Ethical Issues in IP Law Practice: Where the Rubber Meets the Rules

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Introduction

- The month of May in Indiana is particularly important because of the Indianapolis 500, an event that is officially described and even trademarked as “the greatest spectacle in racing.”
- It seems appropriate, as we prepare for the 100th anniversary of the Indy 500, to use the various imagery and symbols of the race to alert us to some of the ethical issues in the practice of intellectual property law.
- Of course, we want to chart a safe course from the green flag to the final lap and avoid yellow flag cautions, mishaps and mistakes that send us to the pits for repairs, black flag penalties and dangerous curves, all with the hope of being rewarded with the checkered flag that signals that we are the winner.

Rules of the Road

- Among these rules are the ABA Model Rules of Professional Conduct, as adopted in whole or in part by various states.
- Attorneys who practice patent, trademark and other law before the U.S. Patent and Trademark Office are also governed by the Patent and Trademark Office Code of Professional Conduct.
- Although the PTO Code is largely based on the Model Rules, there are likely to be differences between the PTO Code and the language of a particular state's rules.
- In Appendix 1 of *Patent Ethics: Prosecution*, Hricik and Meyer provide an annotated PTO Code of Professional Conduct with commentary that discusses the PTO Code in the context of state disciplinary rules as well as other federal rules and decisions.

Rules of the Road

- Federal Rules of Civil Procedure and the Federal Rules of Evidence, along with similar rules for state and local courts, may need to be consulted in order to avoid either disciplinary action, sanctions or a claim of malpractice.
- In addition, intellectual property law rarely exists in a vacuum, but may be part of other causes of action.
- For example, one of the concurrent tracks at the 2011 AIPLA Spring Meeting is devoted to the intellectual property assets of clients who are in bankruptcy, the proceedings of which will be guided by the Federal Rules of Bankruptcy Procedure and the rules of the local bankruptcy courts.

Rules of the Road

- In addition to the decisions by the PTO's Office of Enrollment and Discipline, intellectual property law practitioners will also be guided by case law.
- A quick search in LEXIS revealed cases on screening and disqualification, protective orders to avoid inadvertent disclosure of confidential patent information and the reasonableness of attorney fees.
- Additional ethical issues may arise when dealing with intellectual property law matters on a global basis.
- For example, in a presentation yesterday, Mr. Kenneth Cho discussed the privilege concerns with a global IP portfolio, particularly with countries that recognize only a limited attorney-client privilege and that do not provide protection for attorney work-product. He noted that this can occur in patent prosecution and with enforcement litigation.

Potential Ethical Issues in IP Law Practice

- Conflicts between current clients
- Conflicts in representing multiple parties
- The requirements for writing waivers for conflicts – see advanced waiver article by Painter
- Conflicts with former clients and disqualification
- Imputed conflicts and the ethical wall
- Duty of candor/duty of good faith
- Diligence/communication with clients
- Technology
- Electronic discovery
- Financial dealings
- General misconduct – fitness to practice law

Rule 1.7 General Rule for Conflict of Interest Between Current Clients

- Prohibits representation of two clients who interests will be directly adverse, unless:
  - the lawyer reasonably believe that the representation of one client will not affect the relationship or representation of another client and
  - both clients give informed consent, in writing
- Primary purpose of conflict rules is to protect lawyer's duty of loyalty to the client
- Rule 1.7(a)(2) applies to clients whose interests are currently similar but may diverge in the future

Policy Concerns (Allgeyer and Poulos)

- Dividing lawyer's loyalty to the client
- Protection of confidential information
- Respecting the client's choice of counsel
- Costs of legal representation
- Delays and disruption in litigation if conflicts arise

Former Clients

- Rule 1.9(a) A lawyer who has represented a client in a matter may not represent a subsequent client if:
  1. The new representation concerns the same or substantially related matter; and
  2. The new client's interests are materially adverse to the former client, unless
  3. The lawyer obtains the former client's informed consent in writing after consultation
- Rule 1.9(c) A lawyer is also prohibited from using information "relating to the representation" to the former client's disadvantage

Other Rules

- Under Rule 1.10(a), a lawyer's conflicts of interest under Rules 1.7 and 1.9 are imputed to any affiliated lawyers
- Common cause is lawyers moving between firms – but could also be mergers and acquisitions of client companies
- Ethical walls and screens – check individual state rules and decisions

Legal Ethics In Action: What Happens in IP Law Practice

- Gallagher has provided the results of an empirical study he conducted on the ethics of the everyday practice of law, specifically the ethical decision-making of patent litigators in the pretrial discovery process, by conducting semi-structured interviews with 55 patent litigators and from a detailed study of the *Qualcomm* patent sanctions case.
- There are few empirical studies of intellectual property lawyers or of legal ethics "in action".
- Some of the topics discussed in his article are lawyers' perceptions of legal ethics, influences on the ethical decision-making of lawyers and whether discovery sanctions are a deterrent against unethical behavior, particularly in light of the *Qualcomm* case and the significant sanctions that were imposed.

Patents and the Duty of Candor (Valoir and Hricik)

- Who is subject to the duty
  - Every person substantially involved in patent prosecution
- What must be disclosed
  - "Material" information – but both disciplinary and substantive aspects
  - Rule 56
  - While a practitioner can be disciplined only if the information is within the narrow confines of Rule 1.56, as a practical matter, lawyers and applicants should comply with the broader substantive scope of materiality

Patents and the Duty of Candor (Valoir and Hricik)

- What is the duration of the duty
  - According to Rule 56, the duty to disclose information exists with respect to each pending claim until the claim is canceled or withdrawn from consideration, or the application becomes abandoned
  - Duty terminates upon issuance of a patent, it is reactivated in further proceedings, such as reissue or reexamination proceedings.
- The intent requirement – inequitable conduct
- Intent generally inferred from the facts and circumstances surrounding the applicant's overall conduct
- Misrepresentations of various sorts to the PTO are often the basis for a finding of inequitable conduct.

Patents and the Duty of Candor (Valoir and Hricik)

- Impact of breach of the duty of candor
  - Usual result of an intentional breach of the duty of candor is to render the patent unenforceable
  - Intentional breach of the duty of candor can infect applications related to the offending application.
  - Can also include an award of attorney's fees
  - Valid antitrust claims where breach rises to the legal of fraud and the other requirements of the Sherman Act are met.
  - Practitioner may face disciplinary action, including disbarment from practice in front of the PTO for inequitable conduct.

Trademarks and Fraud (Valoir and Hricik)

- Attorney prosecuting a trademark application before the PTO owes a duty of good faith or candor
- Duty is generally narrower than in the patent prosecution
- Trademark registration only confer certain procedural rights
- The U.S. Code prohibits “false or fraudulent” statements in the procurement of a mark.

Trademarks and Fraud (Valoir and Hricik) – The Elements

1. False representation, or the withholding of information, from the PTO
2. Regarding material information
3. The person making the representation, or withholding the information, knew or at least should have known it was false or misleading to make or omit the representation
4. The person intended to procure a registration to which he was not entitled

Trademarks and Fraud (Valoir and Hricik)

- Subjective intent to mislead is not required – it is enough to show objective intent bases on the facts and circumstances surrounding the alleged misrepresentation
- Various false statements made in obtaining the a trademark registration have been shown to be fraudulent
- What is material? – a long list of possibilities
- Case law provides that the duty of good faith exists throughout the application for trademark, and includes a duty to continuously review and amend the first use oath.

Trademarks and Fraud (Valoir and Hricik)

- Impact of the breach of the duty of candor
  - May result in the loss of intellectual property rights
  - Because trademark protection does not depend only on registration, the impact of a breach is less severe
  - A mark may be cancelled
  - Can still sue for common law trademark infringement
  - Attorney fees may be awarded
  - Attorney could be disciplined or disbarred for making fraudulent statements to the PTO.

Ethics in Copyright Practice (Bray and Drewry)

- The doctrine of fraud is important to understand from both a legal and practical perspective
- An act of fraud on the U.S. Copyright Office can bring about a severe result, including cancellation of a copyright registration
- Means that you lose subject matter jurisdiction in a federal civil copyright infringement claim
- Fraud upon the Copyright Office as an equitable defense to infringement
- Section 411(b) of the U.S. Copyright Act codified the existing doctrine of copyright fraud in the registration process

Ethics in Copyright Practice (Bray and Drewry)

- Courts uphold copyright registrations – even when they contain errors of information – unless a fraud on the Copyright Office can be established
- Elements:
  1. The applicant either failed to disclose information or disclosed false information
  2. The information was material
  3. The information induced reliance by either the Copyright Office or the accused infringer
  4. The applicant acted with intent to deceive – requires a subjective intent to deceive

Recent Office of Enrollment and Discipline Actions

- Selected examples from 2011
- Notice the various kinds of violations
- Notice the reciprocal discipline imposed – the state where the attorney is licensed and then how that impacts the USPTO

Model Rules and Electronic Discovery

- An overarching principle in the Model Rules is competence. Model Rule 1.1 states that "[a] lawyer shall provide competent representation to a client.
- Competent representation requires the legal knowledge, skill, thoroughness and preparation necessary for the representation." Comment 6 states that "[t]o maintain the requisite knowledge and skill, a lawyer should keep abreast of changes in the law and its practice, engage in continuing study and education and comply with all continuing legal education requirements to which the lawyer is subject."

Model Rules and Electronic Discovery

- So failure to be informed about – and comply with – all requirements of e-discovery will not be an excuse. It may be useful, especially for smaller law firms, to work with a third-party e-discovery vendor.
- However, it is important to note that the attorney will still be under a duty to supervise under Model Rule 5.3(c). In other words, hiring a vendor will not avoid or erase any ethical duties of the lawyer.

Model Rules and Electronic Discovery

- The duty of confidentiality is also significant in the context of electronic discovery.
- Model Rule 1.6(a) states that "[a] lawyer shall not reveal information relating to the representation of a client unless the client gives informed consent, the disclosure is impliedly authorized in order to carry out the representation or the disclosure is permitted by paragraph (b) – (preventing death, substantial bodily injury, etc.)"
- Also dangers of waiving attorney-client privilege through inadvertent disclosure

Electronic Discovery Cases

- Note sanctions imposed – increasing amounts of sanctions for both clients and counsel
- Various levels of culpability
- Ongoing responsibilities of counsel
- 2010-2011 Decisions
  - Trademark
  - Trade secret
  - Copyright
  - Patent

Sanctions Reach All-Time High

- Study by King & Spaulding – Analyzed 401 cases before 2010 in which sanctions were sought – 230 sanctions awarded
- Sanctions included case dismissals, adverse jury instructions, significant monetary awards (more than $5 million in 5 cases, more than $1 million in 4 cases)
- Most common misconduct was failure to preserve electronic evidence, followed by failure to produce and delay in production
- Defendants were sanctioned for e-discovery violations nearly 3 times more often than plaintiffs
- 30 cases where attorneys were sanctioned for e-discovery violations – required the lawyers to pay attorney fees and costs, ranging from $500 to $500,000

Ethical Issues and Technology

- “Responsibility for information security
- Competent use and management of technology
- Managing information security and resources
- Preserving privilege, confidences and privacy
- Client consent and participation in risk
- Communication with courts and other official entities
- Retention, migration and destruction of client information” (Nelson and Simek)

Ethical Issues and Technology

- Attorneys have a duty to safeguard and keep client information confidential, including information about prospective and former clients.
- Rules 1.6, 1.9 and 1.18 of the Model Rules of Professional Conduct speak to this issue and the concept of confidentiality is also imbedded into specific provisions of other rules, such as 1.8(b), 1.15, 1.10 and 1.11, to name but a few.
- See Software as a Service (cloud computing) – North Carolina State Bar Association – may contract with a vendor of software as a Service, provided the lawyer uses reasonable care to assure that the risks that confidential client information may be disclosed or lost are effectively minimized
- Long list of suggestions for minimizing the security risks of software as a service.

Ethical Issues and Technology

- Technology is evolving quickly and constructing a system that is 100% secure may be unrealistic.
- Model Rule 5.3, which outlines responsibilities for supervising non-lawyer assistants, also applies to third-party vendors.
- Although there are no set standards about how to ensure security for a law firm's information, computers and networks, several organizations have attempted to provide lawyers with guidance on these issues.
- Most recently, the International Legal Technical Standards Organization (ILTSO) introduced its 2011 Standards for public review and comment.

Highlights of the 2011 Standards

- Reasonableness based on size of law firm, location and in-house technical sophistication
- Jurisdiction – ethical standards with respect to client data – and privilege are governed by the location of the attorney and client, and the nature of the practice and representation The protection of client data is a responsibility shared by all authorized parties
- Risks associated with communicating client data via social media networks

Highlights of the 2011 Standards

- Signed client engagement letter should articulate which technologies may be used to communicate with and store information belonging to the client – will not contravene the attorney's ethical obligations to the client, but will set expectations about storage and communication of client data
- Consideration of encryption
- Personally identifiable information may be subject to additional protections under state or federal law (HIPAA as example)
- What to do in the event of a breach
- Law firm's document retention policy – should consider state and federal laws, bar association rules, industry regulations, needs of clients, limitations of third-party vendors and conventions of attorney practice areas

Highlights of the 2011 Standards

- Destruction of metadata – proper procedures should be in place
- Avoiding third-party monitoring of client data by unauthorized parties, absent express client consent
- Outsourcing and vendor relations – proper screening and supervision
- Special care when legal work will be outsourced to a foreign country – special issues with cross-border movement of client data

Ethics and Negotiation

- Meeker notes that "[t]he professional rules can be challenging to apply in a transactional practice, because most of them were developed in litigation contexts."
- Model Rule 1.7(a)(1) and 1.7(b): Conflicts of Interest: Current Clients
- Model Rule 4.2 Communication with Persons Represented by Counsel, noting especially Comment 7
- Model Rule 8.4(b) Misconduct
- Model Rule 1.8 Confidential Information and Loyalty, noting especially Comment 5

Thank you for attending the 2011 AIPLA Spring Meeting!