

**ETHICS FOR IP PROFESSIONALS:
THE THREE C'S – COMMUNICATION,
CONFLICTS, AND CLIENT TRUST ACCOUNTING**

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Oregon State Bar IP Section

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Topics Covered

- **The Office of Enrollment and Discipline**
 - Basis of Authority
 - Role of OED
 - Grievance process
- **Common issues facing the IP community**
 - Communication
 - Client Trust Accounting
 - Conflicts
- **Hypotheticals**
 - Understand best practices to avoid mistakes

Basis of Authority

- Conduct of patent attorneys and agents is subject to regulation by the USPTO under 35 U.S.C. § 2(b)(2)(D):

The [USPTO] may establish regulations... [that] may govern the recognition and conduct of agents, attorneys, or other persons representing applicants or other parties before the Office....
- See, e.g., *Lacavera v. Dudas*, 441 F3d 1380, 1381 (Fed Cir 2006) (“The PTO has statutory authority to regulate attorney practice before it”); *Bender v. Dudas*, 490 F3d 1361, 1368 (Fed Cir 2007) (“The regulations in question are well within the scope of the enabling statutes.”); *Sperry v. Florida*, 373 US 379, 402, 83 S Ct 1322, 1334-35, 10 LEd2d 428, 442 (1963) (“the State maintains control over the practice of law within its borders except to the limited extent necessary for the accomplishment of the federal objectives.”).

Role of OED

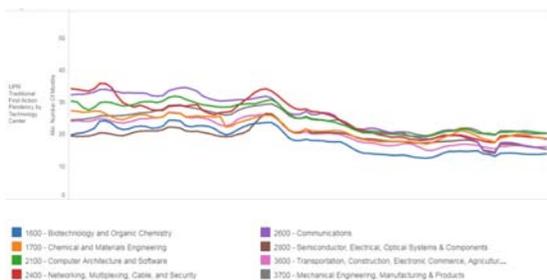
- OED can be considered the “primary regulator” of Patent and Trademark Attorneys, and the “sole regulator” of Patent Agents.
- USPTO Rules of Professional Conduct are codified into 37 CFR Part 11 using the schema:
 - Rules X.Y = 37 CFR 11.X0Y
 - ABA Rule 1.2 = 37 CFR 11.102

Grievance Process

- An investigation may be initiated through a grievance, information, or evidence from any source suggesting “grounds for discipline.” See 37 CFR 11.22(a).
- Investigation can close with no action, warning letter, diversion, public or private discipline through settlement, or formal charges. See 37 CFR 11.22(h)
- Clear and convincing standard
- Committee on Discipline as grand jury

Communication

- First Action Pendency (2008 – 2015) - Patent



Communication

- 37 CFR 11.104 Communication.
- (a) A practitioner shall:
 - (1) Promptly inform the client of any decision or circumstance with respect to which the client's informed consent is required by the USPTO Rules of Professional Conduct;
 - (2) Reasonably consult with the client about the means by which the client's objectives are to be accomplished;
 - (3) Keep the client reasonably informed about the status of the matter;
 - (4) Promptly comply with reasonable requests for information from the client; and
 - (5) Consult with the client about any relevant limitation on the practitioner's conduct when the practitioner knows that the client expects assistance not permitted by the USPTO Rules of Professional Conduct or other law.
- (b) A practitioner shall explain a matter to the extent reasonably necessary to permit the client to make informed decisions regarding the representation.

Communication

- No rule on how often you must communicate with a client.
- Communication problems could be part of a pattern.
 - *In re Swyers*, Proceeding No. D2016-20 (USPTO Jan. 26, 2017).
 - Trademark attorney alleged to have permitted non-attorneys to practice trademark with little to no supervision and to communicate directly with clients.
 - Multiple fraudulent or digitally manipulated trademark specimens were allegedly filed with USPTO.
 - Compare: *In re Schoeneman*, 777 A.2d 259 (D.C. 2001)
 - Virginia reciprocal matter where the court found that a lawyer's failure to return client's calls for "the last three weeks" did not violate Rule 1.4.
 - Evidence that lawyer spoke with client monthly regarding the complex fraud investigation was sufficiently reasonable.

Client Trust Accounting

- Practitioners are required to keep property of clients and third parties separate from their own; also known as the anti-commingling rule. See 37 CFR 11.115.
 - Prevent issues with creditors of client or lawyer
- Conversion and Misappropriation
 - Negligent vs. intentional
 - *In re Edwards*, 990 A.2d 501 (D.C. 2010) ("disbarment is warranted unless the misappropriation stems from 'nothing more than simple negligence'")
 - Strict Liability
 - *Attorney Grievance Comm'n v. Stolarz*, 842 A.2d 42 (Md. 2004) ("an unintentional violation . . . is still a violation of the attorney's affirmative duties imposed by the rule").

Client Trust Accounting

- Speaking of *In re Swyers*.
 - Failed to deposit advance funds into a client trust account.
- *In re Larson*, Proceeding No. D2016-36 (USPTO Sept. 1, 2016).
 - Respondent failed to deposit approximately \$12,480 in advance fees for legal services and USPTO fees into a client trust account.
 - The funds were received in advance from 12 clients and deposited into law firm operating account.
 - Respondent withdrew funds for personal and business expenses from his law firm's operating account that held client funds.
 - Respondent failed to keep required records
 - Suspended for 90 days, and has already been reinstated

Conflicts of Interest

ABA Rules 1.7 Conflict of Interest: Current Clients	USPTO Rules § 11.107 Conflict of Interest: Current Clients	Oregon RPC - Rule 1.7 Conflict of Interest: Current Clients
(a) Except as provided in paragraph (b), a lawyer shall not represent a client if the representation involves a concurrent conflict of interest. A concurrent conflict of interest exists if: <ol style="list-style-type: none"> (1) the representation of one client will be directly adverse to another client; or (2) there is a significant risk that the representation of one or more clients will be materially limited by the lawyer's responsibilities to another client, a former client or a third person or by a personal interest of the lawyer. 	(a) Except as provided in paragraph (b), a lawyer shall not represent a client if the representation involves a concurrent conflict of interest. A concurrent conflict of interest exists if: <ol style="list-style-type: none"> (1) the representation of one client will be directly adverse to another client; or (2) there is a significant risk that the representation of one or more clients will be materially limited by the lawyer's responsibilities to another client, a former client or a third person or by a personal interest of the lawyer. 	(a) Except as provided in paragraph (b), a lawyer shall not represent a client if the representation involves a concurrent conflict of interest. A concurrent conflict of interest exists if: <ol style="list-style-type: none"> (1) the representation of one client will be directly adverse to another client; or (2) there is a significant risk that the representation of one or more clients will be materially limited by the lawyer's responsibilities to another client, a former client or a third person or by a personal interest of the lawyer.
(b) Notwithstanding the existence of a concurrent conflict of interest under paragraph (a), a lawyer may represent a client if: <ol style="list-style-type: none"> (1) the lawyer reasonably believes that the lawyer will be able to provide competent and diligent representation to each affected client; (2) the representation is not prohibited by law; (3) the representation does not involve the assertion of a claim by one client against another client represented by the lawyer in the same litigation or other proceeding before a tribunal; and (4) each affected client gives informed consent, confirmed in writing. 	(b) Notwithstanding the existence of a concurrent conflict of interest under paragraph (a), a lawyer may represent a client if: <ol style="list-style-type: none"> (1) the lawyer reasonably believes that the lawyer will be able to provide competent and diligent representation to each affected client; (2) the representation is not prohibited by law; (3) the representation does not involve the assertion of a claim by one client against another client represented by the lawyer in the same litigation or other proceeding before a tribunal; and (4) each affected client gives informed consent, confirmed in writing. 	(b) Notwithstanding the existence of a concurrent conflict of interest under paragraph (a), a lawyer may represent a client if: <ol style="list-style-type: none"> (1) the lawyer reasonably believes that the lawyer will be able to provide competent and diligent representation to each affected client; (2) the representation is not prohibited by law; (3) the representation does not involve the assertion of a claim by one client against another client represented by the lawyer in the same litigation or other proceeding before a tribunal; and (4) each affected client gives informed consent, confirmed in writing.

Conflicts of Interest

- Potential vs. Actual Conflict
- Overcoming the Problem
 - Don't take the client or matter
 - Obtain conflict waivers from both parties
 - Firewall
- Understanding duty of disclosure obligations
- Understanding the "Hot Potato" rule
 - "A firm may not drop a client like a hot potato, especially if it is in order to keep happy a far more lucrative client." See *Picker Intl., Inc. v. Varian Assoc., Inc.*, 670 F. Supp. 1363, 1365 (N.D. Ohio 1987), *aff'd*, 869 F.2d 578 (Fed. Cir. 1989):

Conflicts of Interest

• Loyalty to a current client prohibits undertaking representation directly adverse to that client without that client's informed consent. Thus, absent consent, a lawyer may not act as an advocate in one matter against a person the lawyer represents in some other matter, even when the matters are wholly unrelated. The client as to whom the representation is directly adverse is likely to feel betrayed, and the resulting damage to the client-lawyer relationship is likely to impair the lawyer's ability to represent the client effectively. In addition, the client on whose behalf the adverse representation is undertaken reasonably may fear that the lawyer will pursue that client's case less effectively out of deference to the other client, i.e., that the representation may be materially limited by the lawyer's interest in retaining the current client. Similarly, a directly adverse conflict may arise when a lawyer is required to cross-examine a client who appears as a witness in a lawsuit involving another client, as when the testimony will be damaging to the client who is represented in the lawsuit. On the other hand, simultaneous representation in unrelated matters of clients whose interests are only economically adverse, such as representation of competing economic enterprises in unrelated litigation, does not ordinarily constitute a conflict of interest and thus may not require consent of the respective clients.

See ABA Model Rule 1.7; Comment 6

Conflicts of Interest

• Subject Matter Conflicts

- In *Molins PLC v. Textron, Inc.* 48 F.3d 1172 (Fed. Cir. 1995), Judge Nies wrote in a dissenting opinion that a lawyer prosecuting a patent application 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.
- "A practitioner shall disclose to the Office information necessary to comply with applicable duty of disclosure provisions." See 37 CFR 11.106(c).
- In *Maling v. Finnegan, Henderson, Farabow, Garrett & Dunner, LLP*, 473 Mass. 336 (2015), the Court held that both of Finnegan's clients "were not competing for the same patent, but rather different patents for similar devices." If there was "claim shaving," a different outcome may have resulted.

Conflicts of Interest

• *Maling v. Finnegan, Henderson, Farabow, Garrett & Dunner, LLP*, 473 Mass. 336 (2015)

- Boston office represented Maling to prepare and prosecute patent application, including prior art search (2003-2009).
- DC office represented Masunaga Optical Manufacturing.
- Maling obtained multiple patent applications.
- In 2008, Maling asked Firm for opinion letter, it declined.
- Maling's complaint alleged that the refusal to provide an opinion letter resulted in his inability to obtain funding—causing him financial harm.
- Court looked at FCC licensure case *Curtis v. Radio Representatives, Inc.*, 696 F. Supp. 729 (D.D.C. 1988) (law firm's simultaneous, successful representation of two radio stations applying for broadcast licenses posed no conflict).

Conflicts of Interest

- Direct Adversity
 - Practitioners should not represent a client if the representation of one client will be directly adverse to another client or if there is a significant risk that the representation of one or more clients will be materially limited by the practitioner’s responsibilities to another client, a former client, a third person, or by a personal interest of the practitioner. See 37 CFR 11.107.
 - As we discussed in the Maling case, other courts have spoken about crossing the line into direct adversity. See *Andrew Corp. v. Beverly Mfg. Co.*, 415 F. Supp. 2d 919 (N.D. Ill. 2006) (without consent, law firm may not render noninfringement opinion for one client if patent belongs to another client).

Hypotheticals

- There is no one “correct” answer.
- It is critical to thoroughly analyze the facts and circumstances of each situation.

Hypothetical 1

- Inventor Elon is employed by ALSET.
- Inventor Elon engages you to file a patent application on his behalf in January.
- You communicate filing receipt in March to ALSET’s in-house counsel.
- You don’t respond to Elon’s inquiries in May, June, and July.
- You send status report in August to ALSET’s in-house counsel.
- **What are your duties to ALSET and Elon?**

Hypothetical 2

- Shoemaker has been a trademark client for over 10 years.
- Athleticwear maker has engaged you to perform searches and possibly contract with you to file a large number of trademark applications.
- First few searches include a number of Shoemaker's marks.
- **What are your obligations to Shoemaker and Athleticwear maker?**

Hypothetical 3

- PATCO charged Bob a flat fee of 30k to provide search, opinion, and preparation & prospection for a design patent, utility patent, and trademark. Also providing marketing services.
- PATCO refers Bob's matter to you with an in-house search and opinion completed.
- You prepare and file the application after getting approval from PATCO.
- **What, if any, ethics rules should you have considered?**

Hypothetical 4

- Associate GC is asked to prosecute personal trademark application for Company VP.
- All employees have an IP assignment clause in their employment agreement.
- Company VP tells Associate GC that he will not assign IP.
- **What are Associate GC's obligations?**

Hypothetical 5

- In-house IP Counsel Joe engages outside firm to file patent application for Zipmaker.
- A few months later, Joe learns of confidential information material to patentability.
- CEO tells Joe that he cannot disclose this information to the USPTO.
- **Is Joe required to disclose the information, since he did not file the patent application?**

Hypothetical 6

- Trademark practitioner Molly has paralegal Jane file client Fred's mark using TEAS.
- Jane electronically signs application on behalf of client through authority given to her by Molly.
- Jane files specimen with electronically superimposed logo on shirt.
- **Where did we go wrong?**

Questions?