engagement Due Diligence

- Look for warning signs:
  - History of hiring/firing counsel.
  - Sophistication of client in legal matters generally and this type of representation specifically.
  - Credit history.
  - Litigation history.
  - Push-back on retainer request, payment periods.
Engagement Duties of Clients

- Engagement Agreement can spell out client’s obligations:
  - Provide complete and accurate information to Firm.
  - Cooperate with Firm.
  - Timely respond to Firm communications.
  - Timely pay fees and expenses

- Breach of duty to pay or communicate, client consents to Firm’s withdrawal from representation.
  - District Court actions may be tough to withdraw.
  - USPTO generally can w/d for non-payment.
Breach Remedies in Agreement

- Binding arbitration clause
  - Enforceable if spelled out in enough detail to pass “informed consent” test.
- Attorneys’ fees provision.
- Interest provision.
- USPTO and most jurisdictions allow lawyer to take a security interest adverse to client if:
  - Terms fair and reasonable, fully disclosed in writing;
  - Client advised to seek independent counsel;
  - Client informed consent, signed by client.

37 CFR 11.108(a); ABA M.R. 1.8(a)
OCG Terms

1. Client ID
2. Definition of “Conflict”
3. Process for Conflicts/Waivers
4. Tasks and Tactics
5. Indemnification
6. Most-Favored-Nation
7. Choice of Ethics Rules
8. 1-Lawyer Rule
Choice of Ethics Law

- Choice of ethics law rejected
- “Back door” provision in 8.5
“This Representation is limited to representing the Company [and any entities listed on Exhibit A]. Company acknowledges that the Representation does not include the representation of any individual, officer or subsidiary, parent, or other corporate affiliate of the Company [unless included on Exhibit A]; any future expansion of the engagement beyond the Actions will be specified in writing.”
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