

RECOGNIZING AND RESOLVING CONFLICTS OF INTEREST IN INTELLECTUAL PROPERTY MATTERS

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Conflicts of interest pose risks for all attorneys and their clients. Conflicts are often difficult to recognize and resolve, given the myriad circumstances under which they can arise and the complexity of the law. At a fundamental level, however, all conflicts situations present two fundamental questions: (1) Does a conflict of interest exist?; and (2) if so, is the conflict capable of being resolved and in what manner?

For most practitioners, familiar factual contexts provide the best guidance for resolving these questions as they arise in their own practices. In addition, intellectual property representations often present specialized conflicts concerns. The following discussion, therefore, considers recurring conflict of interest issues in the intellectual property context.

I. IS THERE A CONFLICT?

Some conflicts, whether actual or potential, and potential conflicts are easy to identify. For example, it is generally not difficult for an attorney or a firm, no matter how large the clientbase, to avoid suing existing clients. Other potential conflicts, however, are often not as easily detected. For example, when may a firm advocate against a former client? Are a client's subsidiaries and affiliates clients, too? What about conflicts that clients create through mergers or joint ventures? Are "subject matter" or "technology" conflicts real conflicts? Is it permissible to take inconsistent legal positions on behalf of different clients? This article will examine those questions and offer recommendations for avoiding conflicts and dealing effectively with the conflicts issues that inevitably arise.

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A. *What Law Applies?*

The law governing conflicts of interest and their resolution is not uniform. Complicating matters, conflicts issues may arise in a variety of contexts and forums, including disqualification motions, malpractice claims in federal and state courts, disqualification motions and disciplinary proceedings in the U.S. Patent and Trademark Office (“PTO”),¹ and state bar disciplinary proceedings. Analysis of conflicts situations should always, therefore, begin by considering the applicable law.

Federal district courts² possess inherent supervisory authority over the conduct of members of their bars.³ Decisions on motions to regulate attorney conduct lie within the discretion of the courts.⁴

Attorney disqualification is the remedy most commonly sought when a conflict of interest is alleged, but other, related relief is sometimes requested.⁵ As has been observed by one district court considering a disqualification motion in a copyright infringement case, “[n]o statute or [r]ule expressly authorizes motions to disqualify an attorney from appearing in a case.”⁶ The courts have developed common-law principles⁷ by which

¹ Motions to disqualify counsel in PTO proceedings, such as patent interference and trademark opposition proceedings, are governed by the PTO Canons and Disciplinary Rules, found in 37 C.F.R. Part 10. 37 C.F.R. § 10.1 (2002). The PTO Office of Enrollment and Discipline (“OED”) has the authority to discipline attorneys for misconduct in their capacity as patent attorneys. See e.g., *In re Davis*, 264 N.W.2d 371 (Minn. 1978).

² Because this discussion is intended to provide guidance to intellectual property practitioners, it focuses on the federal courts’ treatment of conflicts issues in intellectual property cases.

³ See e.g., *Hallmark Cards, Inc. v. Hallmark Dodge, Inc.*, 616 F. Supp. 516, 519 (W.D. Mo. 1985) (stating that “district court[s] bear[] the responsibility for the supervision of the members of its bar”); *SMI Indus. Canada Ltd. v. Caelter Indus., Inc.*, 586 F. Supp. 808, 813-814, 223 U.S.P.Q. 742, 745 (N.D.N.Y. 1984).

⁴ See e.g., *Poly Software Intl., Inc. v. Su*, 880 F. Supp. 1487, 1489 (D. Utah 1995) (citing *Cole v. Ruidoso Mun. Sch.*, 43 F.3d 1373, 1383 (10th Cir. 1994); *Brooks v. Bates*, 1994 WL 121851 at *2 (S.D.N.Y. Apr. 7, 1994) (citing *The Fund of Funds, Ltd. v. Arthur Andersen & Co.*, 567 F.2d 225, 232 (2d Cir. 1977)).

⁵ See e.g., *The Hyman Cos., v. Brozost*, 964 F. Supp. 168, 170, 42 U.S.P.Q.2d 1694, 1695 (E.D. Pa. 1997) (establishing that a former client sought to enjoin its former General Counsel from working for its competitor on the ground that the employment would lead to disclosure of trade secrets and privileged material); *Quark, Inc. v. Power Up Software Corp.*, 812 F. Supp. 178, 180 (D. Colo. 1992) (indicating that plaintiff sought to prevent disqualified law firm from turning over its work-product to successor counsel and from working “behind the scenes” on the litigation at issue).

⁶ *Original Appalachian Artworks, Inc. v. May Dept. Stores Co.*, 640 F. Supp. 751, 753 (N.D. Ill. 1986).

disqualification and related motions are decided,⁸ based primarily on state ethics rules,⁹ most of which are based on the American Bar Association (“ABA”) Model Rules of Professional Conduct (“Model Rules”), or the earlier promulgated ABA Model Code of Professional Responsibility (“Model Code”).¹⁰ However, conflicts situations are also evaluated “in the light of the public interest and the litigants’ rights.”¹¹

In patent cases appealed to the Court of Appeals for the Federal Circuit (“Federal Circuit”), disqualification motions are treated, for choice of

⁷ The federal judiciary’s rules committee has proposed eliminating, as to certain types of ethical violations, the current patchwork of nearly 100 different sets of local rules on the subject. *Federal Judges Weigh Proposal to Issue Uniform Ethics Rules*, 66 U.S.L.W. 2549 (March 17, 1998). In January, 1998, the Standing Committee on Rules of Practice and Procedure of the U.S. Judicial Conference voted to ask its advisory committees to review a package of 10 proposed rules which would standardize the regulation of attorney conduct in the federal courts in areas including confidentiality, candor toward the tribunal, the lawyer as a witness, and conflicts of interest. *Id.* The proposed rules, which could become part of the Federal Rules of Civil Procedure, or “be adopted as a new free-standing set of federal rules,” follow closely the substance of the corresponding ABA Model Rules of Professional Conduct. *Id.* It is important to recognize, however, that the committee’s action is only the first step in the long and involved process by which federal rules are adopted. *See id.*

⁸ *See id.*

⁹ *See e.g., Parkland Corp. v. Maximus Co.*, 920 F. Supp. 1088, 1090 (D. Idaho 1996) (“[i]t is clear that ‘[i]n deciding whether to disqualify counsel, the Court looks to the local rules regulating the conduct of the members of its bar’”) (quoting *Amgen, Inc. v. Elanex Pharm., Inc.*, 160 F.R.D. 134, 139, 32 U.S.P.Q.2d 1688, 1692 (W.D. Wash. 1994)); *Poly Software*, 880 F. Supp. at 1490.

Some federal judicial districts have promulgated local rules adopting state bar ethics rules. *See e.g., Sun Studs, Inc. v. Applied Theory Assoc., Inc.*, 772 F.2d 1557, 1566, 227 U.S.P.Q. 81, 87 (Fed. Cir. 1985) (applying Ninth Circuit law, which, in turn applies the standards of the relevant district court governing the conduct of its bar, and noting that a District of Oregon local rule adopts Oregon State Bar standards).

¹⁰ The Second Circuit looks to the ABA Model Code of Professional Responsibility in deciding disqualification motions. *Telectronics Proprietary, Ltd. v. Medtronic, Inc.*, 836 F.2d 1332, 1336, 5 U.S.P.Q.2d 1424, 1427 (Fed. Cir. 1988); *Fisons Corp. v. Atochem N. Am., Inc.*, 1990 WL 180551 at *2 & n. 3 (S.D.N.Y. Nov. 14, 1990). The ethical rules and legal standards discussed in this paper are based on the cases discussed herein. No attempt has been made to provide a comprehensive review of the specific ethical rules and legal standards applicable to conflicts of interest situations in all jurisdictions. The reader is advised to consult specific controlling authorities in their particular jurisdiction of relevance.

¹¹ *Cole*, 43 F.3d at 1383 (quoting *In re Dresser Indus. Inc.*, 972 F.2d 540, 543 (5th Cir. 1992)).

law purposes, as procedural matters that are not unique to patent issues.¹² The Federal Circuit reviews such matters “under the law of the particular regional circuit court where appeals from the district court would normally lie.”¹³

B. Recurring Conflicts Situations

1. Former Clients

Many conflicts situations arise where the attorney, the firm or the client has moved on and the attorney-client relationship has been presumptively discontinued. For example, a client may have retained a firm for a specific transaction or lawsuit, or to establish or perfect intellectual property rights relating to a particular trademark, creative work, or invention. Another common source of potential “former client” conflicts is the lateral movement of attorneys among firms.

One district judge has described the “former client” conflict of interest predicament as follows:

It goes to the very heart of a lawyer’s ethics: the continuing and sacrosanct duty of fidelity to a client, versus the right to be emancipated from that client and to go off to do lawyering elsewhere. The subtle tugs and tensions between that duty and that right raise questions that are particularly knotty.¹⁴

The governing ethical standards are essentially the same regardless of whether the Model Code or the Model Rules guide the conflicts determination. Under Canon 4 of the Model Code,¹⁵ [a]n attorney may be disqualified from representing a client in a particular case if

- (1) the moving party is a former client of the adverse party’s counsel;
- (2) there is a substantial relationship between the subject matter of the counsel’s prior representation of the moving party and the issues presented in the present lawsuit; and

¹² *Panduit Corp. v. All States Plastic Mfg. Co.*, 744 F.2d 1564, 1574-75, 223 U.S.P.Q. 465, 471 (Fed. Cir. 1984), *rev’d in part on other grounds, Richardson-Merrell, Inc. v. Koller*, 472 U.S. 424, 432 (1985).

¹³ *Panduit*, 744 F.2d at 1574-75, 223 U.S.P.Q. at 471; *Atasi Corp. v. Seagate Tech.*, 847 F.2d 826, 829, 6 U.S.P.Q.2d 1955, 1956 (Fed. Cir. 1988) (citing *Sun Studs, Inc. v. Applied Theory Assoc., Inc.*, 772 F.2d 1557, 1566, 227 U.S.P.Q. 81, 87, (Fed. Cir. 1985)).

¹⁴ *Brozost*, 964 F. Supp. at 170, 42 U.S.P.Q.2d at 1695 (Gawthrop, J.).

¹⁵ Canon 4 provides: “A lawyer should preserve the confidences and secrets of a client.” ABA Model Code Prof. Resp. Canon 4 (1980).

(3) the attorney whose disqualification is sought had access to, or was likely to have had access to, the relevant privileged information in the course of his prior representation of the client.¹⁶

In a “Model Rules” jurisdiction, the applicable standard is provided by Rule 1.9, which provides:

A lawyer who has formerly represented a client in a matter shall not thereafter:

(a) represent another person in the same or a substantially related matter in which that person’s interests are materially adverse to the interests of the former client unless the former client consents after consultation; [or]

(b) use information relate[d] to the representation to the disadvantage of the former client except as Rule 1.6... would permit... with respect to a client, or when the information has become generally known.¹⁷

When a disqualification motion is brought in the “former client” context, the parties and the courts tend to focus primarily on the “substantial relationship” aspect¹⁸ of the test. Further, the purpose of rules governing conflicts with former clients is to prevent a lawyer from using confidential information to his former client’s disadvantage.¹⁹ The substantial

¹⁶ *Planning & Control, Inc. v. MTS Group, Inc.*, 1992 WL 51569 at *2 (S.D.N.Y. Mar. 11, 1992) (quoting *Evans v. Artek Sys. Corp.*, 715 F.2d 788, 791 (2d Cir. 1983)).

¹⁷ ABA Model R. Prof. Conduct R. 1.9(a), (c)(1) (2002).

¹⁸ Courts generally require that a party bringing a disqualification motion establish the existence (or previous existence) of an attorney-client relationship with the lawyer or firm targeted for disqualification. *Religious Tech. Ctr. v. F.A.C.T.Net, Inc.*, 945 F. Supp. 1470, 1479 (D. Colo. 1996) (failing to establish the existence of an attorney-client relationship obviates consideration of the substantial relationship test). However, some courts have held that a party who was never a client of the lawyer or firm at issue has standing to bring a disqualification motion, based on the general public interest in insuring the integrity of the bar. *Kevlik v. Goldstein*, 724 F.2d 844, 848 (1st Cir. 1984); *United States v. Clarkson*, 567 F.2d 270, 271 & 272 n. 1 (4th Cir. 1977). In *SMI Indus. Canada, Ltd. v. Caelter Indus., Inc.*, the court explained its rationale for holding that a non-client had standing as follows:

The court believes that the general rule which restricts standing to raise a Canon 4 disqualification motion to one who is a client or former client of the challenged law firm must give way to a maxim that adequately addresses the need to ensure both clients and the general public that lawyers will act within the bounds of ethical conduct.

SMI Indus., 586 F. Supp. at 815, 223 U.S.P.Q. at 746.

¹⁹ *Robert Woodhead, Inc. v. Datawatch Corp.*, 934 F. Supp. 181, 183 (E.D.N.C. 1995); *W.R. Grace & Co. v. GraceCare, Inc.*, 152 F.R.D. 61, 65 (D. Md. 1993) (citing *Stitz v. Bethlehem Steel Corp.*, 650 F. Supp. 914, 916 (D. Md. 1987)) (“[a] substantial relationship is presumed where there is ‘a reasonable probability that confidences were

relationship test serves to protect client confidences by allowing courts to avoid examining the content of actual attorney-client communications.²⁰

Not surprisingly, the courts hold differing views of what constitutes a “substantial relationship.” Consistent with its general distrust of disqualification motions,²¹ the Second Circuit interprets the “substantial relationship” test strictly,²² granting disqualification only where the

disclosed’ which could be used adversely later”). Consistent with this purpose, the Seventh Circuit has stated that a substantial relationship exists when “the lawyer could have obtained confidential information in the first representation that would have been relevant in the second.” *Analytica, Inc. v. NPDR Research, Inc.*, 708 F.2d 1263, 1266 (7th Cir. 1983).

²⁰ *Original Appalachian*, 640 F. Supp. at 755. A party seeking disqualification may decide to show affirmatively that confidences were actually conveyed, rather than relying solely on the substantial relationship test. See e.g., *Islander East Rental Program v. Ferguson*, 917 F. Supp. 504, 509 (S.D. Tex. 1996); *Decora Inc. v. DW Wallcovering, Inc.*, 901 F. Supp. 161, 163 (S.D.N.Y. 1995). In such a case, the movant may be permitted to present its evidence on this issue *ex parte in camera*. *Id.*

²¹ *Artek*, 715 F.2d at 791-792. One court has noted that “[s]uch motions are often designed to harass opposing counsel, cause delay, or needlessly increase the cost of pursuing a cause of action[,]” and, on that basis, imposed sanctions under 28 U.S.C. § 1927 against parties whose disqualification motion was brought “purely to harass their opponent.” *Vegetable Kingdom, Inc. v. Katzen*, 653 F. Supp. 917, 925-926 (N.D.N.Y. 1987).

The Second’s Circuit’s general aversion toward disqualification motions has been manifested by a decreased reliance on Model Code Canon 9 as a basis for disqualification motions. Canon 9 states that “[a] [l]awyer [s]hould [a]void [e]ven [t]he [a]ppearance of [p]rofessional [i]mpropriety.” ABA Model Code Prof. Resp. Canon 9 (2002). In the Second Circuit, “disqualification under Canon 9 will generally not be granted in a situation in which neither Canon 4 nor Canon 5 is implicated.” *Planning & Control*, 1992 WL 51569 at *4. The rationale is as follows: “[i]f the only ‘appearance of impropriety’ is a violation of Canon 4 that has already been found devoid of substance, it would be downright perverse to hold that what has been held not to exist nonetheless ‘appears.’” *Id.* (quoting *Bennett Silvershein Assoc. v. Furman*, 776 F. Supp. 800, 806 (S.D.N.Y. 1991)). However, other jurisdictions continue to regard a Canon 9 violation as an independent basis for disqualification. *Hallmark Cards*, 616 F. Supp. at 521. The “appearance of impropriety” standard has been abandoned in the more recent Model Rules. William H. Fortune et al., *Modern Litigation and Professional Responsibility Handbook: The Limits of Zealous Advocacy* 86 (Aspen Law 1996).

In addition, the Second Circuit has expressed its preference for allowing state and federal bar disciplinary authorities to assume responsibility for remedying ethical violations. *Board of Educ. v. Nyquist*, 590 F.2d 1241, 1248 (2d Cir. 1979) (Mansfield, J., concurring) (“Only where the attorney’s unprofessional conduct may affect the outcome of the case is there any necessity to nip it in the bud. Otherwise conventional disciplinary machinery should be used and, if this is inadequate, the organized bar must assume the burden of making it effective as a deterrent”).

²² *Planning & Control*, 1992 WL 51569 at *3.

relationship between the issues in the prior and present cases are “patently clear,” “identical,” or “essentially the same.”²³ Under this standard, the District Court for the Southern District of New York held that the issue of whether computer-based training manuals infringed the plaintiff’s copyrights was not substantially related to copyright registration work for software used with the manuals.²⁴

Other courts are less restrictive in their definitions of “substantial relationship.” For example, in the Tenth Circuit, two matters are substantially related “if the factual contexts of the two representations are similar or related.”²⁵ Applying this fact-oriented standard, the court in *Quark, Inc. v. Power Up Software Corp* held that a trademark infringement litigation was substantially related to a copyright litigation because “[b]oth . . . involve the same software . . . [and] [b]oth involve questions of intellectual property.”²⁶

Thus, the outcome in a given disqualification situation clearly depends on how the court interprets the “substantial relationship” standard.²⁷

²³ *Government of India v. Cook Indus., Inc.*, 569 F.2d 737, 740 (2d Cir. 1978).

²⁴ *Planning & Control*, 1992 WL 51569 at ** 3-4.

²⁵ *Smith v. Whatcott*, 757 F.2d 1098, 1100 (10th Cir. 1985) (quoting *Trone v. Smith*, 621 F.2d 994, 998 (9th Cir. 1980)). Applying the same standard, the District Court for the District of Washington disqualified a firm from representing another law firm sued for securities fraud after a court in a patent infringement action found defendant law firm’s client liable for enhanced damages based on its reliance on the “obviously deficient” invalidity opinion prepared by the defendant. *Oxford Sys., Inc. v. Cellpro, Inc.*, 45 F. Supp.2d 1055, 1057 (W.D. Wash. 1999). The disqualified firm had represented the party seeking disqualification for thirteen years in a variety of matters, including employment, defamation, products liability, corporate acquisition, and patent litigation matters, including some assistance with discovery in the patent infringement action that gave rise to the securities fraud action. *Id.* at 1057-59. Disqualification was warranted because the client’s “reliance on [the defendant law firm’s] opinions [was] a central issue in both cases.” *Id.* at 1061. Although the two matters involved patent infringement, alleged securities fraud and the disqualified firm was not counsel of record for the client in the infringement action. *Id.*

²⁶ 812 F. Supp. 178 (D. Colo. 1992).

²⁷ The following are examples of how the substantial relationship test has been applied in the intellectual property context. A patent infringement litigation concerning products and processes involving polytetrafluoroethylene (“PTFE”), and including antitrust counterclaims, was held to be substantially related to trade secret misappropriation lawsuit, in addition to antitrust counterclaims, and relating to PTFE, between the same parties. *W.L. Gore & Assoc., Inc. v. Intl. Med. Prosthetics Research Assoc., Inc.*, 745 F.2d 1463, 1464-1466, 223 U.S.P.Q. 884, 885-886 (Fed. Cir. 1984). A plaintiff’s patent infringement action against defendant A was regarded as substantially related to the same plaintiff’s subsequent patent infringement action against defendant B, even though the issues in the two were “different,” because “the subject matter of both – the [same] patent – is identical.” *Amgen*, 160 F.R.D. at 140, 32 U.S.P.Q.2d at 1693. A patentee’s action against its licensee for breach of the license agreement and patent infringement was

Under any formulation, however, it is clear that this aspect of the disqualification test is satisfied when the prior and present representations concern the same litigation.²⁸

The potential for disparate interpretations of the substantial relationship test is also illustrated by decisions on disqualification motions in cases where an attorney or firm that procured a patent for a former client subsequently seeks to defend a party charged with infringing the patent. This situation would appear to fail the substantial relationship test, and some courts have not hesitated to endorse an outright prohibition on such conduct.²⁹

Disqualification motions in such situations have not uniformly succeeded, however. Remarkably, one court has held that disqualification is not warranted where the prior representation was limited to the preparation of a patent application, because the attorney in such a situation was acting in

found to be substantially related to the licensee's prior action to enforce the same patent against a third party. *Buckley v. Airshield Corp.*, 908 F. Supp. 299, 305 (D. Md. 1995). An action involving a claim that the defendant's anti-virus software infringed the copyright in the plaintiff's software, which the defendant was previously licensed to use, was held to be substantially related to a law firm's prior representation of software developers who developed the accused software. *Robert Woodhead*, 934 F. Supp. at 184. The prior representation related to the developers' desire to form their own software company, and their concern that their proposed venture might violate their confidentiality agreements with the defendant. *Id.*

However, an action alleging misappropriation of confidential information relating to the plaintiff's "Flatpak" product, as well as unfair competition, tortious interference, and breach of employment agreements, was held to be not substantially related to prior legal representation which included the procurement of patents covering an earlier, different "Flexpak" version of the plaintiff's product, trade secrets concerning the earlier product, and the registration of the "Flatpak" and "Flexpak" trademarks. *Hydril Co. v. Multiflex, Inc.*, 553 F. Supp. 552, 555-556 (S.D. Tex. 1982).

²⁸ *Actel Corp. v. Quicklogic Corp.*, 1996 WL 297045 at *1 (N.D. Cal., May 29, 1996) (disqualifying lateral's new firm from representing the plaintiff in a patent infringement action based on lateral attorney's two hours of work on behalf of the infringement defendant while working as a summer clerk in his former firm).

²⁹ *Sun Studs*, 772 F.2d at 1567, 227 U.S.P.Q. at 88 ("any attack on the patent is totally contrary to" the prosecution work done for the former client); *Monon Corp. v. Wabash Natl. Corp.*, 764 F. Supp. 1320, 1323 (N.D. Ind. 1991) ("[w]hether the confidential information that [the former client] allegedly shared with [the law firm] is relevant to the issues raised in this litigation against it is a simple determination in this case, given that the subject matter is the very same patent"). It may be more difficult to establish the existence of a conflict where the prior work was limited to copyright registration, which has been characterized as a "perfunctory task" in a disqualification context. *Original Appalachian*, 640 F. Supp. at 755; *Junior Gallery, Ltd. v. Foreign Resources Corp.*, 1994 WL 669556 *3 (S.D.N.Y. Nov. 30, 1994) (characterizing a law firm's prior counseling regarding copyright registration as "routine" and "ministerial").

a capacity "other than an attorney."³⁰ In other cases, attorneys who have prepared or prosecuted patent applications have been permitted to participate in a subsequent attack on the validity of the patent where the validity challenge is based on prior art discovered subsequent to the issuance of the patent.³¹ In a similar vein, the District Court for the Northern District of California resolved this type of conflict by giving the law firm and the present client the option to continue the representation on the condition that their defense be limited to assertions of non-infringement.³² The issue of whether and under what conditions a patent attorney can defend against a charge of patent infringement where the attorney procured the patent has thus been an area of some disagreement among the district courts.

2. Related Entities

Representing one client whose interests are adverse to another presumptively creates a conflict of interest.³³ But what if the adverse party is not a client, but a client's parent, subsidiary, or corporate affiliate? The courts do not take a uniform approach to this problem. Some have presumed the existence of a conflict, while others have found conflicts where it is appropriate to "pierce the corporate veil," and still others consider all of the relevant facts and circumstances.³⁴ Such circumstances include whether the

³⁰ *Pain Prevention Lab Inc. v. Electronic Waveform Labs Inc.*, 657 F. Supp. 1486, 1497 (N.D. Ill. 1987). The court explained that "[c]ommunicating technical information to an attorney primarily to enable the attorney to prepare a patent application does not in itself call for the attorney to render any legal advice." *Id.* This case is reminiscent of a number of cases, now largely discredited, that limited the applicability of the attorney-client privilege on the ground that a patent attorney functions as a conduit for conveying technical information to the PTO. Compare *Jack Winter, Inc. v. Koratron Co.*, 50 F.R.D. 225, 228, 166 U.S.P.Q. 295, 298 (N.D. Cal. 1970) with *Advanced Cardiovascular Sys., Inc. v. C.R. Bard, Inc.*, 144 F.R.D. 372, 378, 25 U.S.P.Q.2d 1354, 1359 (N.D. Cal. 1992). The Federal Circuit has recently rejected that position. See *In re Spalding Sports Worldwide, Inc.*, 203 F.3d 800, 803, 53 U.S.P.Q.2d 1747, 1749 (Fed. Cir. 2000).

³¹ *Telectronics*, 836 F.2d at 1338, 5 U.S.P.Q.2d at 1429; *SMI*, 586 F. Supp. at 818, 223 U.S.P.Q. at 749.

³² See *Hilleby v. FMC Corp.*, 25 U.S.P.Q.2d 1413, 1416 (N.D. Cal. 1992).

³³ See ABA Model R. Prof. Conduct 1.7 (West 2001) ; ABA Model Code Prof. Resp. DR 5-105(B) (1978).

³⁴ See generally Ronald D. Rotunda, *Legal Ethics: The Lawyer's Deskbook on Professional Responsibility* §§ 14-7.1-.3 (West 2000-01); William Freivogel, Freivogel on Conflicts, *Conflict of Interest Issues for Corporate Law Departments* <http://www.freivogelonconflicts.com/new_page_36.htm> (accessed Oct. 1, 2001). See generally *U. of Rochester v. G.D. Searle & Co.*, 2000 WL 1922271, at *10 (W.D.N.Y.

representations are related (creating an opportunity to compromise client confidential information), whether the same personnel represent the corporate entities in their communications with the lawyer or firm, and whether the entities are separately run.³⁵

The courts tend to favor less drastic remedies over disqualification in instances where the potential conflicts are created by the clients, and the attorney or firm acts promptly and properly to avoid or rectify any conflict. For example, in *Pennwalt Corp. v. Plough, Inc.*,³⁶ a firm was permitted to withdraw from its representation of one of two concurrent clients because the concurrent representation resulted from a corporate merger, the “adverse” client was merely a sister corporation of the other client’s litigation opponent (as distinguished from a situation where the adverse client *is* the litigation opponent), and the motion to withdraw was made while the merger was still in progress.³⁷ In the court’s view, withdrawal was permissible because it prevented a certain conflict *before* the conflict developed.³⁸

Similarly, in *Gould, Inc. v. Mitsui Mining & Smelting Co.*,³⁹ the court permitted the firm of Jones, Day, Reavis & Pogue (“Jones Day”) to choose between two clients because the conflict had been created by the acquisition of the “adverse” client by an existing client.⁴⁰ The conflict in *Gould* resulted in part from the merger of Jones Day with the firm of McDougall, Hersh & Scott (“MS&H”).⁴¹ Prior to the merger, Jones Day represented Gould in its unfair competition action against Pechiney, a client of MS&H in unrelated patent matters.⁴² Shortly after the merger, Jones Day sought and obtained the consent of Pechiney to continue its representation of Gould in the Gould-Pechiney matter.⁴³ Over two years later, Pechiney acquired IG Technologies,

Dec. 11, 2000) (citing decisions finding a client's affiliates are clients, too, for purposes of evaluating conflicts).

³⁵ Rotunda, *supra* n. 34, at § 14-7.1.

³⁶ 85 F.R.D. 264, 208 U.S.P.Q. 561 (D. Del. 1980).

³⁷ *Pennwalt Corp.*, 85 F.R.D. at 272, 208 U.S.P.Q. at 573.

³⁸ *Id.*

³⁹ 738 F. Supp. 1121 (N.D. Ohio 1990).

⁴⁰ *Id.* at 1127.

⁴¹ *Id.* at 1122.

⁴² *Id.*

Inc. (“IGT”), which was, at the time, an existing Jones Day client in contractual and licensing matters unrelated to the Gould-Pechiney dispute.⁴⁴ Although Jones Day did not seek Pechiney’s (or Gould’s) consent to its continued representation of both Gould and IGT (thus held to have violated DR 5-105(C)), the court denied Pechiney’s motion to disqualify Jones Day;⁴⁵ rather, the court elected to allow Jones Day to choose to continue to represent either Gould or IGT.⁴⁶

3. “Subject Matter Conflicts”

Most skilled patent attorneys and firms have probably had the opportunity to consider the extent to which they can prepare and prosecute patent applications for more than one client in the same or similar technical fields. Patent attorneys are in demand, especially in highly specialized areas such as biotechnology and computer technology. Attorneys who develop expertise in a particular technology area are likely to be approached by other potential clients seeking patent protection for related inventions. Similarly, potential clients requiring sophisticated trademark and copyright services often seek advice from practitioners representing clients in their particular industries.

Such interrelated relationships are generally mutually beneficial. The client gets the benefit of relevant legal expertise, and the attorney or firm enjoys a new business opportunity. However, representing multiple clients trying to protect closely related inventions, or other potentially conflicting intellectual property, presents a number of potential problems or challenges.

⁴³ *Id.* at 1123. In its letter to Pechiney, Jones Day described the implementation of procedures, referred to by the court as “chinese-wall procedures,” designed to insure that Pechiney’s confidences would be protected. *Id.* The use of such procedures in conflicts situations is discussed below.

⁴⁴ *Id.*

⁴⁵ *Id.* 1126-27. The court rejected Pechiney’s attempt to withdraw its own prior consent, even though Jones Day had requested permission to continue serving as Gould’s local counsel, and had since become Gould’s sole counsel. *Id.* at 1125. According to the court, there is no meaningful distinction between “local counsel” and lead counsel, in that “all counsel signing pleadings and appearing in a case are fully accountable to the court and their clients for the presentation of the case.” *Id.*

While the court’s decision to treat local counsel as the equivalent of lead counsel in this case benefited Jones Day, it should also be apparent that attempts to avoid the application of DR-105 or other relevant ethical rules by arguing that “local counsel clients” should not be regarded as clients for conflicts purposes are unlikely to succeed.

⁴⁶ *Id.* at 1127. The court did, however, state that it had notified disciplinary counsel to the Supreme Court of Ohio of the “ethical violation” by Jones Day. *Id.*

For example, relationships with existing clients can be damaged when an attorney or firm takes on a competitor's work. An existing client may fear that the knowledge and skills acquired by an attorney while working on that client's projects may be used -- consciously or unconsciously -- to give the new client a competitive advantage. There is also a risk that confidential aspects of the existing client's proprietary technology may find its way into the new client's organization. For these reasons, intellectual property attorneys, especially those engaged in the protection of trade secrets and the acquisition of patents, are well-advised to carefully evaluate new business opportunities for the effects that a proposed representation may have on existing client relationships. Potential clients should consider whether, and under what circumstances, they will employ outside counsel who accept work from potential competitors. As the following will illustrate, representing competitors in intellectual property matters raises a variety of potential ethical, legal, and practical issues.

a. The potential perils of representing competitors.

Subject matter conflicts may implicate the professional responsibility rules pertaining to conflicts of interest. The disciplinary consequences of simultaneously or sequentially representing competitors in intellectual property matters have yet to be resolved. Rule 1.7 of the ABA Model Rules governs conflicts of interest,⁴⁷ and provides:

(a) A lawyer shall not represent a client if the representation of that client will be directly adverse to another client, unless:

- (1) the lawyer reasonably believes the representation will not adversely affect the relationship with the other client; and
- (2) each client consents after consultation.

(b) A lawyer shall not represent a client if the representation of that client may be materially limited by the lawyer's responsibilities to another client or to a third person, or by the lawyer's own interests, unless:

- (1) the lawyer reasonably believes the representation will not be adversely affected; and
- (2) the client consents after consultation. When representation of multiple clients in a single matter is undertaken, the consultation

⁴⁷ Most state ethics rules are based on either the ABA Model Rules of Professional Conduct or the earlier ABA Model Code of Professional Responsibility. This article discusses general ethics principles. As always, specific provisions of the applicable rules should be consulted for guidance on particular fact situations.

shall include explanation of the implications of the common representation and the advantages and risks involved.⁴⁸

Comment 3 provides helpful explanatory guidance regarding the meaning of direct adversity:

[A] lawyer ordinarily may not act as advocate against a person the lawyer represents in some other matter, even if it is wholly unrelated. On the other hand, *simultaneous representation in unrelated matters of clients whose interests are only generally adverse, such as competing economic enterprises, does not require consent of the respective clients*. Paragraph (a) applies only when the representation of one client would be directly adverse to the other.⁴⁹

The drafters of Rule 1.7 thus contrast direct adversity (which constitutes a conflict of interest in the absence of informed consent), with general adversity (for which no consent is required, for example, the representation of competing economic enterprises). The direct adversity standard would be implicated, for example, by simultaneously representing two clients in patent litigation or license negotiation matters. By way of contrast, the concurrent representation of two clients in prosecution matters with related subject matters would, in many cases, likely constitute no more than the representation of "competing economic interests" that raises no conflict concerns under the Model Rules.⁵⁰ However, it is not difficult to imagine

⁴⁸ ABA Model R. Prof. Conduct 1.7.

⁴⁹ *Id.* at R. 1.7, cmt. 3 (emphasis added).

⁵⁰ *Id.* In Model Code jurisdictions, Canon 5 governs conflicts of interest: A Lawyer Should Exercise Independent Professional Judgment on Behalf of a Client. Undertaking or continuing a representation involving conflict of interest is prohibited by DR 5-105, which reads, in pertinent part:

(A) A lawyer shall decline proffered employment if the exercise of his independent professional judgment in behalf of a client will be or is likely to be adversely affected by the acceptance of the proffered employment, or if it would be likely to involve him in representing differing interests, except to the extent permitted under DR 5-105(C).

(B) A lawyer shall not continue multiple employment if the exercise of his independent professional judgment in behalf of a client will be or is likely to be adversely affected by his representation of another client, or if it would be likely to involve him in representing differing interests, except to the extent permitted under DR 5-105(C).

(C) In the situations covered by DR 5-105(A) and (B), a lawyer may represent multiple clients if it is obvious that he can adequately represent the interest of each and if each consents to the representation after full disclosure of the possible effect of such representation on the exercise of his independent professional judgment on behalf of each.

ABA Model Code of Prof. Resp. DR 5-105.

According to the relevant Ethical Considerations:

simultaneous representation situations⁵¹ that involve greater adversity than mere economic competition.

For example, the representations may involve preparing and submitting patent claims with interfering subject matter, potentially leading to a direct adversity situation. Furthermore, the prosecution to issuance of claims for one client, which read on another client's product likely constitutes more than general adversity, as it is defined in the comment to Rule 1.7.⁵² Patents are potential economic weapons, and pertinent patents clearly alter the relative positions of parties who are otherwise mere economic competitors. Additionally, in *Molins PLC v. Textron, Inc.*,⁵³ at least one Federal Circuit judge, in a dissenting opinion, was persuaded that an attorney's ethical obligations and duty of candor to the PTO⁵⁴ preclude him from simultaneously representing two clients in related prosecution matters under certain circumstances.⁵⁵

Similarly, providing an opinion that one client's proposed trademark or product does not violate the intellectual property rights of another client goes beyond representing "generally adverse" competitors. At a minimum, such an opinion would involve interpreting the other client's intellectual property rights as being too narrow to encompass the proposed use. It may even require asserting that the other client's rights are invalid or

there are many instances in which a lawyer may properly serve multiple clients having potentially differing interests in matters not involving litigation. *If the interests vary only slightly, it is generally likely that the lawyer will not be subjected to an adverse influence and that he can retain his independent judgment on behalf of each client;* and if the interests become differing, withdrawal is less likely to have a disruptive effect upon the causes of his clients.

ABA Model Code Prof. Resp. EC 5-15 (emphasis added); *see id.* at EC 5-19 (stating "[a] lawyer may represent several clients whose interests are not actually or potentially differing. Nevertheless, he should explain any circumstances that might cause a client to question his undivided loyalty").

⁵¹ Because of the disciplinary rules that impute conflicts to members of the same firm, for purposes of the present analysis it does not matter if the same or different attorneys in the firm handle the clients' matters. *See* ABA Model R. Prof. Conduct 1.10; ABA Model Code Prof. Resp. DR 5-105(D).

⁵² Similarly, under the applicable Model Code provisions, it is fair to say that the clients' interests here vary more than "only slightly," and are "potentially differing."

⁵³ 48 F.3d 1172, 33 U.S.P.Q.2d 1823 (Fed. Cir. 1995).

⁵⁴ The existence of a related patent application could constitute material information under 37 C.F.R. § 1.56 (2002), for example, because it constitutes prior art or claims interfering subject matter.

⁵⁵ *Molins PLC*, 48 F.3d at 1190, 33 U.S.P.Q.2d at 1836 (Nies, J., dissenting).

unenforceable. Furthermore, such opinions are typically given for the purpose of limiting the rights of the intellectual property owner.⁵⁶

While representing competitors may present conflict risks in other contexts, such risks are heightened in intellectual property matters. Intellectual property rights are valuable because they are exclusive (where trademark, copyright, or trade secret protection applies), or at least exclusionary (as is the case with patent rights). As a result, broad intellectual property protection enjoyed by one party inherently constrains the opportunities available to its competitors. Thus, the possibility that simultaneous or sequential representation of competitors in intellectual property matters involve or will give rise to, adversity is attributable, at least in part, to the fundamental nature of intellectual property protection.

In the United States, attorney conduct is regulated by ethical prohibitions. Rules define standards that an attorney must meet to avoid potential disciplinary action.⁵⁷ An attorney violates Rule 1.7(a), for example, when direct adversity is established. Thus, unless and until litigation or license negotiations between the clients in the scenarios described above are at least imminent, the attorneys involved are likely not subject to discipline under Rule 1.7(a), even in the absence of the informed consent of the clients.

The attorneys involved, however, are probably subject to discipline under the "materially limited" standard of Rule 1.7(b).⁵⁸ An attorney engaged in simultaneous representation described above, or one who is

⁵⁶ A party who has "actual notice" of a patent has an affirmative duty to exercise due care in determining whether he is infringing another's patent rights or not, including, *inter alia*, the duty to obtain competent legal counseling before initiating infringing activities. *Underwater Devices, Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380, 1389-90, 219 U.S.P.Q. 569, 576 (Fed. Cir. 1983). Failure to satisfy the duty of due care can result in a finding that the infringement was willful, an enhanced damage award of up to three times any found or assessed damages and, if the case is determined to be "exceptional," an award of the patentee's reasonable attorneys fees. See *Avia Group Intern., Inc. v. L.A. Gear Cal., Inc.*, 853 F.2d 1557, 1566-67, 7 U.S.P.Q.2d 1548, 1555-56 (Fed. Cir. 1988). A competent opinion of noninfringement, invalidity, or unenforceability will insulate the recipient from these consequences. See e.g. *Studiengesellschaft Kohle m.b.H. v. Dart Indus., Inc.*, 862 F.2d 1564, 1578-79, 9 U.S.P.Q.2d 1273, 1286-87 (Fed. Cir. 1988). Similar concepts apply in trademark and copyright cases. See generally David L. Hitchcock, Charles J. Raubicheck & W. Chad Shear, *The Ethics of Opinion Letters Under the PTO Code of Professional Responsibility and the New York Code of Professional Responsibility*, (PLI N.Y. Prac. Skills Course Handbook Series No. F0-0059, Dec. 1999); Jeffrey M. Thomas, *Willful Copyright Infringement: In Search of a Standard*, 65 Wash. L. Rev. 903 (1990).

⁵⁷ See e.g. Frank X. Neuner, Jr., *Professionalism: Charting a Different Course for the New Millennium*, 73 Tul. L. Rev. 2041, 2043-44 (1999).

⁵⁸ ABA Model R. Prof. Conduct 1.7(b).

working for one client with knowledge that the other party is also represented by his firm, may be tempted to "pull his punches" – drafting patent claims or an opinion, for example, more narrowly than he otherwise would. One or both clients in such a situation are deprived of the undivided loyalty Rule 1.7 is intended to promote.⁵⁹ And unless the requirements of Rule 1.7(b)(1) (lawyer reasonably believes the representation will not be adversely affected) and 1.7(b)(2) (clients consent after consultation) are met, a disciplinary violation has occurred.⁶⁰

Even if a disciplinary grievance is not filed, or a violation cannot be established, representing competitors can give rise to allegations of malpractice or trade secret misappropriation. Consider the following situations.

In June, 2001, ASAT Holdings, Ltd. ("ASAT"), a Hong Kong corporation with a U.S. subsidiary, filed an action asserting negligence and breach of fiduciary duty claims against Skjerven Morrill MacPherson LLP ("SMM"), based on SMM's alleged simultaneous representation of ASAT and Amkor Tech., Inc. ("Amkor") – ASAT's "direct competitor" in patent prosecution matters relating to "virtually the same invention."⁶¹ Specifically, ASAT alleges that: (1) from 1994 until September 2000, it was represented by SMM in prosecuting patent applications relating to integrated circuit packages;⁶² (2) "[c]oncurrent with its representation of ASAT, SMM also represented ASAT's direct competitor, Amkor, with regard to the filing of patent applications,"⁶³ in particular, an Amkor patent application that issued in November 2000 ("the Amkor patent");⁶⁴ (3) "SMM's representation of Amkor in the prosecution of [the Amkor patent] began after it was already representing ASAT in connection with a patent application directed to an invention virtually identical to claims in [the Amkor patent];"⁶⁵ and (4) prior to the issue date of the Amkor patent, "ASAT was unaware of SMM's representation of Amkor in connection with patent rights relating to

⁵⁹ ABA Model R. Prof. Conduct 1.7, cmt. 1.

⁶⁰ ABA Model R. Prof. Conduct 1.7(b)(1)-(2).

⁶¹ Pl.'s Compl. ¶ 1 (June 8, 2001), *ASAT Holding Ltd. v. Skjerven Morrill MacPherson, L.L.P.* (Cal. Super. Ct. 2001) (No. CV 798991) (hereinafter "ASAT Complaint").

⁶² *Id.* at ¶ 14.

⁶³ *Id.* at ¶ 15.

⁶⁴ *Id.* at ¶¶ 16, 20.

⁶⁵ *Id.* at ¶¶ 16, 22.

integrated circuit package technology."⁶⁶ ASAT contends that by representing Amkor in the circumstances described, SMM "created a risk of disclosure and misuse of ASAT's confidential information"⁶⁷ and "took positions in the prosecution of [the Amkor patent] adverse to the interests of ASAT."⁶⁸ ASAT further accuses SMM of "fail[ing] to implement sufficient conflict-avoidance procedures," and alleges that ASAT's marketing efforts, market position, and sales have been hampered as a result of SMM's conduct.⁶⁹

In another recent case, a California attorney and firm were sued for trade secret misappropriation, in addition to breach of duty, based on their representation of competitors in patent matters.⁷⁰ Caliper Technologies Corp. ("Caliper") alleged that it sought advice from attorney Bertram Rowland ("Rowland") and his firm, Flehr, Hohbach, Test, Albritton & Herbert ("Flehr, Hohbach"), on patent and other intellectual property matters in late 1995 and early 1996.⁷¹ It further alleged that "pursuant to the attorney-client relationship, and in order to accomplish the purposes for which the attorneys had been retained, Caliper provided its trade secrets" to Rowland and Flehr, Hohbach, including "sensitive and highly confidential information about Caliper's products, technology, markets, intellectual property, and

⁶⁶ *Id.* at ¶ 21. Precisely when and what ASAT learned about SMM's representation of Amkor is unclear. As noted, the complaint alleges that ASAT did not know of SMM's representation in prosecution matters until November, 9, 2000, the day that the Amkor patent issued. *Id.* It further alleges that "[a]fter the Amkor patent issued, ASAT learned of SMM's breach and confronted SMM [which] acknowledged the conflict of interest, and in a telephone call 'fired' ASAT as a client, indicating that Amkor was a larger and more important client and would therefore be retained. *Id.* at ¶ 1. However, the complaint also alleges that SMM "admit[ed] to a conflict of interest in a telephone call in *September, 2000*, and advis[ed] ASAT that Amkor was a more important client." *Id.* at ¶ 26 (emphasis added).

⁶⁷ *Id.* at ¶ 27. In a separate paragraph in its complaint, ASAT alleges that "[o]n information and belief, the principal lawyers from SMM representing ASAT in connection with prosecution of its integrated circuit package patent applications and the SMM lawyers working on Amkor's . . . patent application worked together in SMM's San Jose office in the same relatively small practice group." *Id.* at ¶ 24.

⁶⁸ *Id.* at ¶ 27.

⁶⁹ *Id.* at ¶¶ 38, 40. Specifically, ASAT contends "that ASAT was prejudiced by an unnecessary and extremely costly delay of many months in obtaining patent rights," and that its marketing efforts and market position were harmed by that delay. *Id.* at ¶ 40. Sales, it contends, have been diverted to Amkor, as a result of Amkor's promotion of the Amkor patent procured by SMM. *Id.* at ¶ 40.

⁷⁰ See Pl.'s Compl. ¶ 16, 18 (Mar. 22, 1999), *Caliper Tech. Corp. v. Rowland*, (Cal. Super. Ct. 1999) (No. CV 780743) (hereinafter "Caliper Complaint").

⁷¹ *Id.* at ¶ 7.

strategies."⁷² Over two years later, according to Caliper, it learned of a patent (the "'015 patent") that had recently been issued to a third party, Aclara Biosciences, Inc. ("Aclara"),⁷³ in which the '015 patent application was prepared by Rowland and Flehr, Hohbach and filed in March, 1996, "shortly after Caliper's trade secrets . . . were provided to Rowland and Flehr, Hohbach," and that "[e]lements of the '015 patent are similar to features of Caliper technology and other trade secrets which were disclosed in confidence to Rowland and Flehr, Hohbach as part of their legal representation."⁷⁴ Caliper alleged that the defendants were liable for breaching their duty of confidentiality because the defendants disclosed Caliper's confidences, thereby violating Rule 3-310(E) of the Rules of Professional Conduct of the State Bar of California, which provides that "[a] member shall not, without the informed written consent of the client or former client, accept employment adverse to the client or former client where, by reason of the representation of the client or former client, the member has obtained confidential information material to the employment."⁷⁵ Furthermore, Caliper specifically accused the defendants of using Caliper's trade secrets "in the preparation and submission of" Aclara's patent application.⁷⁶

Rowland and Flehr, Hohbach reportedly settled Caliper's claims for \$12 million.⁷⁷ A jury found Aclara liable and awarded damages to Caliper based upon its finding that Aclara had misappropriated Caliper's trade secrets.⁷⁸ The court subsequently enjoined Aclara from asserting the '015

⁷² *Id.* at ¶ 8.

⁷³ *Id.* at ¶¶ 9, 10. The patent was originally issued to Aclara's predecessor. *Id.* at ¶ 9. Caliper and Aclara compete in the field of microfluidics, or "lab-on-a-chip" technology, which can be used to automatically analyze very small fluid samples. *See* Tom Abate, *Caliper Wins \$52.6 Million Patent Suit*, S.F. Chron. C1, (Oct. 31, 2000) (available in 2000 WL 6495590). According to Caliper, the technology "uses electrokinetic forces to control movement of tiny volumes of fluids across a chip." Caliper Complaint at ¶ 1. Aclara was also named as a defendant in the trade secret action. *See id.* at ¶ 4.

⁷⁴ Caliper Complaint at ¶ 10. The complaint further alleges that Rowland was later named Vice President and General Counsel of Aclara. *Id.* at ¶ 11.

⁷⁵ *Id.* at ¶ 14.

⁷⁶ *Id.* at ¶ 18.

⁷⁷ *Big Gets Bigger, Settlements Reached After Jury Verdict*, 23 Natl. L.J. C21 (Feb. 19, 2001).

⁷⁸ *Caliper Wins Patent Dispute* 13 High Tech Separations News (Jan. 1, 2001) (available in 2001 WL 12311278); *Caliper Awarded Over \$50 Million*, 9 Instrument Bus. Outlook, (Nov. 15, 2000) (available in 2000 WL 15416077). The court subsequently reduced the size of the award, taking into account Caliper's settlement with the attorney and firm, and amounts previously awarded Caliper on its conversion claim against Aclara. *See Other News to Note*, 11 BIOWORLD Today, (Nov. 28, 2000) (available in 2000 WL 8887051).

patent against Caliper,⁷⁹ but refused Caliper's request that the court impose a constructive trust and transfer ownership of the '015 patent to Caliper, finding that "[n]o particular invention or specific trade secret of Caliper's has been shown to have been incorporated into any claim in the patent"⁸⁰

b. How close is too close?

The representation of multiple competitors in a given industry may also complicate the conduct of litigation on a client's behalf, or even subject the client's intellectual property rights to allegations of unenforceability.⁸¹ Regardless of the context in which "subject matter conflicts" are at issue, however, the difficulty typically lies in determining when "related" representations pose risks. There is, of course, no way to answer this question in the abstract. Subject matter conflicts are more difficult to detect than client conflicts, and the larger the practice, the greater the challenge. Assuming detection is possible, a proper analysis of a particular situation would include consideration of a variety of factors, such as: a thorough understanding of the technologies and markets at issue (including the nature and extent of competition between the parties), the extent and nature of any prior disputes between the parties, whether the representations at issue are concurrent or sequential, the extent to which screening is a viable safeguard, and the applicable law. Note, however, that the process of resolving such conflicts and potential conflicts can itself complicate the situation. Thoroughly checking potential subject matter conflicts requires dissemination of relevant information regarding new patent matters to a firm's patent practitioners. However, attorneys must be careful to disclose only enough information to permit a thorough conflict analysis, without revealing a client's confidential information.

4. "Issue" or "Position" Conflicts

As noted above, subject matter conflicts do not fit neatly into the traditional conflicts analysis. Another situation that is difficult to analyze under the ethics rules is the "issue" or "position" conflict, which arguably

⁷⁹ *Aclara Announces Ruling on Equitable Relief in Trade Secret Lawsuit*, Chemical Bus. NewsBase, (Jan. 3, 2001) (available in 2001 WL 4367640).

⁸⁰ *Id.* In January, 2001, Caliper and Aclara settled the trade secret dispute and the parties' pending cross-claims for patent infringement. *Big Gets Better*, *supra* n. 77.

⁸¹ For additional discussion of these issues, see Lisa A. Dolak, *As If You Didn't Have Enough to Worry About: Current Ethics Issues for Intellectual Property Practitioners*, 82 J. Pat. & Trademark Off. Socy. 235 (Apr. 2000).

results when a lawyer or firm asserts one legal proposition on behalf of one client, and an opposite, or at least inconsistent, position on behalf of another. For example, suppose that a firm advocates one interpretation of the patent infringement statute, 35 U.S.C. Section 271(a), on behalf of one client, and other lawyers in the firm argue for an inconsistent reading of the same statute on behalf of another. Or one litigation team argues that "material" information for purposes of the inequitable conduct doctrine is limited to prior art, and another team in the firm, in another pending case, argues that it is not.

Little guidance on this subject is available. At first blush, Model Rule 1.7(a) or (b), quoted above, appear potentially relevant. Arguably, the assertion by a single lawyer or firm of inconsistent positions on behalf of different clients runs afoul of both the "directly adverse" or "materially limited" standards. However, Comment 9 to Model Rule 1.7 provides lawyers with some leeway in this situation:

A lawyer may represent parties having antagonistic positions on a legal question that has arisen in different cases, unless representation of either client would be adversely affected. Thus, it is ordinarily not improper to assert such positions in cases pending in different trial courts, but it may be improper to do so in cases pending at the same time in an appellate court.⁸²

However, in Formal Opinion 93-377,⁸³ the ABA Standing Committee on Ethics and Professional Responsibility rejected the Comment's distinction between trial and appellate courts, adopting instead the view that directly contrary substantive positions in different matters in the same jurisdiction possibly presents an ethical conflict.⁸⁴ Specifically, the Committee concluded that declining the second representation or withdrawing from the first, if withdrawal is otherwise permissible, is necessary if there is a "substantial risk" that advocating on behalf of one client is "likely materially to undercut the legal position being urged on behalf of the other client."⁸⁵

Model Rule 1.7, its associated commentary, and Formal Opinion 93-377 are not binding authority in any jurisdiction, of course. And the paucity of relevant caselaw tends to suggest that issue conflicts rarely arise in practice. However, it is worth noting that to the extent that attorneys litigate patent matters, there is, in effect, only one "jurisdiction" because of the Federal Circuit's exclusive jurisdiction over appeals in patent cases.⁸⁶

⁸² ABA Model R. Prof. Conduct 1.7, cmt. 9 (West 2001).

⁸³ ABA Comm. on Ethics & Prof. Resp., *Positional Conflicts*, Formal Op. 93-377 (ABA 1993).

⁸⁴ *Id.*

⁸⁵ *Id.*

⁸⁶ See 28 U.S.C. §§ 1295(a)(4), 1338 (1994 & Supp. V 1999).

Consequently, patent litigators, in particular, should be aware of potential issue conflicts. Admittedly, however, such potential conflicts are probably the most difficult to detect, particularly in large, multi-office law firms.⁸⁷

II. POTENTIAL “SOLUTIONS” TO CONFLICTS

If a given situation presents a conflict or a substantial risk that a conflict will develop, it is necessary to consider whether and how the conflict can be resolved. Three potential conflicts “solutions” to consider are screening mechanisms, client consents and advance waivers, and withdrawal from the representation.

A. Screens

As noted above, “former client” conflicts situations often arise from the lateral movement of attorneys between firms. Under the doctrine of imputed or shared knowledge, one law firm member’s prior representation of an adverse party in a substantially related matter necessitates the disqualification of the entire firm.⁸⁸ In such a situation, the tainted attorney is presumed to have shared client confidences with his new colleagues, and thus has “infected” his or her new firm with the conflict.⁸⁹ In some jurisdictions, the firm can rebut the presumption by establishing that “specific institutional screening mechanisms have been implemented to effectively insulate against any flow of confidential information from the quarantined attorney to other members of his present firm.”⁹⁰

⁸⁷ See Rotunda, *supra* n. 34, §§ 8-6.14.3-.4.

⁸⁸ See e.g. *Atasi Corp. v. Seagate Tech.*, 847 F.2d 826, 829-30, 6 U.S.P.Q.2d 1955, 1956-57 (Fed. Cir. 1988) (applying Ninth Circuit law to affirm disqualification of entire firm due to existing “of counsel” attorney conflicts); *Cobb Publg., Inc. v. Hearst Corp.*, 907 F. Supp. 1038 (E.D. Mich. 1995) (disqualifying entire firm for failure to promptly comply with Michigan’s rules regarding attorney screening). For a state-by-state analysis of whether unconsented screening is accepted as a conflicts remedy under these circumstances, see William Frievoegel, *Frievoegel on Conflicts, Changing Firms* <http://www.frievoelonconflicts.com/new_page_13.htm> (accessed Oct. 1, 2001).

⁸⁹ *Cobb Publg.*, 907 F. Supp. at 1045.

⁹⁰ *Id.* (quoting *Manning v. Waring, Cox, James, Sklar & Allen*, 849 F.2d 222, 225 (6th Cir. 1988)). The screen effectuated through such procedures is commonly referred to as an “ethical wall” or “Chinese wall.” See e.g. *Hilleby v. FMC Corp.*, 1992 WL 455436, 25 U.S.P.Q.2d 1413, 1416 (N.D. Cal. 1992); *Hallmark Cards, Inc. v. Hallmark Dodge, Inc.*, 616 F. Supp. 516, 521 (W.D. Mo. 1985). A related concept is the “cone of silence,” in which the transferring attorney, but not the other members of the firm, agrees not to share the confidences of prior clients with his or her new colleagues. See *Atasi Corp.*, 847 F.2d at 831-32, 6 U.S.P.Q.2d at 1958 (noting, however, “[s]ince the Ninth Circuit has yet to

Factors to be considered in evaluating the sufficiency of any ethical screen vary from jurisdiction to jurisdiction, but may include:

the size and structural divisions of the law firm involved, the likelihood of contact between the infected attorney and the specific attorneys responsible for the present representation, the existence of rules which prevent the infected attorney from access to relevant files or other information pertaining to the present litigation or which prevent him from sharing in the fees derived from such litigation . . . [and the] specific institutional mechanisms to block the flow of confidential information.⁹¹

The screening procedure must be both demonstrably effective and timely.⁹² Delay for as little as two weeks has been held to violate applicable conflicts of interest prohibitions.⁹³ Moreover, an otherwise proper screen may nevertheless be regarded as ineffective if the attorney's or firm's prior involvement was "substantial."⁹⁴

Model Rule 1.10 does not authorize screening as a remedy.⁹⁵ The ABA House of Delegates has recently voted to maintain the status quo in this regard. In August, 2001, the House of Delegates rejected a proposal by the ABA Commission on Evaluation of the Rules of Professional Conduct (known as the "Ethics 2000 Commission") to amend Model Rule 1.10 to authorize a firm to avoid the consequences of imputation through screening (without seeking client consent) of a personally disqualified lawyer who joins the firm as a lateral from the matter in question.⁹⁶

approve the Chinese Wall, which provides more assurance against shared confidences than the cone of silence, we do not now approve the latter method of rebuttal"). 847 F.2d at 832, 6 U.S.P.Q.2d at 1958.

⁹¹ *Quark, Inc. v. Power Up Software Corp.*, 812 F. Supp. 178, 180 (D. Colo. 1992) (quoting *Smith v. Whatcott*, 757 F.2d 1098, 1101 (10th Cir. 1985)).

⁹² *Cobb Publ.*, 907 F. Supp. at 1045.

⁹³ *Id.* at 1049.

⁹⁴ See e.g. *Smith & Nephew, Inc. v. Ethicon, Inc.*, 98 F. Supp. 2d 106, 111 n. 10 (D. Mass. 2000) (disqualifying Fish & Richardson ("F&R") from representing the plaintiff in its action claiming ownership of patents it contends it owns pursuant to the inventor-defendants' employment agreements with the plaintiff's predecessor, despite the "impervious" screen F&R established to wall off the inventors' former attorney, now "of counsel" with F&R, where the attorney had negotiated the employment agreements at issue).

⁹⁵ ABA Model R. Prof. Conduct 1.10 (West 2001).

⁹⁶ Conference Report, *ABA Stands Firm on Client Confidentiality, Rejects 'Screening' for Conflicts of Interest*, 70 U.S.L.W. 2093, 2095 (Aug. 14, 2001) [hereinafter *Conference Report*].

B. Consents and Advance Waivers⁹⁷

As noted above, representing one client against another is presumptively improper.⁹⁸ In such situations, the attorney or firm representing the parties must discontinue the representations, unless two conditions are met: (1) it must be obvious that the attorney or firm can adequately represent the interest of each client; and (2) each client must consent to the multiple representation “after full disclosure of the possible effect of such representation on the exercise of his independent professional judgment on behalf of each.”⁹⁹ Failure to satisfy either one of these conditions precludes continuation of the multiple representation,¹⁰⁰ and withdrawal is mandated.¹⁰¹ However, once a violation of the applicable rules has occurred (either because consent has not been obtained or because adequate representation of both parties is not possible), an attorney or firm may not resolve the conflict by unilaterally (i.e., without leave of court) terminating one client or the other client.¹⁰²

By way of example, in the Ninth Circuit, determinations of whether it is obvious that an attorney can adequately represent adverse parties are made by considering the following factors:

⁹⁷ "Consent" is used herein to refer to a client's authorization to proceed with a representation or proposed representation after a conflict has developed or a potential conflict has matured to a point where the relevant circumstances, third parties, and risks can be identified with specificity for purposes of soliciting the client's informed consent. In contrast, "advance waiver" is used herein to refer to a client's agreement that a lawyer or firm may, perhaps months or years in the future, accept a representation under circumstances that may present a conflict between the agreeing client's interests and those of a third party, such as a future client. The distinction, admittedly, is not entirely clear.

⁹⁸ See ABA Model R. Prof. Conduct 1.7(a) (West 2001).

⁹⁹ ABA Model Code Prof. Resp DR 5-105(C) (West 2001). A similar analysis is applied when concurrent representation situations are evaluated against ethical rules patterned after the Model Rules. See e.g. *Walker v. Sweet Cravings, Inc.*, 1990 WL 300284 at *2 (E.D. Mich. Sept. 6, 1990); see generally ABA Model R. Prof. Conduct 1.7.

¹⁰⁰ *Picker Intl., Inc. v. Varian Assoc., Inc.*, 869 F.2d 578, 582, 10 U.S.P.Q.2d 1122, 1125 (Fed. Cir. 1989) (defendant's refusal to consent to simultaneous representation disqualified law firm from representing plaintiff); *Fisons Corp. v. Atochem N. Am., Inc.*, 1990 WL 180551 at **4-7 (S.D.N.Y. Nov. 14, 1990) (allowing dual representation upon finding of informed client consent and adequate representation from law firm).

¹⁰¹ See e.g. *Picker*, 869 F.2d at 582, 10 U.S.P.Q.2d at 1126.

¹⁰² *Picker*, 869 F.2d at 582, 10 U.S.P.Q.2d at 1126.

- (1) the nature of the litigation;
- (2) the type of information to which the lawyer may have had access; [and]
- (3) whether the client was in a position to protect his interests or know whether he will be vulnerable to disadvantage as a result of multiple representation¹⁰³

For example, in a concurrent representation situation where the two actions at issue were (1) a trademark infringement litigation which had settled before the disqualification motion was decided, and (2) an action involving alleged fraud and breach of warranty arising out of the purchase of a pharmaceutical division, the United States District Court for the Southern District of New York concluded that “the type of information to which [the law firm] had access in the [trademark action] would not be relevant to the [fraud action].”¹⁰⁴ The court thus found no indication that the firm would not be able to adequately represent both parties.¹⁰⁵

Assuming it is “obvious” that the multiple parties can be adequately represented, the attorney or firm must fully disclose the situation and any potential adverse effects to each party, and obtain the informed consent of each party to continue representation.¹⁰⁶ Respect for a client’s freedom of choice underlies the policy of permitting attorneys to continue concurrently representing two or more adverse clients, assuming adequate representation of each is obviously possible and informed consent is obtained.¹⁰⁷ In the words of the Ninth Circuit:

It is true that the court has an obligation to safeguard the integrity of the judicial process in the eyes of the public. But the impact upon the public’s respect for lawyers may be too speculative to justify overriding the client’s right to take a calculated risk and, with full knowledge, engage the attorney of his choice. We do not find it necessary to create a paternalistic rule that would prevent the client in every circumstance from hiring a particular attorney if the client knows that some detriment may result from that choice in a later suit. Clients who are fully advised should be able to make choices of this kind if they wish to do so.¹⁰⁸

Where the conflict is “consentable,”¹⁰⁹ – consent to concurrent representation that is freely obtained, after full disclosure, from a sophisticated client – that

¹⁰³ *Unified Sewerage Agency v. Jelco, Inc.*, 646 F.2d 1339, 1350 (9th Cir. 1981).

¹⁰⁴ *Fisons*, 1990 WL 180551 at *7.

¹⁰⁵ *Id.*

¹⁰⁶ See ABA Model Code Prof. Resp DR 5-105(C); *Fisons*, 1990 WL 180551 at *4.

¹⁰⁷ *Fisons*, 1990 WL 180551 at *6.

¹⁰⁸ *Id.* (quoting *Unified Sewerage Agency*, 646 F.2d at 1350).

¹⁰⁹ Conflicts that do not satisfy the requirements of DR 5-105(C) (“it is obvious that [the lawyer or firm] can adequately represent the interest of each”) or Model Rule 1.7(a)(1) or (b)(1) (“the lawyer reasonably believes the representation will not adversely affect the

consent will serve to preclude a subsequent motion to disqualify the counsel to whom the consent has been given.¹¹⁰ Beware, however, of “consent” obtained from a client under duress; for example, consent when a client would otherwise be left in the lurch.¹¹¹ Note also that the ABA House of Delegates has recently approved a proposal by the Ethics 2000 Commission to amend Model Rule of Professional Conduct 1.7 to require that client consent to concurrent conflicts be “confirmed in writing.”¹¹²

Advance waivers are generally evaluated under the same standards as consents given after conflicts have developed. First, the potential conflict must be “consentable.”¹¹³ Second, the client granting the waiver must have been given sufficient information to facilitate knowing consent.¹¹⁴ Other relevant factors include the sophistication of the client granting the waiver,¹¹⁵ the sophistication of the individuals who approve the grant of the waiver on the client's behalf,¹¹⁶ the explicitness of the waiver (particularly compared with the requesting firm's knowledge regarding potential conflicts),¹¹⁷ and whether the waiving party was advised to and/or did seek independent counsel on the issue of whether to grant the waiver.¹¹⁸

relationship with the other client” and “the lawyer reasonably believes the representation will not be adversely affected,” respectively) are non-consentable.

¹¹⁰ *Fisons*, 1990 WL 180551 at **5-6.

¹¹¹ *Picker*, 869 F.2d at 584, 10 U.S.P.Q.2d at 1127 (characterizing a spurned client's agreement to continued representation by members of merging firm “in their individual capacities” as a “necessary evil as long as the merged firm was refusing to acknowledge [it] as a client . . .”). 869 F.2d at 584, 10 U.S.P.Q.2d at 1127.

¹¹² *Conference Report*, *supra* n. 96 at 2094.

¹¹³ *Fisons*, 1990 WL 180551 at *6.

¹¹⁴ *Compare Gen. Cigar Holdings, Inc. v. Altadis, S.A.*, 144 F. Supp. 2d 1334, 1339 (S.D. Fla. 2001) (upholding advance written waiver of objection “to any . . . future representation by the [requesting] firm of any of [the specifically identified clients], its respective parent, subsidiaries and affiliates in any matter not substantially related to this representation,” even though obtained less than one month before the filing of the suit in which the disqualification motion was brought. *Id.* at 1336-37.) with *U. of Rochester v. G.D. Searle & Co.*, 2000 WL 1922271 at **9-10 (W.D.N.Y. Dec. 11, 2000) (refusing to give effect to an advance waiver obtained while the firm was preparing to sue the client that granted the waiver).

¹¹⁵ *See e.g. Fisons*, 1990 WL 180551 at *5.

¹¹⁶ *Id.*

¹¹⁷ *See e.g. U. of Rochester*, 2000 WL 1922271 at *10.

¹¹⁸ *See e.g. Elonex I.P. Holdings, Ltd. v. Apple Computer, Inc.*, 142 F. Supp. 2d 579, 582-83 (D. Del. 2001) (upholding waiver approved by in-house counsel serving as Director of Intellectual Property); *Gen. Cigar Holdings*, 144 F. Supp. 2d at 1339 (giving effect to waiver reviewed by outside counsel).

As the foregoing discussion demonstrates, each conflicts situation – and whether a “solution” to the conflict exists – must be evaluated based on applicable law, and the specific facts presented.

III. MINIMIZING CONFLICTS OF INTEREST IN INTELLECTUAL PROPERTY REPRESENTATION

Constant vigilance in the prevention, detection, and resolution of conflicts of interest is the responsibility of all legal professionals. For intellectual property attorneys, the need to diligently police potential conflicts may be greater than ever before, given the generally high demand for skilled intellectual property practitioners and associated increase in lateral attorney transfers and practice acquisitions. Intellectual property attorneys can lessen the potential for conflicts of interest and their consequences by following some basic precautions.

1. **Know the applicable ethical rules.** Controlling ethical rules vary from state to state and, potentially, between adjacent federal judicial districts. Although the fundamental principles are essentially the same, particular procedures may govern specific situations, such as withdrawal from representation.
2. **Raise consciousness.** Foster compliance with recommendation #1 by implementing periodic programs to educate attorneys and paralegal professionals regarding general conflicts of law principles and firm-specific procedures for avoiding and dealing with conflicts.
3. **Review and update conflicts checking procedures and software.** Established procedures may not adequately detect potential conflicts resulting from the acquisition of the business of lateral hires, client acquisitions and mergers, and subject matter and issue conflicts. Supplemental procedures may be necessary to avoid such conflicts.¹¹⁹
4. **Exercise control over the inception of the attorney-client relationship.** Explain the conflicts-checking process to potential clients to avoid creating a premature impression that an attorney-client relationship has begun. Be explicit about whether an attorney-client relationship has been created. Obviously, in the context of a disqualification motion, a court will make its own determination regarding if and when an attorney-client relationship was created, but these precautions will likely influence a court’s determination.¹²⁰

¹¹⁹ See Arthur D. Burger, *Spotting Firm Conflicts: The Reach – and Limits – of Using a Database to Root Out Trouble*, Legal Times 20 (Apr. 2001).

¹²⁰ See e.g. *Poly Software Intl., Inc. v. Su*, 880 F. Supp. 1487, 1491 (D. Utah 1995).

5. **Always send letters of engagement.** An engagement letter serves to memorialize the beginning of an attorney-client relationship, at least from the attorney's perspective. It should identify the client(s) whose representation is being undertaken, the services to be performed (as well as any which the attorney or firm has declined to perform), and the payment arrangement(s) for the engagement, including which arrangement will apply to which service(s) and how past due accounts will be handled. If the new client has consented to any waivable conflicts of interest, or has agreed to the attorney's hiring of co-counsel (and the corresponding disclosure of client confidences to the co-counsel), such consents should be recited in the engagement letter. The client should be asked to sign and return a copy of the letter of engagement.
6. **Send letters of nonengagement.** "Existing client" conflicts are generally more problematic than "former client" conflicts, in that a party seeking to disqualify an attorney or firm based on concurrent representation of adverse clients need not establish that a substantial relationship exists between the clients' matters. A "nonengagement" letter helps to establish when an attorney-client relationship ended. Consideration should also be given to sending a nonengagement letter whenever an attorney declines to represent a prospective client, and when a prospective client does not formally engage an attorney after an initial consultation (especially where the attorney suspects that the prospective client has made the initial contact with a view toward disqualifying the attorney from representing the prospective client's adversary in anticipated litigation).
7. **Avoid "subject matter" conflicts of interest.** When a prospective representation is likely to involve the client's disclosure of proprietary business or technology information to the attorney, the attorney or firm should take steps beyond the traditional client conflicts checking procedures to avoid concurrent representation, at least by the same attorney, of clients whose interests are potentially adverse because of their involvement in closely related technology subject matter. Obviously, there is no easy way to decide, for example, how related is too related, or to otherwise predict which clients are someday likely to be adverse to which prospective clients. But, a mechanism should be established for soliciting input from attorneys, actively representing existing clients in related technology areas to that of a prospective client's, regarding the advisability of any proposed representation. E-mail provides a convenient means for alerting the appropriate attorneys and provides documentation that appropriate inquiries were made.

8. **Implement appropriate screening procedures promptly.** Such procedures include excluding the “tainted” attorney from participating in the potentially conflicting matter, instructing all other attorneys, patent agents, paralegals and administrative staff not to discuss the matter with the excluded attorney (or in his presence), preventing his access to documents and other materials relating to the matter,¹²¹ and segregating fees derived from the matter, to avert his receipt of any portion of those fees.¹²² Also, where the potential conflict arises from hiring the “tainted” attorney, implement the procedures *before* he or she joins the firm or law department. Regardless of how sophisticated and well-implemented the screening procedures, failure to have them in place before client confidences can be disclosed may constitute an ethical violation.¹²³
9. **In the event of a conflict, promptly take remedial action.** When a conflict develops, it is essential that proper steps be taken to resolve the conflict appropriately. It may be possible to discharge the conflict by obtaining the affected client’s consent. But “consent” means informed consent, with all potential adverse consequences disclosed. If the conflict is irremediable, the applicable withdrawal procedures, including obtaining leave of court when required, must be carefully observed.¹²⁴ Failure to comply with those procedures may subject the attorney to disciplinary action.

¹²¹ While the widespread use of computer technology in law firms and law departments potentially enhances an organization’s ability to efficiently disseminate screening instructions, the general access of computerized records within a networked organization may necessitate special precautions regarding the “walled off” attorney’s potential access to restricted documents.

¹²² See e.g. *Cobb Publ.*, 907 F. Supp. at 1052. The *Cobb* case includes a detailed bar opinion regarding the implementation of screening procedures. *Id.* at 1052-59.

¹²³ *Id.* at 1047.

¹²⁴ See e.g. *Picker*, 869 F.2d at 582-83, 10 U.S.P.Q.2d at 1126 (withdrawal could only be accomplished through mandatory withdrawal procedures specified by the district court’s local rules; attempting to unilaterally withdraw by notifying the client that the representation was terminated was ineffective to accomplish withdrawal).