The Ins and Outs of Conflicts of Interest

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1. The Importance of Monitoring Conflicts of Interest

It is important for outside counsel to take reasonable care to spot their own firm's conflicts, those of co-counsel, those of their experts, and those of opposing counsel. Inside counsel should be sure outside counsel is doing so. The reason why counsel must monitor its own firm's conflicts, and those of its experts, is obvious, since a conflict can result in disqualification, discipline, malpractice, or simply embarrassment or loss of business. Less obvious may be the need to monitor conflicts of co-counsel or opposing counsel, but doing so is important because sometimes co-counsel's conflict can be imputed to a firm. *See Freeman v. Chicago Musical Instrument Co.,* 689 F.2d 715 (7th Cir. 1982); *Emblaze Ltd. v. Microsoft Corp.,* 2014 U.S. Dist. LEXIS 74992 (N.D. Cal. May 30, 2014); *Buckley v. Airshield Corp.,* 908 F. Supp. 299 (D. Md. 1995).

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

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

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

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

As to the conflicts of opposing counsel, the need arises from the fact that some courts hold that many conflicts are waived if not timely raised by the adversely affected client. *See, e.g., P&L Development LLC v. Bionpharma Inc.,* 2019 WL 357351 (M.D.N.C. Jan. 29, 2019) (*In re Metoprolol Succinate Patent Litig.*, 2006 U.S. Dist. LEXIS 1328 (E.D. Mo. Jan. 17, 2006) (finding waiver due to delay); *Buckley v. Airshield Corp.*, 908 F. Supp. 299 (D. Md. 1995) (no waiver under facts presented). Some courts, such as the Fifth Circuit, hold that certain

objections cannot be waived by the client, but instead are matters for the court to resolve. *See* David Hricik & Jae Ellis, *Disparities in Legal Ethics Standards Between State and Federal Judicial Systems: An Analysis and a Critique*, 13 GEO. J. LEGAL ETHICS 577 (2000).

But disqualification is not the most common and immediate problem caused by conflicts. Foremost, if a former client has failed to pay fees or expenses, and the lawyer sends a demand letter for payment, clients will often examine whether the lawyer earned those fees while facing a conflict of interest. If the client finds one, the threat of a counterclaim – for fee disgorgement or malpractice – exists, and the claim for past-due fees may be a wise choice. Further, a client can sue for fee disgorgement where a lawyer has earned them with an undisclosed conflict, causing the lawyer to pay back some or all fees even if the client had not been damaged. See *Burrow v. Arce*, 997 S.W.2d 229 (Tex. 1999) (denying summary judgment on claim for damages, and at the same time discussing the independent equitable remedy of fee forfeiture and its application, and remanding for further proceedings).

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

2. Confusion About Client Identity

A recurrent problem arises when a practitioner believes that she represents one prosecution client but, later, someone claims to have *also* been a client. If a lawyer is deemed to represent more than one client, it can create conflicts of interest, and there may be no privilege among the joint clients, and if in-house counsel is deemed to represent someone other than the corporate employer, the entire in-house legal department may be disqualified. *E.g., Loop AI Labs Inc. v Gatti,* 2016 WL 730211 (N.D. Cal. Feb. 24, 2016) (analyzing whether firm jointly represented two clients and whether firm could assert privilege in dispute involving those two clients).

a. Inventors Claiming to Also Have Been Clients.

The law is generally clear that, without more, a practitioner does not represent an inventor solely because the inventor executed a power of attorney to a practitioner retained by the inventor's employer to prosecute an application, at least where the inventor has an obligation that assigned the invention to the employer. The Federal Circuit in *Sun Studs* believed that at least based on general agency principles and not any state law, the execution by an employee of a power of attorney for the benefit of his employer did not create an express or implied attorney-client relationship: "In the present case there was not even a 'technical' attorney-client relationship between Chernoff and Hunter because of the prior agreement that all rights in the invention belonged to Sun Studs." *Sun Studs, Inc. v. Applied Theory Assocs., Inc.,* 772 F.2d 1557, 1568 (Fed. Cir. 1985). Several courts have held that a practitioner prosecuting a patent application for an employer does not have an attorney-client relationship with an employer's inventor. *E.g.*, *Emory Univ. v. Nova Biogenetics, Inc.,* 2006 U.S. Dist. LEXIS 67305 (N.D. Ga. Sept. 20, 2006) ("a firm prosecuting a patent application on behalf of a company does not form an attorney-client relationship with any individual inventor required to assign his rights to the company").

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