



Ethical Issues for In-House Patent Counsel

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Technical Minds. Legal Muscle.

Outline

- Law firm conflicts of interest
- Frequent ethics issues before the OED
- Ethics and professionalism in IP negotiations
- Attorney-client and work product privilege

Law Firm Conflicts

- Law firms routinely ask for advance conflicts waivers- why?
- Conflicts waivers address Rule 1.7
 - Adversity
 - Loyalty (no adversity involved)
- Client confidentiality makes it difficult to seek a waiver in IP matters (Rule 1.6)
- Law firm must decide: volume of work justifies no waiver?

Law Firm Conflicts – “Horrible Hypotheticals”

- Client A wants to sue Client B for patent infringement.
- This is what Client B fears when they sign a rep letter with an advance waiver.
- Law firm has an advance waiver so they file the lawsuit on behalf of A.
- Result: Law Firm gets fired by Client B and develop a well-deserved reputation for being disloyal

Law Firm Conflicts- “Horrible Hypotheticals”

- Law firm is performing a huge freedom to operate study for Client A. Out of 100s of potential patents, one of them appears to be owned by a Client B.
- The patent is not in a technical field in which the firm represents Client B.
- Asking for a waiver is impossible because the firm can't disclose the work it is doing for Client A.
- Does the firm have to send away the project midstream?

Law Firm Conflicts – “Horrible Hypotheticals”

- Law firm is prosecuting a patent application for Client A. The Examiner uses Client B's patent as a 102 reference. Assume Client B's patent is unrelated to anything the law firm does for Client B. Can we argue that the patent is not enabled?
- Law firm is prosecuting a patent application for Client A. Law Firm knows or strongly suspects that the claims would read on Client B's product. What does law firm do? Does it matter if the information was obtained publicly?

The USPTO Ethics Watchdog: OED

- Regulates admission to practice at USPTO
- OED investigates *grievances*
- Can independently launch investigations
- Interprets ethics rules
 - PTO ethics rules
 - State ethics rules
 - State and ABA ethics opinions
 - Court decisions
 - PTO “published” decisions
- Issues warning letters

Frequent Issues Before OED

- Reciprocal Discipline. 37 C.F.R. 11.24
- Violation of PTO ethics rules
- Grievances fall into several categories
 - Neglect
 - Dishonesty, Fraud, Deceit or Misrepresentation
 - Fitness to Practice
 - Fee related

OED- Statute of Limitations

- Pre- AIA: 5 years
- After AIA, disciplinary proceedings must commence:
 - No later than 10 years after the misconduct occurred,
OR
 - No later than 1 year after the misconduct is made known to an officer or employee of the USPTO

Examples of Ethical Violations at USPTO

- **Neglect**

- *In re Tachner*

- Failed to deliver important notices from USPTO
 - Failed to docket due dates
 - Failed to keep current of status incoming transferred files

= 5 year suspension

Examples of Ethical Violations at USPTO

Dishonesty, Fraud, Deceit, Misrepresentation

- ***In re Bang-er Shia***

- Patent agent operated patent business
- Filed patent and trademark applications with USPTO
- Entered her clients electronic signatures on those filings
- Unauthorized practice

= **Excluded**

Examples of Ethical Violations at USPTO

- **Fee-Related Issues**
- ***In re Kang***
 - 5 insufficient checks
 - Resulted in 4 abandonments
 - = 3 year suspension**

Examples of Ethical Violations at USPTO

- **Fitness to Practice**

- ***In re Riley***

- Client paid for patent prep and prosecution
- Attorney kept money
- Did not respond to client
- Did not file application
- Attorney ignored USPTO inquiries
- Prejudicial to administration of justice

= Excluded

Ethics vs. Professionalism

According to Webster's:

- **ETHICS:** “The principles of conduct governing an individual or a group on the basis of a set of rules established by the group (culture).”
- **PROFESSIONALISM:** “The conduct, aims or qualities that characterize . . . a profession or a professional person

Truthfulness in Negotiations

- **ABA Model Rule 4.1 Truthfulness**
- In the course of representing a client, a lawyer shall not knowingly:
 - (a) **[1] *Make a false statement of material fact*** or **[2] *law*** to a third person; or
 - (b) **[3] *Fail to disclose a material fact*** to a third person when disclosure is necessary to avoid assisting a criminal or fraudulent act by a client...
- Adopted in substantially this form by most states.

Rule 4.1- Truthfulness in Negotiations

- **Misrepresentation:** A lawyer is required to be truthful when dealing with others on a client's behalf, but generally *has no affirmative duty to inform an opposing party of relevant facts.*
- **Statements of Fact:** Attorney may not make an untrue statement of fact that induces the other to enter into a contract. However, certain types of statements ordinarily are not taken as statements of material fact:
 - *Estimates of price or value*
 - *Willingness to compromise*

Rule 4.1- Truthfulness

- ABA Ethics Opinions

- ABA Formal Op. 95-397 – Breach of rule 4.1 to fail to disclose death of client during negotiations
- ABA Formal Op. 94-387 – No duty to disclose in negotiations that statute of limitations may have run on claim

- Case Examples

- *Fire Ins. Exchange v. Bell*, 643 N.E.2d 310 (Ind. 1994) – Fraud to lie about insurance policy limits
- *Virzi v. Grand Trunk Warehouse & Cold Storage Co.*, 571 F. Supp. 507 (E.D. Mich. 1983) – Unethical to fail to disclose death of client

Rule 4.1- Truthfulness

- **Do not lie** about a material fact
 - What is material depends on the situation
 - Distinguish posturing or puffery
- **Do not hide** a material fact
 - Where failure to disclose amounts to a misrepresentation
- **Do not remain silent** or fail to act with knowledge of client's misleading statements or actions
- **Do not misstate** the law
 - Cannot assume opponent knows the law
- **Do not remain silent** with knowledge that opponent misunderstands an issue of fact or law
 - Party with greater knowledge may have to assist other party
 - Opposing counsel's lack of experience may increase obligation to disclose

Test: Are These Material Misrepresentations?

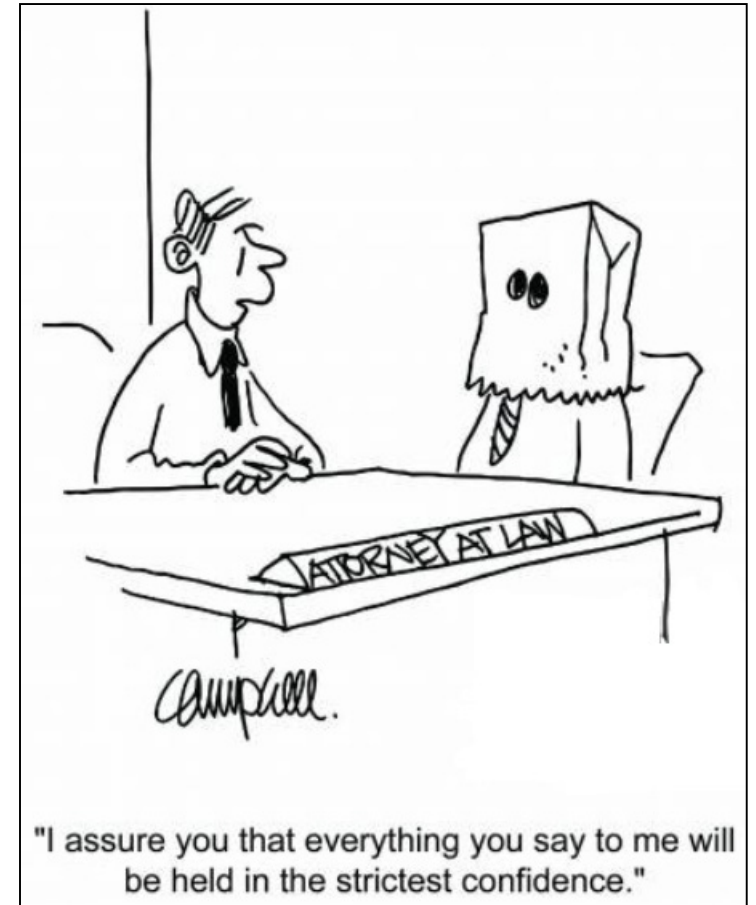
- **Offering license under pending but rejected patent application?**
 - Do not represent that patent has issued
 - File history available to both parties
- **Offering license under patent you know to be invalid (e.g. there is anticipatory prior art)?**
 - Make no representation of validity
- **Asserting need for a license even though you know of an estoppel in the file history?**
 - File history is available to both parties
- **Failing to note all changes made in draft?**
 - Careful... Modern compare software provides means for checking but also induces reliance

Lying vs. Puffing

- **“Can’t accept royalty of 5%; our profit margin is only 5%.”**
 - Lying: Misstatement of historical, objectively verifiable fact
- **“Client will not accept less than 4% royalty.”**
 - Even with knowledge that client will accept less, generally considered puffing, not lying
- **“Because of MFL clause, client cannot accept less than 4% royalty.”**
 - If there is no MFL clause, lying
- **“The licensed patent is valid”**
 - Puffing, despite knowledge of arguable weaknesses due to prior art

Duty of Confidentiality - Ethics Rule 1.6

- Lawyer shall not reveal a confidence or secret of the client
 - Broader than privilege
 - Patent filing may be confidential but not privileged
 - Requires informed consent before disclosure
 - Specific
 - In writing
 - Implied disclosure in order to carry out the work for which retained
 - Can include the very fact that the client retained our firm
 - Applies to non-lawyers working at the firm
 - Obligation to comply with this rule continues after termination



Rule 1.6- Confidentiality and Attorney-Client Privilege

- Attorney-Client Privilege- Protects confidential communication between “privileged persons” (*i.e.*, attorney-client, or attorney-attorney) for the purpose of obtaining or giving legal advice
- Both duty of confidentiality and privilege = encourage candid communication and full disclosure

Facts vs. Communication

- Facts are not privileged; documents/communications may be
- But, documents/communications do not lose privileged status merely because they contain facts
- If multiple documents contain the same fact, some may be privileged and some may not be, depending on the context

- Confidentiality → more broad than privilege

No Privilege when not Acting as a Lawyer

- No privilege when business could have been conducted by non-lawyer
 - *E.g.*, lawyer as negotiator or business advisor
- Reason: Can't shield otherwise discoverable communications simply by getting lawyer involved

Attorney-Client Privilege

- Relevant factors:
 - Communication between client and counsel?
 - Could the work be performed by a non-lawyer?
 - Is confidentiality expected among the senders/recipients?
 - Relevance of the recipient's legal knowledge?
 - Does it relate to giving or getting legal advice?
 - Any third-parties included in communication? Were they present to fulfill a role incident to the legal representation?
 - Legends (e.g., "Privileged") are not controlling

Privilege- Who is the Client?

- Do you represent the individual inventor or his/her start-up?
- Do you represent your client's corporate affiliates?
 - Apply “alter-ego” test
 - Shared legal department?
 - Share physical offices?
 - Invoices go to parent company
- Risk waiving privilege if you inadvertently share information with a non-client

Patent Agents- Confidentiality and Privilege

- Patent agents are subject to ethics rules, including confidentiality
- Privilege also attaches to communications to/from Patent Agents
 - *In re Queens University at Kingston* (Fed. Cir. 2016) determined patent agent privilege exists
 - Only exists on matters they are authorized to work on before PTO
 - Does not exist for: licensing/contract matters, litigation outside PTO (this would be considered unauthorized practice of law for an agent)
 - *In re Silver* - Case No. 16-0682 (Tex. Feb. 23, 2018)
 - Most recent case affirming patent agent privilege
- PTO adopted § 42.57 in Nov. 2017 to codify privilege

Inadvertent Disclosure

- What do you do if you inadvertently disclose confidential and privileged information?
 - Federal Rules of Civil Procedure, Federal Rules of Evidence and most jurisdictions' ethics rules provide guidance on this
 - Immediate notice to inadvertent recipient
 - Request that they delete and destroy all electronic/physical copies
 - Request confirmation that deletion/destruction has been completed
 - Inform recipient that disclosure was inadvertent and not intended to waive privilege
 - Remind the recipient of the relevant rules

Waiver of Privilege

- Conversations in public areas- train, restaurant, coffee shop
- Third party present- in room, on phone, cc'd on email
 - Must show that:
 - Intended for communication to remain secret,
 - Third party's role is “essential”, “necessary”, or “highly useful”
- File transfers- portfolio or asset acquisition does not “transfer” the privilege
- Law firm staff: info shared with third parties who are assisting an attorney in providing legal advice to a client **DOES NOT WAIVE** privilege
 - Includes consultants/vendors retained by firm that are necessary or useful to representation
 - Recognition that purpose is legal advice

Questions?

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