WHO IS THE CLIENT?

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CHAPTER 11
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I. Client Identity and Related Problems

A. Prosecution Under Licenses or Joint Development Agreements

1. Co-Client, Not The Other Party to an Agreement?

Joint development agreements are common, particularly in the biotech sector, and often between universities and pharmaceutical entities. Under these arrangements, typically two entities agree to jointly develop technology— who will own a particular patent to be determined based upon which entity’s employees invented it—and one entity will typically “control” prosecution subject to some obligation by that entity to the other entity, such as an obligation to keep it informed about prosecution activities, to confer with it ahead of time, or to confer in good faith. For example, a recent dispute, discussed below, arose out of this language (paraphrased from the court’s partial quotation):

The filing, prosecution and maintenance of the patent applications shall be managed by and the primary responsibility of [one party] but the other parties to the agreement shall have reasonable opportunity to comment and advise.

Many variations on the theme exist.

Patent licenses probably existed since soon after the first patent was granted. In recent decades, however, provisions that divide—to one degree or another—responsibility for patent prosecution among licensor and licensee have become more common. An article recently collected potential clauses for use in licenses, and included among them were these two alternatives:

During the term of this Agreement, the prosecution, filing and maintenance of all Patent Rights and applications in the United States and in the foreign countries shall be the primary responsibility of OWNER; provided, however, LICENSEE shall have reasonable opportunities to advise OWNER and shall cooperate with OWNER in such prosecution, filing and maintenance. All final decisions with respect to prosecution of any application, continuations, continuations-in-part and reissue applications, and selection of patent counsel are reserved to OWNER.

And this alternative, which for reasons that become clear below has benefits over the one above:

LICENSEE shall, in the name of OWNER, apply for, seek issuance of, and maintain during the term of this Agreement the Patent Rights in the United States and in foreign countries. The
prosecution, filing and maintenance of all Patent Rights and applications shall be the primary responsibility of LICENSEE. LICENSEE shall seek patent extension for patents licensed under the Patent Rights in the United States and in such foreign countries as may be designated by LICENSEE, under such applicable laws and regulations throughout such countries, where such patent extension rights are available currently or are available in the future. LICENSEE shall keep OWNER advised as to all developments with respect to the Patent Rights and shall supply to OWNER copies of all correspondence and papers received in connection therewith within ten (10) business days of receipt or filing thereof. LICENSEE shall provide all correspondence to and advise OWNER in a timely manner in order to permit OWNER to comment on all actions before they are taken by LICENSEE’s patent counsel. All final decisions with respect to prosecution of the Patent Rights are reserved to OWNER.1

In just the past two years, several disputes have arisen out of failed joint development agreements. So far three have resulted in reported opinions, and they split – with two of the three finding an attorney client relationship -- but even the decision finding no attorney-client relationship’s approach to resolution of client identity indicates that it is better to be clear about who is the client than to leave it to be decided in later litigation. In particular, the courts’ application of typical attorney-client relationship law to this context leaves much to be desired.

In the earliest case, Merck Eprova AG v. Prothera, Inc., 670 F. Supp.2d 201 (S.D.N.Y. 2009), Merck and Bayer entered into a joint development agreement on particular technology. The agreement provided that jointly developed inventions would be prosecuted jointly, with Bayer “direct[ing] and control[ing] the preparation, filing, and prosecution of the patent applications in the name of [Merck and Bayer].” If Bayer decided not to file in a certain country, Merck was to be given opportunity to file an application on its behalf. Finally, each party agreed to keep the other party informed and to deliver promptly papers pertaining to prosecution.

Bayer retained the law firm of Frommer, Lawrence, and Hoag (“FLH”). The firm obtained an assignment from an employee of Merck to both Bayer and Merc, and a power of attorney from him. Then, Merck filed a trademark suit against another FLH client, Prothera. An FLH lawyer appeared on Prothera’s behalf, and Merck moved to disqualify, arguing that FLH represented it, as well as Bayer, because of the joint development agreement.

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1 Mark S. Holmes, Selected Provisions of a Technology License, PLI Order No. 29008 (2011). Mr. Holmes emphasizes that these are not model provisions but were selected from licenses that reflect the type of provisions in use.
The district court agreed. After noting that Merck employees testified that they had always believed that FLH was representing both Merck and Bayer, the court stated that whether there was an attorney-client relationship “hinges upon the client’s [reasonable] belief that he is consulting a lawyer in that capacity and his manifested intention to seek professional and legal service.”

The court then reasoned, however, that the traditional test for finding an attorney-client relationship did not apply. That test would have looked at whether there was a fee agreement, whether the party paid the lawyer, and other factors. Instead, the court relied on cases finding community of interest and joint privilege in various cases, and reasoned that because the parties would have a common legal interest, this meant it was reasonable for Merck to believe FLH had represented it. In reaching its conclusion, the court stated:

Here, there is no dispute that Bayer and Merck intended to file joint patent applications and that Bayer engaged FLH to prosecute those applications. It was therefore reasonable for Bayer and Merck to understand that they were joint clients of FLH even though Bayer alone dealt with FLH, who had represented it in prior matters.

The court also noted that the fact that a Merck employee had provided an assignment and power of attorney “should have been an indication to FLH that FLH was acting on behalf of both co-owners.”

In the second case involving a joint development agreement, Max-Planck-Gesellschaft Zur Foerderung der Wissenschaften E.V. v. Wolf Greenfield & Sacks, P.C., five entities entered into a joint invention and marketing agreement. One of them, Whitehead Institute for Biomedical Research (“Whitehead”), was given “primary responsibility” for filing, prosecuting, and maintaining patent applications and patents, subject to an obligation to let other parties to the agreement – all of which appear to be large sophisticated entities with their own counsel, including the plaintiff Max-Planck – “reasonable opportunity to comment and advise.” Whitehead retained the Boston law firm of Wolf Greenfield & Sacks (“WGS”) to prosecute applications. All of the named inventors, employees of each of the parties to the contract, revoked powers of attorney that had been given another firm and gave substitute powers of attorney naming WGS as attorneys before the Office.

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3  670 F. Supp.2d at 211.
4  Id. at n.5.
5  736 F. Supp.2d 353 (D. Mass. Sept. 2010). I was told that the case was vacated upon settlement, but that fact, if true, does not show up on Westlaw and does not diminish the risk created by the provisions discussed here.
WGS wrote to Whitehead, and only Whitehead, stating that it was glad to have been retained as Whitehead’s counsel. Consistent with the agreement between the parties, WGS while prosecuting the applications sent various papers to Max-Planck and others for comment and sought and received what the court characterized as legal advice concerning them. Again, this is what the agreement contemplated: control by Whitehead subject to input from the other signatories to the agreement.

When a dispute arose over whether certain language had been properly included in one of the applications being prosecuted by WGS, Max-Planck sued WGS, contending that there was an attorney-client relationship between WGS and that, due to the conflict, WGS was representing conflicting interests in breach of its duty of loyalty.

The district court held as a matter of law that WGS had an attorney-client relationship with Max-Planck under Massachusetts’ law. Under that state’s case DeVaux, an attorney client relationship could be express, or implied “when (1) a person seeks advice or assistance from an attorney, (2) the advice or assistance sought pertains to matters within the attorney’s professional competence, and (3) the attorney expressly or impliedly agrees to give or actually gives the desired advice or assistance.”

After rejecting WGS’s argument that Sun Studs controlled, the court rotey applied the three DeVaux factors and held that WGS had represented, not just Whitehead, but also Max-Planck. Thus, even though the provision of legal services was done pursuant to a contractual obligation between WGS’s client, Whitehead, and Max-Planck, and even though that contract made clear that Whitehead had primary responsibility for prosecution subject only to reasonable consultation with the other parties, the court implied an attorney-client relationship.

In addition, the court in the alternative held that there was a fiduciary duty owed, separately, because WGS had obtained a power of attorney from Max-Planck. Under Massachusetts law, “an execution of a power of attorney creates a fiduciary relationship.” Thus, even though in giving the power Max-Planck knew that WGS would subordinate its interests to those of Whitehead, which controlled prosecution, the court held that WGS owed each Whitehead and Max-Planck equal duties of undivided loyalty.

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7 The court relied upon Merck Eprova AG v.Pro-Thera, Inc., 670 F. Supp.2d 201, 212 (S.D.N.Y. 2009) for the proposition that Sun Studs provides “no guidance with respect to the issue of joint representation of co-owners of patent rights.” In my view, this is a broad over-reading of Merck.
8 Id. (collecting cases).
In a case involving a license, *Layne Christensen Co. v. Purolite Co.*, a patentee, Dr. Sungupta, licensed his patent to a licensee. In part, the license stated:

Except as set forth in Section 4.1.1, [licensee] shall be responsible for determining the patent prosecution strategy for the Licensed Inventions and for filing, prosecuting and maintaining all Licensed Patents at Licensee's expense. [Licensor] shall cooperate with [Licensee] in regard thereto and shall take all actions requested by [Licensee] in connection therewith. In addition, [Licensor] will supply any additional information relating to the inventions described in the Licensed Patents that [Licensee] may reasonably request from time to time.

The licensor then entered into a contract with a third-party, Purolite under which Purolite agreed to prosecute certain foreign counterparts to the licensed technology. That agreement provided in part:

[Licensee] is currently in the process of applying for a United States patent related to the [product] on behalf of [Licensor], to which [Licensee] has exclusive worldwide rights. Purolite will be responsible during the Term, at its own cost, for worldwide patent filings in those countries they deem appropriate following the issuance of U.S. patent(s). Purolite will keep [Licensee] informed of the progress of such patent applications, and will allow [Licensee] the ability to review and comment on all correspondence and official documentation relating thereto. Purolite will promptly inform [Licensee] of any decisions it may make not to pursue certain patents or related applications (which shall be limited to those made in good faith business judgment). [Licensee] will have the right to pursue any such patents and related applications in its sole name and at its expense, and Purolite agrees to provide reasonable assistance requested by [Licensee] in that process.

Purolite then retained Law Firm A to prosecute those foreign counterpart applications.

Later, a dispute arose between licensee (actually a successor-in-interest) and the licensor, on the one hand, and Purolite. They terminated the license and sued for patent infringement of the U.S. patent.

The law firm which by then employed the lawyer who had filed the foreign counterparts for Purolite showed up to represent Purolite in the infringement suit. SenGupta and the licensee then moved to disqualify, arguing

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that by filing the foreign cases, the lawyer had represented SenGupta who, after all, would own any patents that issued.

After a lengthy fact-intensive analysis, the court denied the motion to disqualify. Among other things, it held that there was no express or implied attorney-client relationship between SunGupta and Purolite. It based its holding only after applying a multi-factor test. The court stated:

Thus the question arises: Does the work of counsel for the licensee in prosecuting foreign patent applications, including receipt of information from the inventor and identifying him by name as applicant, and resulting in a benefit to him, create an implied attorney-client relationship with the inventor? To answer this question, the Court considers a number of factors: (1) whether licensee and inventor were jointly prosecuting the patent applications, (2) the nature of licensee counsel's communication and interactions with the inventor (were the communications solely technical in nature), (3) whether the inventor chose licensee's counsel, (4) whether it was clear that licensee's counsel was working on behalf of the licensee rather than the inventor (did counsel receive instructions from inventor, whether counsel provided legal advice to inventor), (5) whether licensee's counsel had a fiduciary duty to the inventor, and (6) whether the inventor had a reasonable belief that licensee's counsel was also representing him.10

Based on a lengthy application of these factors and a comparison to prior cases, the court held there was no implied attorney-client relationship.

2. A Critique of These Cases and Their Approach.

Each of these cases applied the state’s generic, traditional approach to determine whether an attorney-client relationship existed, one that courts use to determine whether a lawyer has an attorney-client relationship with a party – a single party. What the fact patterns involve, however, is something quite different: implying that a lawyer who clearly represents one party also represents a second party. Implying that a lawyer who represents one party also represents a second ignores the context.

Other courts have recognized this, though not in the context intellectual property. In Sky Valley Ltd. P’ship. v. ATX Sky Valley, Ltd., 150 F.R.D. 648 (N.D. Cal. 1993), the court analyzed whether a lawyer had joint clients: if he did, then he could not assert privilege in a dispute between those two parties. The

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10 Id.
court engaged in a lengthy analysis of whether to imply that the lawyer represented an *additional* party.\(^{11}\)

There are a great many factors that the courts should take into account when deciding whether an implied contractual relationship exists for purposes of the joint client exception. These pertinent circumstances generally will include: the conduct of the party and counsel, what the party and counsel communicated to one another (both about their relationship and about other things, taking special note of any communications from the party to counsel that courts would not expect the party to have made if it had not considered itself to be a joint client of the lawyer), what drove the party to communicate with the lawyer and the lawyer to communicate with the party (considering especially whether the party was obligated to communicate what it did to the lawyer or was free to decide whether or not to make the communications to the lawyer), the capacity in which the party communicated with the lawyer and the capacity in which the lawyer communicated with the party, whether (with respect to matters on which the party and the lawyer communicated) the party played a decision-making role comparable to the role that the law empowers clients to play, whether the party was free to ignore the lawyer's advice or was bound to act in conformity with directives from the lawyer, whether the party paid or was obligated to pay the lawyer for her services, the relative sophistication of the party and the magnitude or significance of the interests of the party that were implicated in the matters covered by the alleged attorney-client relationship (the more sophisticated the party, and the more significant the interests affected, the more skeptically courts should view arguments that it was reasonable to rely on an implied attorney-client contract), and whether and to what extent the party also consulted or had access to any other lawyers during the relevant time period and with respect to the subject matter as to which that party is seeking to invoke the joint client exception.

Moreover, since the ultimate question is whether the law will deem two (or more) parties to have been “joint clients” of a particular lawyer, it *also is necessary* (in conducting this inquiry into all the relevant circumstances) to analyze all pertinent aspects of the relationship and dynamics between (a) the party that claims

\(^{11}\) It is important to emphasize that here the issue was whether the lawyer had two clients, not whether a client and a non-client shared a common interest such that communications among them were protected from disclosure to third parties. Those cases are inapposite to the question that these courts should be addressing. *See also* Shukh v. Seagate Tech. LLC, 2011 WL 6849053 (D. Mn. Dec. 15, 2011) (rejecting inventor’s argument that, because there was a common interest privilege with assignee, there was no privilege as between the two in a dispute).
to have been a joint client and (b) the party that clearly was a client of the lawyer in question. This analysis should include (but not necessarily be limited to) (1) the conduct of the two parties toward one another, (2) the terms of any contractual relationship (express or implied) that the two parties may have had, (3) any fiduciary or other special obligations that existed between them, (4) the communications between the two parties (directly or indirectly), (5) whether, to what extent, and with respect to which matters there was separate, private communication between either of them and the lawyer as to whom a “joint” relationship allegedly existed, (6) if there was any such separate, private communication between either party and the alleged joint counsel, whether the other party knew about it, and, if so, whether that party objected or sought to learn the content of the private communication, (7) the nature and legitimacy of each party's expectations about its ability to access communications between the other party and the allegedly joint counsel, (8) whether, to what extent, and with respect to which matters either or both of the alleged joint clients communicated privately with other lawyers, (9) the extent and character of any interests the two alleged joint parties may have had in common, and the relationship between common interests and communications with the alleged joint counsel, (10) actual and potential conflicts of interest between the two parties, especially as they might relate to matters with respect to which there appeared to be some commonality of interest between the parties, and (11) if disputes arose with third parties that related to matters the two parties had in common, whether the alleged joint counsel represented both parties with respect to those disputes or whether the two parties were separately represented.\textsuperscript{12}

Other courts have applied these principles in other contexts.\textsuperscript{13}

3. What to Do?

These cases and the approach they take present a real trap for lawyers and their clients in representations of parties to joint development agreements, licenses, and no doubt other contexts. While the holding is suspect and may not be followed broadly, the case clearly teaches several lessons. One lesson is that leaving the identity of the client to later litigation may prove costly even if the lawyer prevails. That can lead to unnecessary withdrawals or declination of potential new representations, disqualification, and perhaps liability. Those consequences benefit no one. As a result, here are some other observations.

\textsuperscript{12} Id. at 652 (emph. added).

First, a license, joint development agreement, or engagement letter should go far enough to eliminate doubt. The firm can apprise other parties to the joint development agreement or license as to the client’s identity.

Second, any agreement can expressly state that the prosecuting firm would not owe fiduciary duties to any other party but that all communications would be made in furtherance of a common interest in prosecuting the cases.

Third, while the two steps above can help prospectively, practitioners who are representing clients who are parties to similar arrangements should review the agreements to ascertain if they are clear about attorney-client relationships. If not, and if there appears to be ambiguity that could result in misunderstanding, the practitioner should consider whether to take steps to alert those who he does not represent that this is the case -- after, of course, consulting with the client about the need for these measures.

B. Inventors

If the case law is any indication, the person in patent prosecution most likely to claim to be confused about who the lawyer did and did not represent is the inventor. Where the company has had its employees assign their inventions to the company, generally the assignee, not the employee, is the client.14

Several courts have held that an attorney prosecuting a patent does not have an attorney-client relationship with the inventor in both the disqualification and malpractice context.15 These cases recognize that, at least in the usual case, the lawyer will have been hired by the assignee; his attorney-client retention agreement will be with the assignee; and he will not have rendered legal advice to the inventor. As a result, the lawyer will not have represented the inventor.

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However, the muddy waters of real life often lead to circumstances that will present a fact question as to who the lawyer represented, particularly in jurisdictions that give weight to the subjective belief of the person claiming to have been a client. In typical prosecution work, the practitioner may have met with the inventor and may have casually referred to the inventor in correspondence or billing records as a “client.” This type of evidence—common in malpractice cases—has special importance in those jurisdictions that take into account the subjective belief of the person who claims to have been a client. In one case, the court found the practitioner had represented inventors in prosecuting patents, reasoning:

In this case, appellee expressly appointed Brooks and Kushman to advance its position in the Patent and Trademark Office. To further that effort, appellee supplied Brooks and Kushman with confidential information. Furthermore, appellee agreed to pay one half of the attorney fees. Finally, Brooks and Kushman were aware that one half of the fees would be indirectly paid by appellee and that appellee would directly benefit from the successful prosecution of the patent application. From these circumstances, the trial court could properly infer that appellee reasonably believed that Brooks and Kushman owed duties to appellee to the same extent that the firm owed duties to appellant and that the confidential information supplied to Brooks and Kushman would not subsequently be used to degrade its interests. Therefore, the factual finding that Brooks and Kushman had an attorney-client relationship with appellee is supported by substantial evidence and will not be disturbed.

Under some state laws, the inventor need not establish that he was represented, but instead show only that the lawyer knew he thought he was represented or, arguably, that the lawyer was negligent in not recognizing the misapprehension and correcting it. Jurisdictions relying on subjective beliefs are particularly troublesome for attorneys who prosecute patents, since they will most frequently interact with the inventor, who may not understand their role.

As a consequence, outside counsel needs to take care to ensure that engagement letters specify not only who is the client, but who is not the client. Perhaps more importantly, persons who the lawyer interacts with, but does not represent, must know the identity of the client, and know that they are not clients. Providing the inventor with a letter stating that the attorney represents the

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16 Even where a party needs to establish objective evidence of an agreement by the lawyer to represent the person as a client, evidence such as this may defeat a lawyer’s motion for summary judgment.


18 See Parker v. Carnahan, 772 S.W.2d 151, 157 (Tex. App. – Texarkana 1989, writ denied) (lawyer has duty to warn person he does not represent him “where the circumstances lead the party to believe that the attorney is representing him.”).
assignee may not be sufficient in all circumstances. Instead, in some circumstances, a letter that expressly negates any representation of the inventor may be in order.\textsuperscript{19} Where appropriate, the inventor should assign the invention to the corporate employer, and any power of attorney should be obtained from the corporation, not the inventor. In addition, the attorney can provide a letter to the inventor explaining that the client is only the corporate employer, and not the inventor.

Finally, some other issues may be implicated. In \textit{Shukh v. Seagate Tech. LLC}, 2011 WL 6849053 (D. Mn. Dec. 15, 2011), the court held that the inventor was not a client, along with the assignee. The inventor then argued that there was a common interest between himself and the corporate employer, and so there was no privilege as between the two in a dispute. The court rejected the argument, though its reasoning was not entirely clear. It would seem that the lawyer’s communications with the agent were privileged because the inventor was likely within the test of \textit{Upjohn}, rather than there being need to invoke the common interest doctrine in the first place.

C. Business Entities

Outside counsel and in-house counsel may have a different preconception about who outside counsel represents: is it the corporate client, only, or is it the entire corporate entity, including parents and subsidiaries? Outside counsel will want to narrow the definition of “client” to be only the corporate entity itself, and not its parents and affiliates; the corporate client may want, or preconceive of, a broader definition of who is the “client.”

Outside counsel should try to reach an agreement with the client about this issue. This is so because there is no uniform approach among the jurisdictions, and often there are different approaches reflected within the jurisdictions. Some authority holds that a lawyer always represents affiliated entities; others hold that he never does;\textsuperscript{20} and, perhaps a majority, apply a vague, multi-factored balancing test.

The ABA in Formal Opinion 95-390 (1995) analyzed the distinct problem of whether a lawyer who represents a corporation represents related and affiliated corporations. In the ABA opinion a majority concluded that representation of one entity does not automatically disqualify the lawyer form being adverse to related entities. Two members of the Committee vigorously dissented, which is unusual

\textsuperscript{19} On a somewhat distinct note, a lawyer whose firm is litigating a patent that has been prosecuted by one of its lawyers should consider the potential impact on its liability of asserting privilege over any communication with the inventor. If the firm takes the position that it had represented both inventor and assignee, this may result in the firm’s inability to represent either or both in any dispute that arises between them concerning, or substantially related to, the prosecution of the patent.

in an ABA opinion. They took the bright line position that this would always be a conflict that required consent. A third member also dissented.

A comment to the “Ethics 2000” version of the Model Rules adopts the weighing test:

A lawyer who represents a corporation or other organization does not, by virtue of that representation, necessarily represent any constituent or affiliated organization, such as a parent or subsidiary. See Rule 1.13(a). Thus, the lawyer for an organization is not barred from accepting representation adverse to an affiliate in an unrelated matter, unless the circumstances are such that the affiliate should also be considered a client of the lawyer, there is an understanding between the lawyer and the organizational client that the lawyer will avoid representation adverse to the client’s affiliates, or the lawyer’s obligations to either the organizational client or the new client are likely to limit materially the lawyer’s representation of the other client.\(^{21}\)

The Second Circuit’s recent decision in *GSI Commerce Solutions, Inc. v. Babycenter, LLC*, 618 F.3d 204 (2d Cir. 2010) is noteworthy as a federal appellate decision addressing this issue, which is rare. That court rejected the “one big client” approach and instead examined the “financial interdependence” of the corporations (including “the extent to which an adverse outcome in the matter at issue would result in substantial and measurable loss to the client or its affiliate”), the entities’ ownership structure, whether the affiliate relied upon the parent for accounting, auditing, cash management, employee benefits, insurance, IT, payroll, travel, and other business functions, whether they shared a common law department, and other factors.

However, they do not do so uniformly. Even so, many of them treat as important in determining whether a separate entity should nonetheless be treated as a “client” whether the same in-house lawyer may or is involved in both matters. Another factor that appears often to be given weight is whether the lawyer in representing his client may have obtained information about the other entity.\(^{22}\)

This is an issue that lawyer and client can and should agree upon. It does not take “magic language” just thoughtful language. Language such as “by representing the entity that has retained us, law firm shall be deemed to represent

\(^{21}\) Model Rule 1.7, cmt. 34.

\(^{22}\) Bill Freivogel collects these cases on his site (www.Freivogelonconflicts.com).
any entities which it owns or controls or which owns or control it” will go a long way toward reducing uncertainty concerning client identity.  

One final note. In *Comstock Lake Pelham, L.C. v. Clore Family, L.L.C.*, 2007 WL 5964726 (Va. Cir. CT. March 20, 2007), the engagement letter provided that the firm’s engagement letter stated that it represented a corporation along with “any of its related companies.” The court held this language included corporations acquired by the client while the representation was on-going.

D. Joint Defense Agreements

1. The Problem and Recent Cases.

Joint defense arrangements are common in civil litigation. Typically, multiple defendants whose first line of defense is “none of us did it,” may work together to produce a united front. In true joint defense arrangements, each client retains its own counsel, but counsel communicate among themselves to further the joint defense. (This should not be confused with the “shared counsel” arrangement, where several clients will retain one lawyer to represent all of them.) As a result, one lawyer will be exposed to the confidential information of another lawyer’s client, a co-defendant and member of the joint defense agreement.

Joint defense arrangements present unusual issues in disqualification proceedings. Foremost, the lawyer representing one client does not by that fact alone have an attorney-client relationship with the co-defendants. Indeed, each client has its own counsel because the interests of the group, though largely common, do differ. For example, it may be that each defendant has cross-claims against each other for contribution or indemnity.

What standards ought to apply to a lawyer who seeks to be adverse to a former co-defendant of a client? The courts apply differing standards, with some treating former co-defendants exactly like former clients.

Some courts treat the party to a joint defense arrangement exactly as they would a client moving for disqualification. Lawyers engaging in joint defense

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24 The general ethical issue underlying joint defense arrangements arises in various contexts. Essentially, in a joint defense arrangement a lawyer in the course of representing a client is given access to the confidential information of a third party (i.e., the other co-defendants). That same general fact pattern arises in other contexts, and has lead to disqualification motions brought, for example, against lawyers who while representing investment bankers performed due diligence on corporations.

25 For a discussion of the conflicts that can arise among joint defendants, see George L. Murphy, Jr., Audra A. Dial, & Hillary D. Rightler, *Joint Defense Groups: Are They a Double-Edged Sword Adding Complexity and Efficiency in Patent Litigation*, 1061 PLI/Pat 281 (Sept. 2011).

representations need to consider the fact that, in some jurisdictions at least, their representation of one co-defendant in a civil matter may be held by a court to constitute a representation of all of the co-defendants, resulting in firm-wide disqualification of every lawyer in the firm in matters adverse to any of those former co-defendants. In addition, because these courts treat former co-defendants precisely like former clients, the movant need not show that it actually disclosed confidential information to the lawyer, but instead merely show that the matter adverse to the former co-defendant is the same or substantially related to the former matter under the joint defense agreement.27

Other courts, such as the Fifth Circuit, tend to view the issue more as one of contract, not ethics, while others including the Eighth Circuit view the issue as presenting a mixture of contract law and ethics.28 For example, Recent cases illustrate the contract-ethics hybrid is probably the emerging dominant view, but the question is unsettled in most states and in important jurisdictions such as Texas, the “ethics-only” approach remains in place.

2. What to Do?

Lawyers should be careful to use contract not just to confirm the existence of a joint defense agreement,29 but to ensure that the ethics-overlay does not interrupt the expectations of the parties as to what limitations their counsel, and counsel to the other parties, are facing. In those jurisdictions that apply an ethics-only approach, a contract may provide some protection against unexpected disqualification.30

A recent article suggests that a joint defense agreement among parties to a civil lawsuit address at least the following issues:

1. The agreement covers all participating attorneys, their clients and litigation support staff.

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29 See Avocent Redmond Corp. v. Rose Elec., Inc., 516 F. Supp. 2d 1199 (W.D. Wash. 2007) (no written joint defense agreement, and court found no proof of oral agreement).
30 See George L. Murphy, Jr., Audra A. Dial, & Hillary D. Rightler, Joint Defense Groups: Are They a Double-Edged Sword Adding Complexity and Efficiency in Patent Litigation, 1061 PLI/Pat 281 (Sept. 2011) (“merely disclaiming [an attorney-client relationship with other parties to the joint defense agreement] may not be enough to preclude a finding that such a relationship exists.”).
2. Members of the agreement are actual or potential defendants in litigation with common defense related interests.
3. Members have performed thorough conflict checks and that no conflict of interest exists with regards to any other member or their clients.
4. Each member has explained the agreement to his or her client and that client has agreed to be bound by its terms.
5. That, in furtherance of a common defense strategy, the members have decided to pool information and resources and that:
   a. By entering into the agreement, members intend to permit the exchange and disclosure of defense materials while preserving and protecting the confidentiality of such materials under the attorney-client or work product doctrines;
   b. Team members will maintain pooled information in confidence and protect such information from disclosure to third parties;
   c. Team members will not use exchanged information except in connection with the current litigation effort; and
   d. The agreement applies to all information, whether written, oral, electronic, or otherwise, shared in furtherance of common defense.
6. A description of the parameters by which joint-defense materials may be used by the group members and their counsel.
7. The agreement remains operative as to all information exchanged pursuant to the agreement if adversity arises between the parties, irrespective of any claim that the joint defense privilege may become inoperative by virtue of such adversity.
8. No member is required to share information in its possession, and any failure to provide information will not affect the validity of the agreement or the application of its terms.
9. The agreement does not limit a party from disclosing or using information for any purpose which (a) originated with that party; (b) was obtained or obtainable outside of the parties' joint defense relationship; or (c) are not otherwise protected under any other recognized privilege.
10. Members remain free to negotiate with adverse parties. The agreement may also provide that members who settle any part of a claim with an adverse party must disclose the fact of settlement with other members.
11. Members are prohibited from using any shared information in a manner adverse to any other team member.

12. Communications between members related to the common defense effort which occurred prior to the date of the agreement are also subject to the common interest privilege.

13. Members may withdraw from the agreement only upon written notice to all other members. In the event of withdrawal, the agreement should provide that:
   a. All previously shared information will remain protected by the agreement;
   b. A statement as to whether previously shared information must be returned or destroyed by either the withdrawing or remaining members.

14. The parties acknowledge that any client may become a witness and that no member will seek to disqualify any other member/former member based on their participation in the group or receipt of shared information.

15. That the agreement does not create a duty of loyalty (as opposed to a duty of confidentiality) to any other team member.

16. That (a) the parties understand and agree that the agreement does not create an actual attorney-client relationship between an attorney and client which was not already in existence at the time of execution and (b) no such relationship will be deemed to arise by implication.

17. Modifications to the agreement must be in writing and signed by all parties.

18. Members must notify the attorney supplying information in the event that any person or entity requests access to information supplied by the attorney under the agreement.

19. That nothing is intended to interfere with the lawyer's obligations to his client.

20. The agreement does not create any cost-sharing responsibility.

21. Waiver of common defense privilege cannot occur without the consent of all parties.\(^{31}\)

These provisions must be carefully thought through and drafted. A recent case illustrates what might happen if an agreement is not very clearly worded. In In re Shared Memory Graphics, LLC, 659 F.3d 1336 (Fed. Cir. 2011), in an

earlier suit, SMG had sued Nintendo and AMD. The two entered into a written joint defense agreement that stated in part:

Nothing contained in this Agreement has the effect of transforming outside or inside counsel for either party into counsel for the other party, or of creating any fiduciary or other express or implied duties between a party or its respective counsel and the other party or its respective counsel, other than the obligation to comply with the express terms of this Agreement, or of interfering with each lawyer’s obligation to ethically and properly represent his or her own client. The parties expressly acknowledge and agree that nothing in this Agreement, nor compliance with the terms of this Agreement by either party, shall be used as a basis to seek to disqualify the respective counsel of such party in any future litigation.32

At the time, attorney Cooper worked in-house for AMD. After that case ended, he departed AMD and became a partner with a law firm. That law firm then appeared as counsel for a plaintiff against Nintendo and others. Nintendo moved to disqualify because the same technology was involved in both suits.

The district court granted the motion to disqualify, reasoning that the waiver provision permitted attorneys such as Cooper to represent one party to the joint defense agreement if a dispute broke out among them, but not to represent third parties against the former co-defendant. The Federal Circuit on mandamus but in a two-to-one decision granted mandamus and ordered the disqualification be denied.

The majority believed that it was giving the waiver language its plain meaning: serving as counsel to AMD or Nintendo could not “be used as a basis to seek to disqualify the respective counsel of such party in any future litigation.” The dissent argued that what the parties meant, and what the district court had concluded, was that the contract really meant that serving as counsel to AMD or Nintendo could not be used as a basis to seek to disqualify the respective counsel of such party in any future litigation between them. This is a significant difference. For now, it seems that failing to include that limitation may permit a lawyer to transfer to a firm and for that firm to represent a third-party against the former co-defendant. Obviously, however, a firm doing so may subject itself to potential liability for misuse of confidential information, misuse of trade secrets, and other claims separate from disqualification as such.

E. Has the Representation Ended?

If representation of a client has ended, then the person is a “former client” and the lawyer is generally free to be adverse to the person unless the

32 Id.
representation against the client is “substantially related” to the lawyer’s prior representation of the client. Thus, to the extent that the correspondence or activities show when the representation ended, the lawyer has more freedom to be adverse to the person.

Various issues can create uncertainty as to ending dates. Movants in disqualification proceedings have successfully argued that they were “current clients” even though the firm was not representing them in a particular matter at the moment the disqualification motion was filed. The movant argues that it had an on-going relationship, and the fact that a matter was not pending at the moment the disqualification motion arrived does not control. Doubts as to whether a client is “current” or not are, seemingly, resolved against the firm.

A recent case reveals how long relationships can “go on.” In March 2004, Client A hired the firm to do some long-term legal work, but in June 2005 told it to stand down and the firm in August 2005 sent out its last invoice to Client A. In July 2006, the firm began to represent Client B in a suit against Client A, but Client A moved to disqualify. The court granted the motion, concluding that Client A was still a current client of the firm because it had been the firm’s “burden to clarify the relationship and they failed to satisfy that burden.”

In patent practice, firms which send “clients” reminders about maintenance fees and the like may want to re-consider the practice, or clearly explain to the “client” that such reminders are not done as part of an on-going

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36 Id.

37 Firms who agree to pay maintenance fees create myriad problems for themselves, including calendaring the obligation and tracking the patentee down years later when the fee is due. Firms that permit lapse have been sued for damages. E.g., New Tek Mfg. Inc. v. Beehner, 702 N.W.2d 336 (Neb. 2005) (remanding for trial on whether infringement would have occurred after lapse).
attorney-client relationship. Likewise, firms should consider whether to require attorneys to formally terminate every relationship with the transmittal of the final fee statement.

Even where examining a former client relationship, care must be given to choice of law, as the federal circuits each approach the determination of a substantial relationship differently. As a one state court recently explained:

The... Second Circuit has adopted a strict standard for applying the substantial relationship test, requiring the moving party to meet an extremely high burden of proof. That test requires that the issues involved in the two representations must be essentially the same—if not identical to—the issues raised in the present case. Since the 2nd Circuit test typically turns on the relationship between issues, rather than facts, a finding of substantial relationship may sometimes be made on the basis of the pleadings alone. Many courts have followed the second circuit in concluding that, before a substantial relationship is found, the former client must show the relationship between the issues in the former and present matters is patently clear.

The... Ninth Circuit adopted another approach..., saying it is not necessary to show that the former and present matters were identical or virtually identical; rather, substantiality would be found where the factual contexts of the two representations were similar or related. [This] approach focuses on the factual context, not issues. In utilizing this test, whether the substantial relationship exists should be measured with reference to the allegations in the complaint, and by the nature of the evidence that would be helpful in establishing those allegations. This approach was also adopted by the U.S. Court of Appeals for the Tenth Circuit....

The... Seventh Circuit adopted an approach somewhat similar to that of the Second Circuit... focusing on a realistic appraisal of the possibility that confidences may have been disclosed in one matter that will be harmful to the client in another. Rather than focusing on the issues involved in the two representations, as the Second Circuit does, or the similarity of facts, as the Ninth Circuit and Tenth Circuits do, the Seventh Circuit articulated a three step test. In this approach, the trial court...

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38 See Oregon Op. 2005-146 (2005) (reasoning that the recipients of maintenance fee reminders “in the absence of... a clear statement [that no attorney-client relationship exists] may reasonably believe that there is a continuing relationship”). The PTO in its recent notice and comment took the same position, but in an earlier decision by the board, took the opposite approach.

39 See Kabi Pharmacia, 25 USPQ2d 1030 (in treating party a current client, court noted that firm could not “isolate any point in time at which [the party] became a “former client.””).
must factually reconstruct the scope of the prior representation. If the court determines the two representations are not factually related, the inquiry will end. But, if the court finds the two representations to be substantially related factually, it must then decide whether it can reasonably be inferred that confidential information would have been given to a lawyer in those matters. Should the court decide it is unreasonable to infer that the purportedly tainted attorney would have received client confidential information, the court will normally deny the disqualification motion. But, if it comes to a different conclusion, the court must then evaluate whether the confidential information that would have been given to the attorney would be relevant to the issues raised in the litigation pending against the former client.

The… Third Circuit has adopted yet another test requiring disqualification when it appeared the subject matter of a pending suit was such that, during the course of the former representation, the lawyer “might have acquired” substantially related confidential material. The test does not require a specific deleterious effect be identified, merely the possibility of harm to the former client. It has been observed that this approach creates difficulties because it is so broad that virtually any prior representation of a current adversary could support disqualification.

The… Fifth Circuit…, adopting yet another approach, said that a substantial relationship may be found only after the moving party has delineated with specificity the subject matters, issues and causes of action common to prior and current relationships, and the court has engaged in a “painstaking analysis” of the facts and precise application of precedent. The Fifth Circuit courts have since said that the client need not disclose exactly what information was imparted to her former attorney, but must show that some substantial conversations involving the transmission of information relevant to the present litigation took place. It appears that the Eleventh Circuit, after its geographic split from the Fifth Circuit, remained faithful to the Fifth Circuit approach.40

The court then analyzed the forum’s ethics opinions before settling on a standard to apply.41

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41 Id.