

Subject-Matter Conflicts Involving Patent Applications

Conflicts of interest are usually obvious when one finds himself or herself possibly representing a client who is on the opposite side of litigation from another one of the firm's clients. After all, Rule 1.7 of Pennsylvania's version of the American Bar Association (ABA) Model Rules of Professional Conduct provides that a lawyer shall not assume legal representation of clients who are "directly adverse to another client" or where "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."

It becomes murkier, however, when one is representing a client who is in direct competition with another firm client who is "seeking the same prize," such as competing for the same market. Examples would be where two clients are seeking patents on products that will be in direct competition with each other or two clients are seeking broadcast licenses in the same market. There is no question that such situations would create a "marketing conflict," that is, the firm would not want to take on the second representation because it would anger the first client, leading to the possible loss of business. But the even more serious question is whether representation of both clients would create an actionable claim by the one client for a breach of fiduciary duty for the firm's having taken on the other client.

A recent Massachusetts case addressed this issue in the context of a firm that represented two competitors who had applied for patents involving products that were in direct competition with each other.

In *Maling v. Finnegan, Henderson, Farabow, Garrett & Dunner, LLP*, 42 N.E.3d 199 (Sup. J. Ct., Mass. 2015), a client sued his counsel and the firm that had represented him in a patent application before the U.S. Patent and Trademark Office (USPTO), asserting claims for failure to disclose that another lawyer in the same firm, although located in an office in another city and state, represented one of the client's competitors prosecuting a patent for a product that directly competed with the client's product.

Both clients were seeking patents for new, screwless eyeglasses. The first client did not "allege that the claims [were] identical or obvious variants of each other such that the claims in one application would necessarily preclude claims contained in the other." Under those circumstances, the two applications would have been the object of an interference proceeding or a derivation proceeding, depending on the priority date in question, brought by the USPTO. Instead, the first client contended that the "applications [were] 'similar ... in many important respects,'" and the inventions were to compete "in the same technology area." Although the second cli-

ent here was not on the opposite side of litigation in which the first client was a party, the first client contended that there was adversity because the second client was competing with the first "in the 'same patent space.'" The first client contended that the USPTO granted his competitor's application first because of preferential treatment by the defendant law firm, which had " 'belatedly' commenced preparation of a patent application for [the first client's] inventions ... and that it '[inexplicably] took [14] months' to do so."

In the practice of patent law, the simultaneous representation of clients competing for patents in the same technology area is sometimes referred to as a subject-matter conflict. In the first client's view, this "conflict" supported claims for breach of fiduciary duty, legal malpractice, unfair or deceptive practices in violation of Massachusetts' version of the Uniform Unfair Business Practices Law and " 'inequitable conduct' before the [USPTO]." As a result of this purported conflict, the first client alleged that the law firm had "given preferential treatment [to his competitor] and was 'enrich[ed]' to his 'detriment' as a consequence. ..."

The first client contended that he would not have invested in his invention if the defendant law firm had disclosed that it was representing his competitor in its application involving a competing invention. Moreover, he contended that the defendant law firm's "simultaneous representation of both clients, as well as its failure to disclose the alleged conflict, resulted in 'great harm' and 'tremendous financial hardship' for [him]."

The first client contended that he was harmed because the defendant law firm had refused to offer a legal opinion "addressing similarity between [his competitor's] patents and [his] patents." Without that opinion, the first client contended that "he was unable to obtain funding for his invention, and his product was otherwise unmarketable on account of its similarities to [his competitor's] device," causing a diminution in the value of his product.

The trial court granted the defendants' motion to dismiss with respect to all of the counts alleged in the plaintiff-client's complaint, finding that there was not a conflict of interest pursuant to Rule 1.7 of Massachusetts' version the ABA Model Rules. That rule, which is substantially similar to Pennsylvania's version, prohibits a lawyer from representing a client, who is "directly adverse to another client" or where "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."

The client appealed and the case eventually found its way to the Supreme Judicial Court of Massachusetts, which affirmed unanimously, concluding that, "[A]lthough subject matter conflicts in patent prosecutions often may present a number of potential legal, ethical and practical problems for lawyers and their clients, they do not, standing alone, constitute an actionable conflict of interest that violates Rule 1.7."

Avoiding Liability



By Jeffrey P. Lewis

Jeffrey P. Lewis is a member in the Philadelphia office of the law firm of Eckert Seamans Cherin & Mellott LLC. He serves on the PBA Professional Liability Committee.

The court rejected the "preferential treatment" allegation as merely a "bare assertion."

Citing an Indiana case, the court recognized that Rule 1.7 serves two purposes: "as a prophylactic [measure] to protect confidences that a client may have shared with his or her attorney [and to] safeguard loyalty as a feature of the lawyer-client relationship." Notwithstanding, the court found that "[s]ubject matter conflicts do not fit neatly into the traditional conflict analysis." Instead, the court found no legal conflict where there was no conflict with respect to legal rights and duties but only conflicts of economic interests, citing ABA Standing Committee on Ethics and Professional Responsibility Formal Op. 05-434, at 140 (Dec. 8, 2004) (ABA Op. 05-434).

In the court's view, citing Comment 8 to Rule 1.7, the "critical inquiry" for determining whether a conflict exists "is whether the lawyer has a competing interest or responsibility that 'will materially interfere with the lawyer's independent professional judgment in considering alternatives or fore-close courses of action that reasonably should be pursued on behalf of the client.'"

As previously stated, the court applied the Massachusetts Rules of Professional Conduct to judge the conduct of the defendant lawyers, notwithstanding that the USPTO has its own ethics rules that set forth "standards of conduct for attorneys who practice before it." See 78 Fed. Reg. 20:180 (2013). However, those rules, too, are based on the ABA's rules and the result here would have been the same had the USPTO rules been applied.

This case, which visits an issue that few appellate courts have addressed, considers whether "marketing conflicts" are actual conflicts and therefore the basis for claims for breach of fiduciary duty and related claims. Of course, the fact that such "conflicts" are not actionable does not mean that they are a good idea.