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## **Risky Business: Ethical Challenges Facing IP Law Firm Management**

**Presented by**

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**3:15 PM - 4:15 PM**

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# Risky Business: Ethical Challenges Facing IP Law Firm Management

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***IPethics & INSights***<sup>™</sup>

September 15, 2016

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## Objectives

- Identifying recurrent ethics issues in IP practice.
- Understanding the organization's role in mitigating IP practice risk.
- Developing best practices for managing IP ethics risks.

## Causes of Most IP Ethics Issues

- Dabbling.
- Taking on the wrong client.
- Not vetting the client.
- Failure to communicate.
- Insufficient engagement agreement.
- Failure to train or supervise.
- Failure to consider full range of conflicts.

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## Recurring IP Ethics Issues

- Not properly identifying the client.
- Conflicts of interest.
- Not communicating and not documenting terms and scope of the engagement.
- Unintentional abandonment and docketing errors.
- Prosecution errors.

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## Who is the Client?

- Ethical rules predicated on client relationship.
  - Competence
  - Conflicts
  - Loyalty
  - Diligence
- Legal duties depend on client relationship.
  - Contract
  - Professional negligence

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## The IP Prosecution Client

- Foreign Associate law firm (FA) sends app.
- Inventors 1,2 and 3.
- Inventors 1 and 2 assign to Company A.
- Inventor 3 assigns to Company B.
- All subsequent communications and instructions come from FA.
- Invoices submitted to, and paid by, FA.

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## Who is the Client?

- Foreign associate?
- Inventors?
- Company A?
- Company B?

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## Joint Client Issues

- Who speaks for the “client(s)?”
  - Lawyer “shall abide by a client’s decisions concerning the objectives of the representation.” ABA Rule 1.2(a).
  - Lawyer “shall reasonably consult with the client about the means by which the client’s objectives are to be accomplished.” ABA Rule 1.4(a)(2).
- Duty of impartiality and loyalty to both “clients.”  
ABA Rule 1.7 cmt. [29]

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## Client Loss Prevention Checklist

- Document who is the client.
- Document who is not the client.
- Make it clear who gives “instructions.”
- Be mindful of accidentally taking on joint clients.
- Communicate these facts to the client and the non-client. Preferably in writing.

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## Conflicts of Interest

- Current client. ABA M.R. 1.7 & 1.8
  - Duty of loyalty.
  - Duty of confidentiality.
  - Business relationships with clients.
- Former client ABA M.R. 1.9
  - Duty of confidentiality

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## Current Client Conflicts Test

- Current Client Conflicts (ABA Rule 1.7(a)):
  - (1) representation of C1 will be directly adverse to C2;  
or
  - (2) significant risk that representation of C1 will be materially limited by responsibilities to another client, a former client, a third person, or by a personal interest.

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## Sneaky Current Client Issues

- Various current conflicts can arise that are not necessarily classic “direct adversity”:
  - Taking equity position in client or client’s IP.
  - Business relationships with client.
  - Third-party payor.
  - Limiting liability to client.
  - Fee-splitting with another firm.
- Generally OK if informed consent, fair to client, confirmed in writing.
  - ABA Rule 1.8

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## Subject Matter Conflicts

- Can arise when law firm concurrently represents two clients in similar technology.
- Maling v. Finnegan Henderson
  - OK to represent competitors.
  - Conflict if identical or near identical IP rights.
  - Problem if firm asked to opine for one client on another client's IP.
  - Problem if Office Action cites one client's IP as relevant to another client's IP.

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## Former Client Conflicts

- Difference between whether a client is "current" or "former" may seem trivial, but it can be complex in IP matters.
- Whether client is "current" or "former" depends on reasonable perspective of client.
- Perpetual IP clients.
  - Maintenance fees.
  - TM renewals.
  - Newsletters and announcements.
  - Open opinions.
- Are these ongoing current client matters, or are these all former clients?

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## Why Current v. Former Matters

- Ethical duties to former clients much narrower than to current clients.
- I cannot sue a current client, even in a totally unrelated matter, absent informed consent, confirmed in writing.
- I can sue a former client unless the matter is “substantially related” to the subject of my prior representation.

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## Identifying Client Conflicts

- Rule 1.10: Identifying conflicts of interest:
  - Firms must implement procedures to identify and remedy actual and potential conflicts.
  - Need to identify subject matter of representation with sufficient detail.
  - Firms need “robust processes that will detect potential conflicts”
  - Firms run “significant risks, financial and reputational, if they do not avail themselves of a robust conflict system adequate to the nature of their practice”

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## Conflicts Checklist

- Document conflict checking procedure.
- Software based as well as manual.
  - Emails, practice group leaders.
- Identify all pertinent “clients” to include in database.
- Identify in as much detail as possible the subject matter of the technology of the representation.
- Follow the documented procedure.
- Train attorneys and staff in conflict checking.
- Independent decision-making to resolve questions.
- Termination letter.

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## Scope of Engagement Ethics Issues

- Miscommunication and failure to communicate are two of the biggest risks facing IP law firms.
- Lawyers’ obligation to make it clear:
  - What is it being asked to do.
  - Who will do the work.
  - How frequently will we be communicating.
  - What are the fees and expenses.
  - What if we don’t get paid.
  - What the lawyer is not being asked to do.
  - When does the representation end.

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## Scope of Engagement Checklist

- Who is direct client contact or billing attorney?
- Who is the working attorney?
- Regular reporting of important communications?
- How does the client prefer to communicate?
- Backup means for communicating with client?
- National work vs. international IP work?
- Is the client able to pay the anticipated fees and expenses for the anticipated work?
- Are we making it clear to the client when the representation will end?
- Are we making it clear to the client how long it will take, how much it will cost, the likelihood of success?

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## Engagement Checklist (Cont'd)

- Is there an engagement agreement, and if not, why not?
  - D.C. requires written engagement agreement for all new clients.
  - All contingency fee agreements must be in writing.
- Even if those rules do not apply, the engagement agreement should be “the contract” that sets forth the scope of the representation and all of the relevant terms.
- A great client with a handshake deal is usually better than a bad client with an extensive agreement.

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## Neglect in Docketing

- Examples of IP docketing errors:
  - Failure or delay in timely filing application.
  - Failure to report Office Action.
  - Failure to reply to Office Action.
  - Unintentional abandonment.
  - Failure to revive abandoned application.
  - Failure to report or pay maintenance fee.
  - Failure to report TM renewal.

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## Neglect in Docketing (Cont'd)

- IP lawyers have an ethical duty of competence and diligence.
- Failure to properly docket or docket at all, unintentional abandonment, and failure to pay maintenance fees and annuities collectively are the single greatest cause of malpractice claims against IP firms.
- Docketing software is a necessity, but it does not replace competent humans with institutional support and supervision.

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## Docketing Checklist

- All deadlines must be docketed.
- Reminders must be docketed.
- Dates must be entered into state of the art software-based system.
- But the best law firms have multiple layers of protection for deadlines and reminders:
  - Individual lawyers.
  - Assistants to lawyers.
  - Practice group leaders.
  - Docketing specialists.
  - Docketing supervisors.

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## Docketing Checklist (Cont'd)

- Reduce docketing risks for post-issuance deadlines by making it clear firm is not responsible.
- Nice termination letter.
- Referral to CPA or similar annuity/reminder service.
- Substantial upside:
  - No argument that client is “current”
  - No need to maintain responsibility for events that will not occur for many, many years.
  - Shifts risk of loss to the client.

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## Prosecution Errors

- Courts have long recognized that patents are some of the most difficult documents to write in all of law.
- And yet a “mistake” in the drafting or prosecution of a patent application could be worth millions of dollars to a client.
- Drafting errors include:
  - 112 mistakes in the specification.
  - Claim drafting errors – either too broad or too narrow.
  - Failing to identify known prior art.
  - IDS errors, such as failure to notify about related cases or litigation.

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## Prosecution Error Mitigation

- Lawyer supervision is key to prevention.
  - Create a culture of supervision where junior lawyers are encouraged to seek guidance from senior lawyers.
- Docketing of firm drafts.
  - Need to build in sufficient lead time so supervising partner or more senior lawyer has adequate time to review and revise.
  - May need to build in multiple review rounds.
- Docketing of client drafts.
- Responding to client comments.
  - Working attorney.
  - Supervising attorney review.

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## Prosecution Error Mitigation

- Continuing formal education.
  - Because this stuff is hard.
  - Firm should regularly sponsor in-house or outside formal training.
  - Supplements hands-on training.
  - Brown-bag lunches, practice group meetings, and firm-wide meetings all necessary to keep up to date.
- Not just for the junior associates.
  - The law is constantly evolving.
  - Senior lawyers need at least as much training if not more than junior attorneys.

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## Prosecution Error Mitigation

- Lawyers have a duty to supervise the non-lawyer support staff as well, cannot simply pass it off.
- IDS practice – errors are lawyer's responsibility.
  - Minimize errors by having trained IDS specialists and supervisors.
- Spell checking, grammar checking.
- Client communications regarding duty of disclosure.
  - Lawyer's ultimate responsibility to educate clients about their duty of disclosure to the USPTO.
  - This should be documented so client cannot later claim they were not informed.
  - Inventors must also be told about disclosure duty.
  - Ultimately their mistakes may result in an unenforceable patent. Therefore important to instill in clients a culture of compliance with USPTO regulations.

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## Prosecution Error Mitigation

- Lawyers cannot delegate their ethical responsibilities to clients.
- Must exercise independent professional judgment.
- Some clients may not be willing to pay for a lawyer to review specification, claims or other prosecution documents prepared by the client.
- Need to educate the client: independent professional judgment means lawyer cannot simply or blindly follow client's "instructions."

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## Conclusion

- IP ethics problems are normally caused by law firm management.
- Build a culture of compliance.
- Document everything. Communicate frequently.
- Know your client base.
- Don't dabble.
- Educate.
- Supervise.
- Hire a GC or in-house ethics counsel.
- When in doubt about an ethics problem, ask for help.

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## Ethics Resources

- IPethics & INsights – <http://www.IPethicslaw.com>
- ABA Center for Prof. Responsibility - [http://www.americanbar.org/groups/professional\\_responsibility.html](http://www.americanbar.org/groups/professional_responsibility.html)
- ABA Legal Ethics Links - [http://www.americanbar.org/groups/professional\\_responsibility/resources/links\\_of\\_interest.html](http://www.americanbar.org/groups/professional_responsibility/resources/links_of_interest.html)
- Freivogel on Conflicts - <http://www.freivogelonconflicts.com/>
- Georgetown Law Legal Ethics Guide - [http://guides.ll.georgetown.edu/legal\\_ethics](http://guides.ll.georgetown.edu/legal_ethics)

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## Questions?

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**Please take a moment now to evaluate  
this session.**

**Thank You!**