

Conflicts of Interest in Patent Practice: Representing Competitors

BY ROY SIMON

Some of the most complex conflicts of interest in law arise in patent practice. This article discusses the conflicts that can arise in patent practice when a law firm represents competitors in the same industry. The article breaks no new ground, but if your law firm has recently started a patent practice, or is rapidly expanding an existing patent practice, this article should serve as a brief primer. If your law firm has an established patent practice, it will serve as a basic review.

To make our discussion more concrete, suppose your law firm has two major clients in the pharmaceutical industry - I'll call them PharMiracle and Theramax. (It's not unusual for potential competitors to choose the same law firm to do their patent work - clients typically want patent lawyers who have scientific and legal expertise in a particular field.) What are the potential conflicts and what can you do about them?

Representing competitors is ordinarily permitted

Initially, let me be clear that representing competitors in the same industry does not, by itself, create improper conflicts. New York's Code of Professional Responsibility does not expressly address this question, but the ABA Model Rules of Professional Conduct do. Comment 3 to ABA Model Rule 1.7 (which governs conflicts of interest) says that "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." Thus, even though PharMiracle's success with a given drug may steal market share from Theramax, that fact alone does not ordinarily create a conflict requiring the consent of Theramax under the New York Code of Professional Responsibility, or under the ethics rules of the vast majority of jurisdictions that follow some version of the ABA Model Rules.

Of course, a law firm must still consider and decide whether it's good business policy to represent head-on competitors in the same industry in the first place. In the fierce competition between two aggressive and creative enterprises, ethically troubling conflicts may arise at any time. For example, when you begin the dual representations, PharMiracle may be concentrating its research entirely on blood pressure controls (such as ACE inhibitors), while Theramax concentrates only on painkillers. But PharMiracle may one day discover that its best-selling ACE inhibitor is also an effective painkiller. If PharMiracle asks you to apply for a new patent to protect its claims to the product as a painkiller, what will you do?

Assuming, however, that your firm has thought long and hard about the potential for such conflicts and has decided to represent both PharMiracle and Theramax, your representation of the competitors will not create a conflict requiring client consent unless your representation of one client will be closely related to your work for the other client. For example, if both PharMiracle and Theramax want your firm to represent them in negotiating with the same third party to obtain a license to use the third party's

patented manufacturing process, your firm will need consent from both clients after full disclosure. If each client seeks an exclusive license, so that victory for one client would spell defeat for the other client, then the conflict is so severe that it is non-waivable.

Litigation against a current client

The conflicts become sharper if PharMiracle and Theramax get into a dispute with each other. Your firm definitely cannot represent both of them, because a *per se* rule prohibits the same law firm from representing both sides in litigation. A Chinese Wall (a/k/a "ethics screen") will not overcome that *per se* rule. One firm cannot represent both sides in litigation, period.

Nor may you ethically represent either side in the litigation between PharMiracle and Theramax unless you satisfy the demanding standards of New York's DR 5-105(C) or ABA Model Rule 1.7(a). Under DR 5-105(C), a lawyer may represent multiple clients whose interests conflict only if:

- "a disinterested lawyer would believe that the lawyer can competently represent the interest of each" and
- "each consents to the representation after full disclosure of the implications of the simultaneous representation and the advantages and risks involved."

ABA Model Rule 1.7(a) provides that a lawyer shall not represent one current client if the representation will be directly adverse to another current client unless:

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

In other words, under either rule, an independent, objective lawyer would have to believe that (a) your representation of PharMiracle in the litigation against Theramax will not adversely affect your attorney client relationship with Theramax in other matters (i.e., that you will be able to maintain a relationship of trust and confidence with Theramax even while you oppose it in litigation), and (b) your representation of Theramax in other matters will not diminish your zeal on behalf of PharMiracle in the litigation. In addition, if you pass the "disinterested lawyer" or "reasonably believes" test, then you must obtain each client's consent to the conflict after full disclosure of the pros and cons of agreeing to the conflicting representation. (In Texas and Alaska, you need not obtain either client's consent unless the litigation against Theramax and your work for Theramax on other matters are "substantially related." In other words, Texas and Alaska allow a law firm to sue a current client without the client's consent as long as the matters are not closely related.)

In assessing whether your firm meets New York's "disinterested lawyer" test or "reasonably believes" that the representation will not harm your relationship with either client, the first question is whether the litigation against Theramax is related to the matters your firm is handling for Theramax. If the litigation is related, that's a serious problem because the litigators will be tempted to use Theramax's confidential information (which is in files or in brains somewhere in your law firm) to advance PharMiracle's position in the litigation. (Your law firm may have the most trustworthy litigators in the universe, but the ethics

rules govern all lawyers, and there are no exemptions for honest or morally superior lawyers.) Thus, the more closely related the litigation is to the work you are doing for the opposing party, the greater the danger that the opposing party's confidential information will be compromised, and the less likely the conflict will be consentable.

The second question concerns the nature of the lawsuit. Comment 8 to ABA Model Rule 1.7 captures this factor succinctly:

Ordinarily, a lawyer may not act as advocate against a client the lawyer represents in some other matter, even if the other matter is wholly unrelated. However, there are circumstances in which a lawyer may act as advocate against a client.... The propriety of concurrent representation can depend on the nature of the litigation. For example, a suit charging fraud entails conflict to a degree not involved in a *suit for a declaratory judgment concerning statutory interpretation*.
[Emphasis added.]

In patent practice, a suit against a competitor for a garden variety breach of contract or patent infringement is quite different from a suit seeking to void the competitor's patent based on inequitable conduct. The essential question is: will your firm be trying to paint your other client as an evil villain who has engaged in intentional and willful misconduct? If so, the conflict may well be nonconsentable.

When a conflict is nonconsentable, the client's consent is irrelevant. As Comment 5 to ABA Model Rule 1.7 explains, "when a disinterested lawyer would conclude that the client should not agree to the representation under the circumstances, the lawyer involved cannot properly ask for such agreement to provide representation on the basis of the client's consent." In other words, if a conflict is nonconsentable, then the client's consent cannot cure the conflict no matter how fully you have disclosed the nature and implications of the conflict.

Prosecuting patents for competitors

Perhaps the most difficult type of conflict in patent practice arises when a law firm simultaneously prosecutes patents on behalf of two competitors. As mentioned above, there is ordinarily nothing wrong with representing competitors even though their interests are "generally adverse." But if the competitors have both retained your law firm to prosecute patents for related products or processes, the ethical issues immediately become complex and dangerous.

The complexity and danger lie in the tension between the duty of confidentiality to the clients and the duty of candor to the Patent and Trademark Office ("the PTO"). Let's start with a simple hypothetical to illustrate the dilemma. Suppose PharMiracle is developing the Next Big Thing, a drug that enables people to perform at peak levels without sleep for days at a time. (Don't laugh - the New Yorker recently had an article about such a drug, which our military is developing to keep our troops alert during long battles.) You are retained to help PharMiracle strategize about the patent application for this drug. At the same time, Theramax wants your firm to help it prosecute a patent for a new drug that will enable people to get by on half of their normal sleep each night-not exactly the same drug, but pretty closely related in its impact.

The potential for a collision between these two patents is obvious, because a patent on PharMiracle's drug might interfere with or block a patent on Theramax's drug, or vice versa. May the law firm nevertheless represent both clients in prosecuting their patents? Probably not. The problem is that a lawyer prosecuting a patent has a duty, pursuant to 37 C.F.R. §1.56 ("Rule 56"), to disclose to the PTO all information "material" to patentability. In a nutshell, Rule 56 provides that information is "material" to patentability when it is not cumulative to information already of record in the patent application and it either (1) establishes a prima facie case of unpatentability, or (2) refutes or is inconsistent with a position the applicant takes in (i) opposing an argument of unpatentability relied on by the PTO, or (ii) asserting an argument of patentability. This is a broad duty, and applies not only to the client applying for the patent but also to any lawyer actively working on the patent application who has actual knowledge of the material information. Moreover, the duty has teeth -failure to disclose material information can lead to a later finding of "inequitable conduct," which may render the patent invalid and unenforceable.

The dilemma is stark. If a lawyer working on the patent application for PharMiracle's stay-awake drug has material information about Theramax's sleep-less drug, the PTO's Rule 56 requires the lawyer to disclose the information to the PTO. But DR 4-101(B) of the New York Code of Professional Responsibility and ABA Model Rule 1.6(a) prohibit the lawyer from disclosing Theramax's confidential information without Theramax's informed consent. Which rule takes precedence - the PTO rule mandating disclosure or the legal ethics rules mandating secrecy?

The leading case: *Molins PLC v. Textron*

The leading case on this question is *Molins PLC v. Textron, Inc.*, 48 F.3d 1172 (Fed. Cir. 1995), but that case left the issue up in the air. The issue was relatively straightforward. Molins sued Textron for patent infringement. Textron filed a counterclaim alleging that the Molins patents were unenforceable because Molins had engaged in inequitable conduct when applying for the patents. Specifically, Textron charged that Molins' attorney, Smith, had intentionally failed to disclose to the Patent and Trademark Office "prior art" (a type of material information) by another of Smith's clients, an inventor named Lemelson. The district court sided with Textron. It ruled that the undisclosed prior art was material and that the Molins patents were unenforceable. Molins appealed to the Federal Circuit, which split three ways.

The majority opinion in the Federal Circuit in *Molins* avoided ruling on the ethical dilemma. It found that the undisclosed prior art was merely "cumulative" to other information already of record in the patent application and was therefore not "material." Therefore, the conduct of Molins' attorney was not "inequitable."

A concurring opinion by Judge Newman, however, argued that a lawyer's sweeping duty of confidentiality under the Code of Professional Responsibility took precedence over the PTO's rules and regulations mandating disclosure of material information. Citing the ethical rules governing lawyer confidentiality, Judge Newman wrote:

The majority appears to assume that Smith [the Molins lawyer] was required to disclose information concerning Lemelson's pending application to the PTO, but for the fact that this subject matter was cumulative to prior art already before the examiner.... I do not see that Smith had such an obligation. Indeed, his obligation to preserve the confidentiality of his client Lemelson was absolute. Smith had neither authority nor obligation to breach the confidentiality

of that client's pending application, on behalf of a different client.... Smith and Molins could not have been charged with improper behavior... simply because Smith respected Lemelson's confidences.

At the opposite end of the spectrum, a dissenting opinion by Judge Nies agreed that the information withheld by Smith was "highly material," not merely cumulative, and that Molins had therefore engaged in inequitable conduct rendering its patents unenforceable. Turning to the ethical dilemma, Judge Nies wrote that "Smith's representation of clients with conflicting interests provides no justification for deceiving the PTO. Ethics required him to withdraw." In other words, Judge Nies believed that a lawyer prosecuting a patent must disclose all material information pursuant to Rule 56, and if the ethics rules prohibit the lawyer from disclosing material information learned from another client, then the lawyer must withdraw from prosecuting the patent.

In sum, all of the judges on the Federal Circuit in *Molins* except Judge Newman apparently assumed that a lawyer's duty of disclosure to the PTO under Rule 56 would trump the lawyer's obligation to maintain the other client's confidences under the ethics rules. Prosecuting related patents for competitors thus poses substantial risks. If a lawyer prosecuting a patent for PharMiracle fails to disclose material information to the PTO that the lawyer learned from Theramax, then PharMiracle's patent may later be declared invalid and unenforceable, leading to a legal malpractice suit by PharMiracle (and possibly to sanctions by the PTO). But if a lawyer does disclose confidential information that the lawyer learned from Theramax, then Theramax may sue the lawyer for a breach of fiduciary duty. A firm might try to divide its lawyers into two (or more) patent prosecution teams divided by an impermeable Chinese Wall, but that may be impracticable as a business matter and ineffective as a legal matter. See David Hricik, *The Risks and Responsibilities of Attorneys and Firms Prosecuting Patents for Different Clients in Related Technologies*, 8 *Tex. Intellectual Prop. L. J.* 331, 352 (2000).

Conclusion

Patent lawyers who represent competitors within a single industry risk many types of conflicts. Some of these conflicts can be resolved by obtaining a client's informed consent, but others - especially litigation charging inequitable conduct - may be nonconsentable. And although more than seven years have passed since the three-way decision in *Molins*, the tension between PTO rules mandating disclosure and legal ethics rules mandating confidentiality has not been squarely resolved. Accordingly, the best course is for lawyers to avoid opposing another current client in litigation and to avoid prosecuting competing patents for current clients. Lawyers who ignore this advice may end up on the wrong end of disciplinary complaints, PTO sanctions, or lawsuits by angry clients.

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