Ethics in Patent Practice

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INTRODUCTION: PATENT LITIGATION AS AMBULANCE CHASING?

In recent years, Congress, President Obama, and others have asserted that patents are being abused by lawyers who rely upon the high costs of defending a case to "extort" settlements from defendants. In an op-ed piece I co-authored with Chief Judge Rader and Colleen Chien, we wrote in part:

> The problem stems largely from the fact that, in our judicial system, trolls have an important strategic advantage over their adversaries: they don't make anything. So in a patent lawsuit, they have far fewer documents to produce, fewer witnesses and a much smaller legal bill than a company that does make and sell something. Because they don't manufacture products, they need not fear a counterclaim for infringing some other patent. They need not be concerned with reputation in the marketplace or with their employees being distracted from business, since litigation is their business.
>
> Trolls, moreover, often use lawyers to represent them on a contingent-fee basis (lawyers get paid only when they win), allowing trolls to defer significant legal costs that manufacturers, who generally must pay high hourly fees, cannot. With huge advantages in cost and risk, trolls can afford to file patent-infringement lawsuits that have just a slim chance of success. When they lose a case, after all, they are typically out little more than their own court-filing fees. Defendants, on the other hand, have much more to lose from a protracted legal fight and so they often end up settling.

The asymmetric discovery costs create incentives for both defense counsel and counsel for a patentee to act unprofessionally: patentee's counsel by asserting claims in marginal cases, and defense counsel by not moving quickly to efficiently resolve a case, instead "churning" the file.

Fee Issues*

§ 4.04 Trust, Professionalism and Alternative Fee Agreements

[1] General Principles

As in all areas of practice, patent clients are looking for AFAs that vary from the once nearly ubiquitous hourly rate. Academics and others have recently begun to analyze the ethical issues they may raise.[24]

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* The first part is an updated excerpt from David Hricik, PATENT ETHICS: LITIGATION (LexisNexis 2014). Used by permission; all rights reserved. The Third Edition is forthcoming.

[24] *E.g.*, Peggy Kubicz Hall, *I've Looked at Fees from Both Sides Now: A Perspective on Market-Valued Pricing for Legal Services*, 39 Wm. Mitchell L. Rev. 154 (2012); Richard B. Friedman & P. Michael Freed, *Ethical Issues and Alternative Fee Arrangements: What to do and what not to do*, 85 N.Y. St. B.J. 10 (May 2012); Andrea J. Paterson, *Fee Agreements: Structuring Alternative Fee Agreements to Enhance Recovery of Fees and Align Interests of Attorneys and Clients*, 35 Advoc. (Texas) 10 (2006).

The fundamental professionalism issue these agreements create arises from the fact that they require trust – running in both directions between client and lawyer. Trust can be abused, by a lawyer who chooses an AFA that results in the "best" fee for him – whether that be a more predictable fee or a more profitable one. Trust can also be abused by a lawyer who "low balls" a flat- or capped-fee arrangement deliberately, knowing that if the lawyer later has the "need" to increase the fee, the client's sunk costs in using the lawyer will give the lawyer leverage over the client. At the same time, in-house counsel must be willing to acknowledge that events have occurred after a flat fee arrangement was begun which were unforeseen, and so be willing to adjust the fee agreement accordingly, perhaps requiring rigorous compliance with the arrangement in other matters. The ethical principles which govern these fee arrangements are, in part, designed to police against this potential abuse of trust.

There are many forms of AFAs, some of which we discuss here. At the outset, the lawyer should not unilaterally choose from among AFAs without at least advising the client of other options.[25] Bar associations have emphasized that this discussion may be particularly appropriate where an AFA is being proposed.[26] Again, the lawyer should suggest fee arrangements that benefit the client.

This chapter next addresses certain AFAs, focusing on the contingent fee agreement, and the ethical issues in more detail below. Common to virtually all fee agreements, however, are the following potential issues:[27]

□ The over-arching requirement for the fee to be "reasonable;"[28]
□ The wisdom of having the agreement be in writing, whether a writing is required or not;[29]
□ The need to clearly identify who is the client, and who if any one may need to receive a "non-engagement" letters to make it clear who the lawyer does not represent;[30]
□ The need for clarity as to the scope of the representation, including whether contingent fee arrangement includes any appeal;[31]

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[25] ABA Formal Ethics Op. 94-389 (1994).
[26] *E.g.*, ABA Formal Ethics Op. 93-373 (1993); Nev. Ethics Op. 4 (1987); Nassau Cnty. Ethics Op. 99-4 (1999).
[27] *See generally* Miriam R. Katzman, *Using Written Fee Agreements*, 63 WIS. LAW. 12 (Dec. 1990) (giving forms and examples).
[28] *See* Ga. R. 1.5(a) (describing factors to determine whether a fee is ethical).
[29] *See* Starkey, Kelly, Blaney & White v. Estate of Nicolaysen, 796 A.2d 238 (N.J. 2002) (written fee agreements avoid misunderstanding and reduce fraud). Having a discussion about fees without an actual *agreement* does not create an enforceable agreement. *See* Mar Oil SA v. Morrissey, 982 F.2d 830 (2d Cir. 1993).
[30] See Chapter 7.
[31] *See generally* Colo. Formal Ethics Op. 101 (1998) (lawyers may ethically provide "unbundled" legal services so long as lawyer explains limitations); Flatow v. Ingalls, 932 N.E.2d 726 (Ind. Ct. App. 2010) (firm could not be sued for failing to perform services that were excluded by retainer agreement, which limited firm's obligations to drafting a summary judgment motion and a reply brief on one claim).

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