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Curriculum Vita
David Hricik graduated cum laude from Northwestern University School of Law in 1988, after graduating Phi Beta Kappa and with High Honors from the University of Arizona. He then practiced law for 14 years, first with Baker Botts then with litigation boutiques, principally litigating patent infringement, legal malpractice, and complex commercial litigation. During that time, he also taught as an Adjunct Professor of Law at the University of Texas School of Law and at the University of Houston Law Center.

He left full-time practice in 2002 and began to teach at Mercer. He principally teaches Law of Lawyering, Patent Law and Litigation, and Civil Lawsuits. He has authored or co-authored books on Property, Statutory Interpretation, Civil Procedure, and ethical issues in patent prosecution and litigation. He is nationally recognized as an expert in ethics in intellectual property law.
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This article is an update to part of a chapter from the book, David Hricik & Mercedes Meyer, Patent Ethics: Prosecution (Oxford University Press 2009). A second edition is forthcoming. This addresses common issues concerning client identity in patent prosecution.

Lawyers owe the highest obligations to clients. The same principle applies to patent practitioners. Thus, it is imperative for practitioners to know who is, and who is not, a client. When an independent inventor hires a practitioner to prosecute an application, and the individual owns all rights to the invention, axiomatically the practitioner has a practitioner-client relationship with the inventor. In those circumstances, there is little doubt or confusion.

But patent practice often involves inventors who, at least potentially, do not own the invention subject to prosecution, but instead their employer does. The practitioner may obtain a power of attorney from the inventor, interact with him concerning privileged communications, and otherwise create all the indicia of a typical attorney-client relationship: apart from the obligation of assignment, the interaction between an independent inventor and an employed inventor with a preexisting obligation of assignment may not be that “different,” particularly to those not steeped in patent practice and the law. In addition to that, complex business arrangements are becoming more common in patent practice that may also lead to questions of client identity. For example, in some circumstances the party with the right to control prosecution may not be the only party with rights in the invention and power to affect prosecution.

What these circumstances raise is this: room for legitimate confusion, as well as illegitimate strategic behavior. Practitioners do well to eliminate both. This chapter is designed to help them do so.

Further, it is settled in most states that who the practitioner subjectively believes he represents does not, always, control. For that reason, it is possible – more so in patent prosecution than in certain other practice areas – for a practitioner to later be held to have had a practitioner-client relationship with someone he did not subjectively perceive to be a client, or to owe that party a fiduciary obligation in some other form distinct from the attorney-client relationship. If the cases are any guide, it is not rare for a practitioner to subjectively believe that he does not represent someone, but that person believes that the practitioner does, and the facts may be such that it is for a judge or jury later determine whether the practitioner in fact represented the person.

Further, the lack of a practitioner-client relationship does not end the inquiry into whether there is some duty, fiduciary or other, between the practitioner and the third party. In some states, for example, lawyers owe a tort duty to affirmatively warn a third party who reasonably believes the lawyer represents him that he does not. Finally, even if the person is not represented by the practitioner or in position to reasonably believe the lawyer represented him, lawyers owe obligations to unrepresented parties to avoid the appearance of being disinterested and to avoid providing legal advice to unrepresented persons. Again, this chapter is designed to help practitioners recognize and resolve these issues in effective efficient ways.

This focuses on three fact patterns that arise during prosecution that often raise these issues.
First, client identity, and other obligations to unrepresented persons, often arise with inventors who are employees subject to assignment the Patent Act requires patent applications to be filed in the name of the inventor, not the owner or assignee. Thus, where an employee invents subject matter that is subject to an obligation of assignment to the employee’s corporate employer, the fact that the employee must be involved can create the potential for ambiguity over client identity as well as implicate obligations to unrepresented persons.

Second, increasingly practitioners are retained by one party to a joint development agreement or similar arrangement, where the party retaining the lawyer has control over prosecution, subject to some obligation to the other party (or parties) to their agreement, such as an obligation to consult over prosecution matters. Much like the circumstances surrounding the employed inventor, the fact that the party who is clearly the practitioner’s client is required to cooperate in prosecution with the other party to the joint development agreement can create ambiguity and also implicate obligations to unrepresented persons.

Third, even if the practitioner avoids ambiguity as to whether, or not, his client is only corporate employer, ambiguity can still exist as to whether he or she represents only the corporate employer, or affiliated entities (such as parents, subsidiaries, and the like). A lawyer who very clearly arranges it so that it is clear that he does not represent the employed inventor or other parties to a joint development arrangement may find that his “client” is far more than just the sole entity that employed him, in other words.

The following section discusses these three issues. 1

1. Inventors

A. The Law

Again, it is axiomatic that a practitioner who agrees to prosecute an application for an inventor creates an attorney-client relationship with the inventor. There can be no doubt that a practitioner who agrees to prosecute a patent application for an individual inventor owes that inventor a fiduciary obligation. That basic point is the building block, however, for the practical problems and legal uncertainty that practitioners face when a corporation or other entity retains a practitioner to prosecute a patent application but the invention names an employed inventor.

This is of course very common. Practitioners routinely prosecute applications where the inventor is employed and is subject to assign of all inventions to a corporate

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employer, who retained the practitioner. Under USPTO regulations and the 1952 Patent Act, a “patent must be applied for in the name of the actual inventor or inventors.” Corporations cannot be “inventors.” Hence, the patent must be prosecuted in the name of the inventor. A practitioner must obtain authority from the inventor to do so. This creates potentially awkward circumstances.

The USPTO requires that practitioners get a Declaration from each inventor at the time that an application is filed or immediately thereafter. Although only a Declaration by each inventor is required for filing an application, the Declaration is frequently filed as a joint Declaration and Power of Attorney. The Power of Attorney portion is directed under 37 C.F.R. §§ 1.31 and 1.32. The Declaration is generally obtained from the inventor (as is the Power of Attorney), unless the inventor is dead, insane, a minor, or legally incapacitated. At that point, the executor or legal representative executes the Declaration and grants Power of Attorney.

For general communications with the USPTO, such as for responding to office actions, a practitioner does not need to have a Power of Attorney from each inventor. Instead, a registered agent or attorney can file the response while acting in a representative capacity under 37 C.F.R. § 1.34, so long as the applicant or the assignee has authorized him to act before the Office. This applies to all aspects of prosecution. Thus, it is advisable to obtain a Power of Attorney in an application in an expedient fashion. Future revocations and new powers of attorney needed because of the corporate purchase of patent portfolios and transfer of portfolios between law firms will be obtained from the corporation and not the inventor. Revocation and withdrawal of a Power of Attorney is authorized by 37 C.F.R. § 1.36.

While often practical realities of the internal operation of the entity will essentially require that a combined declaration and power of attorney be used, there are reasons practitioners should avoid obtaining a Power of Attorney from an inventor-employee. The entity can obtain assignment of the invention from the employer and then prosecution can be done in the name of the assignee.

Some reasons for having counsel obtain only the Declaration, only, and not the assignment or the Power of Attorney are practical.

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2 37 C.F.R. § 1.41(a); see 35 U.S.C. § 111 (“application for patent shall be made, or authorized to be made, by the inventor”); Comtech, Inc. v. Reuter, 1986 WL 6829 (E.D.N.Y. Mar. 18, 1986) (explaining need for inventor to sign; denying motion to disqualify).

3 Beech Aircraft Corp. v. EDO Corp., 990 F.2d 1237, 1247 (Fed. Cir. 1993). This requirement originates in the Constitution, which makes inventions the property of inventors, not their employers. Whether an employer has any rights in an invention, whether ownership or a shop right, turns on state law. Schroeder v. Tracor, Inc., 1999 WL 1021055 (Fed. Cir. 1999); A & C Eng’g Co. v. Alherholt, 95 N.W.2d 871, 873 (Mich. 1959) (recognizing that corporation’s claim to shop right “appears to be a common law (e)quity action to determine ownership of a patent and involves the federal patent laws only obliquely and incidentally.”).

4 There are of course times when the inventor refuses to sign or cannot be found. In these circumstances, the requirements under 37 C.F.R. § 1.47 are followed.
First, separating the Power of Attorney from the Declaration will make communication from the USPTO to the practitioner less prone to error with respect to continuation and divisionals in applications later transferred for prosecution to a different law firm or sold by the entity. This is because often USPTO communications are sent to the address listed on combined Declarations and Power of Attorney – and that address may no longer be correct.

Second, some of the issues that arise during representation (e.g., dead inventors, insane inventors, child inventors, missing inventors, and angry inventors) mean that it may be more advisable to obtain the Declaration from the inventor and an assignment to the entity, and then a Power of Attorney from the entity. This can help to reduce some problems later in prosecution, even though once the assignment and Declaration are filed, assignee prosecution essentially takes the same form as prosecution where the Power of Attorney is obtained from the inventor.

Other reasons for not obtaining a power of attorney from the inventor, and for avoiding involvement in the assignment relate to avoiding misunderstanding about prosecution counsel’s relationship with the inventor.

At the outset, for reasons that will become clear, it is important for practitioners who obtain a Power of Attorney from an employed inventor be certain the employee is subject to an absolute obligation to assign, or at least an obligation to assign the specific invention disclosed in the application. If there is any doubt about whether the invention is subject to an obligation of assignment, the inventor’s interests may conflict with the company’s, and he still may have legal rights to the invention. Of course, companies generally require employees agree that all inventions are the property of the company, and the due diligence required on this point may be minimal. If the practitioner has represented the company for years, for example, and knows that the company has reliably obtained such assignments from similarly situated employees, then it may be that nothing need be done.

But on the other end of the spectrum, where the lawyer cannot form the good faith and reasonable belief based upon past actual experience that the person has an obligation to assign, the practitioner must conduct some measure of due diligence before asking the employee to sign over rights in the invention: after all, if the employee has no obligation to assign, then by providing the assignment the practitioner will be in position of advising the person to give away property rights to the corporation that he is not obligated to hand over.

In addition, it is perhaps understandable why some inventors operate under the false belief that they, too, were also clients of the practitioner retained by the corporate employer. After all, the employee-inventor will likely have met with or communicated with the practitioner, and will have perhaps signed a document styled “power of attorney.” It is also understandable why these facts can give rise to strategic behavior, such as where in a dispute between inventor and assignee, the inventor’s attorney either seeks to disqualify the assignee’s counsel or attempts to assert a malpractice claim against the assignee’s lawyer, claiming that assignee’s counsel also represented the inventor.
As a general rule, courts are properly recognizing that actions that a practitioner takes pursuant to a power of attorney granted by an inventor subject to an absolute obligation of assignment are not necessarily made during an attorney-client relationship. That holding reflects several key points. First, a lawyer does not have to have a power of attorney to act as a lawyer. Likewise, powers of attorney can authorize nonlawyers to act (i.e., patent agents). Thus, a power of attorney does not create an attorney-client relationship. Consistent with this, courts – though not all of them -- have recognized “the mere existence of a power of attorney may be insufficient to establish a confidential or fiduciary relationship.”

In a case involving an absolute obligation of assignment, the Federal Circuit in Sun Studs believed that at least based on general agency principles and not any state law, that the execution by an employee of a power of attorney for the benefit of his employer did not create an express or implied attorney-client relationship: “In the present case there was not even a ‘technical’ attorney-client relationship between Chernoff and Hunter because of the prior agreement that all rights in the invention belonged to Sun Studs.”

Consistent with the Sun Studs opinion, courts have held that where the corporate employer previously had the inventor-employee assign all inventions to the corporation, generally the assignee, not the employee, is deemed to be the only client if there are no other facts suggesting an attorney-client relationship otherwise arose. Several courts in

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5 “If doubts exist as to the extent of the inventor’s obligation to assign the invention, the practitioner may need to advise the inventor to seek separate counsel to resolve this question even before work begins on the patent application.” Tarek N. Fahmi, Who’s Your Client? Issues Involved in Representing Inventors and Their Assignees in Patent Matters, 824 PLI/Pat 737, 746 (Mar. 2005). See Dunbar v. Baylor College of Med., 984 S.W.2d 338 (Tex. Ct. App. 1998) (suit against lawyers and others for not disclosing that she was obligated to assign inventions to corporate employer).

6 Nebraska v. Flores, 622 N.W.2d 632 (Neb. 2001) (recognizing that attorney’s actions taken pursuant to a power of attorney were not done in an attorney-client relationship).

7 See Restatement (Second) Agency § 14H (1974) (“One who holds a power created in the form of an agency authority, but given for the benefit of the power holder or of a third person, is not an agent of the one creating the power.”). See also id. § 387 cmt. a.


10 Synergy Tech & Design Inc. v. Terry, 2007 U.S. Dist. LEXIS 34463 (N.D. Cal. May 2, 2007) (“The listing of Mr. Terry as the individual inventor was made necessary by the rules governing
both the disqualification and malpractice context have held that a practitioner prosecuting a patent does not have an attorney-client relationship with the inventor.\(^\text{11}\)

There is some real uncertainty about the reasoning of these cases that require additional analysis, however. As we pointed out above, there is no doubt that a practitioner who represents an individual inventor in prosecuting an application has an attorney-client relationship with the inventor. Why does the existence of an obligation to assign mean that there is no attorney-client relationship? None of these cases, and in particular none of the Federal Circuit cases, analyzed the issue under federal preemption, but that seems to be the basis of its view.\(^\text{12}\) Another problem is that this analysis could

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\(^\text{12}\) In Sun Studs, the Federal Circuit’s leading decision, the court addressed an appeal from the United States District Court for the District of Oregon. Although the court faced many issues, one was whether a practitioner was disqualified from being adverse to an inventor when the practitioner had obtained a power of attorney from the inventor to prosecute an application that the inventor knew was subject to an obligation of assignment to a third party. Rather than analyze Oregon law on the creation of attorney-client relationships, however, the court stated: “Since we have been unable to find controlling Ninth Circuit precedent on the specific ‘relationship’ issue raised by [the practitioner’s] representation, we look to more general principles which are consistent with Ninth Circuit law.” Id. at 1568. The court then relied on a section of the Restatement (Second) of Agency § 14H (1958) and a Pennsylvania case to conclude that there was no attorney-client relationship and that equities did not warrant disqualification. Why the panel did not look to Oregon law is inexplicable.
directly conflict with state law, and so a practitioner may find that upon careful consideration a court would find the Federal Circuit’s analysis incomplete, since preemption is a narrow and special analysis. If the Sun Studs holding is based upon to “Ninth Circuit” or Oregon law, then practitioners have no guidance where other law – presumably their own state’s law – controls. Where, as is the case, the inventor retains the right to control prosecution and even to “fire” the practitioner even after assignment has been made: assignment does not, by itself, give any power to the assignee, only a substitute power of attorney does.

In addition, these general principles, absolute obligations, and basic fact patterns can give rise to fact questions and ambiguity. For example, at least one court has held in the context of a motion to disqualify that the practitioner had represented the inventor, and not just the assignee. The muddy waters of real life often lead to circumstances that can 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.

Foremost, ambiguity or a fact question requiring trial by jury can arise if the practitioner in the course of prosecuting the application met with the inventor and

Later decisions have been less than clear about the fact that whether an attorney-client relationship exists is a matter of state, not federal law, and have not further explained the result of Sun Studs except by stating that a power of attorney given to a practitioner to prosecute an application for another does not create an attorney client relationship. For example in Ultimax Cement Mfg. Corp. v. CTS Cement Mfg. Corp., 587 F.3d 1339 (Fed. Cir. 2009), the court relied upon Sun Studs to affirm denial of motion to disqualify a practitioner who prosecuted an application that was subject to an assignment, but never assigned, because Sun Studs held under “Ninth Circuit law” that “the attorney clearly represented the inventor’s employer because the inventor was required to assign the invention to the employer.” There is, of course, no “Ninth Circuit law” of attorney-client relationships. The court also viewed Sun Studs as controlling on the existence of an attorney-client relationship in a disqualification motion in Univ. of W. Va. V. Vanvoorhies, 278 F.3d 1288 (Fed. Cir. 2002), though that case arose in West Virginia, not California or the Ninth Circuit. In Telectronics Proprietary, Ltd. v. Medtronic, Inc., 836 F.2d 1332 (Fed. Cir. 1988) it applied Sun Studs to a case arising in New York.

A variation on the theme may prove the point. Suppose that both the lawyer and the inventor believed they had formed an attorney client relationship. Under state law, there is no doubt that a relationship was formed. Suppose, however, that the employer argues that there was no such relationship. Does the fact that the inventor is subject to an obligation of assignment automatically mean that state law gives way? That seems to be the result of the Federal Circuit’s reasoning, but it is not clear to us that such reasoning will stand up to a rigorous preemption analysis.


Henry Filters, Inc. v. Peabody Barnes, Inc., 611 N.E.2d 873, 876 (Ct. App. Ohio 1992) (holding in disqualification context that an attorney-client relationship existed between attorneys and inventor because among other things he had supplied attorneys with confidential information and paid half of the fees).
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.\textsuperscript{17} 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.\textsuperscript{18}

In addition to these fact patterns, under some state’s laws, a person generally need not establish that he or she was represented, but instead show only that the lawyer knew or should have known that the person thought he or she was represented or, arguably, that the lawyer was negligent in not recognizing the person’s misapprehension and correcting it.\textsuperscript{19} There is an affirmative tort duty not to let someone operate under the mistaken belief that the practitioner represents them, in other words. Jurisdictions relying on subjective beliefs are particularly troublesome for attorneys who prosecute patents because they will most frequently interact with inventors, who might not understand their role in patent prosecution as representing only the assignee’s interests.

Finally, even if a practitioner does \textit{not} represent the inventor, in all states lawyers owe duties to unrepresented persons. For example, many states have a rule similar to Model Rule 4.3 of the American Bar Association and which states:

In dealing on behalf of a client with a person who is not represented by counsel, a lawyer shall not state or imply that the lawyer is disinterested. When the lawyer knows or reasonably should know that the unrepresented person misunderstands the lawyer’s role in the matter, the lawyer shall make reasonable efforts to correct the misunderstanding. The lawyer shall not give legal advice to an unrepresented person, other than the advice

\textsuperscript{17} 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.


\textsuperscript{19} \textit{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”).
to secure counsel, if the lawyer knows or reasonably should know that the interests of such a person are or have a reasonable possibility of being in conflict with the interests of the client.

Where a practitioner has not in good faith reasonably determined that the inventor in fact has an obligation to assign, the practitioner should be careful not to advise the inventor to assign the invention, since that implies the inventor has no rights in issue. Likewise, if the employee were to ask whether he had an obligation to assign, the practitioner must take care to avoid providing advice if he is not certain the obligation to assign persists and so is in the position where he reasonably should know that the employer’s interests conflict with those of the employee.

B. What to Do

We’ve shown that inventors may be clients, that they may erroneously believe they are clients, and that practitioners have an obligation to make sure that there is no misunderstanding about the practitioner’s role as prosecution counsel. As a consequence, care needs to be taken to ensure that engagement letters specify not only who is the client, but who is not the client. Perhaps more importantly, persons who the practitioner 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 practitioner represents the assignee might not be sufficient in all circumstances. Instead, in some circumstances, a letter that expressly negates any representation of the inventor can be in order.20 Another possibility is to have the inventor assign the invention to the corporate employer, and any power of attorney should be obtained from the corporation, not the inventor. In addition, the practitioner can provide a letter to the inventor explaining that the client is only the corporate employer, and not the inventor. Finally, if a power of attorney is obtained directly from the inventor, it can clearly disclaim any attorney-client relationship, as can the lawyer in any initial meeting or correspondence with the inventor. Following one or more of these suggestions will reduce risk and protect the client, the practitioner, and the inventor.

2. Joint Development Agreements and Similar Structures

A. The Law

20 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. The solution is to avoid ambiguity and to make clear in any assertion of privilege that it is being asserted over communications with the inventor solely under the control group or other appropriate test.
Joint development agreements are becoming increasingly common, particularly in the biotech sector, and often between universities and large 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. Many variations on the theme exist.

In recent years, we are aware of several disputes arising out of failed joint development agreements. So far one has resulted in a reported opinion, and its reasoning creates significant difficulties for practitioners.

In Max-Planck-Gesellschaft Zur Foerderung der Wissenschaften E.V. v. Wolf Greenfield & Sacks, P.C., several 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.

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 law 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 rotefly 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.

**B. What to do.**

*Max-Planck* presents a real trap for patent lawyers. While we believe the holding is suspect and may not be followed broadly, it clearly teaches several lessons.

First, the engagement letter by WGS did not go far enough in this court’s eyes. The firm should have apprised other parties to the joint development agreement that only Whitehead was its client, and that it would place Whitehead’s interests ahead of all others, and would follow only Whitehead’s instructions in the event the parties to the joint development agreement disagreed.

Second, the agreement between the parties could have been clearer, in hindsight. It could have expressly stated 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. This also could have helped to avoid the implied attorney-client relationship.

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 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.

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23 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.”

24 *Id.* (collecting cases).
3. Business Entities

A. The Law

It is clear that a lawyer, who represents an entity, does represent the entity.\(^{25}\) Put the other way, a lawyer-client relationship between a lawyer and a corporate client is only between the lawyer and the entity. This is the so called “entity approach,” which assumes that the “entity” has its own fictional, separate existence apart from the constituents who make decisions on the entity’s behalf. The entity approach has been applied to numerous business entity forms, including partnerships, corporations, associations, joint ventures, limited partnerships, and virtually every other form of entity.\(^ {26}\) But the statement that a lawyer who represents an entity represents the entity does not answer the question of whether the lawyer can be disqualified from being adverse to entities related to the entity-client, such as its subsidiaries, affiliates, or parent corporations.

First, in most jurisdictions, the fact that a lawyer represents an entity does not ipso facto mean the lawyer represents affiliated entities. The clear majority rule is that the mere fact that a lawyer represents an entity does not ipso facto mean that he or she represents any of the entity’s constituents.\(^ {27}\)

\(^{25}\) Am. B. Ass’n Model R. 1.13(a) (“A lawyer employed or retained by an organization represent the organization acting through its duly authorized constituents.”)

\(^{26}\) See, e.g., Carlson v. Fredrikson & Byron, P.A., 475 N.W.2d 882, 890 (Minn. Ct. App. 1991) (representation of business does not amount to representation of business’ owner); McCarthy v. John T. Henderson Inc., 587 A.2d 280, 283 (N.J. Super. Ct. App. Div. 1991) (lawyer who represented close corporation could sue another close corporation with same officers and directors since representation of corporation was not representation of individuals); Security Bank v. Klicker, 418 N.W.2d 27, 31 (Ct. App. Wis. 1987) (“a limited partnership has been held to be an entity ‘similar’ to a corporation for purposes of determining attorney-client relationships.”)

\(^{27}\) Marshall v. Quinn-L Equities, Inc., 704 F. Supp. 1384, 1395 (N.D. Tex. 1988) (if lawyers “represented the limited partnerships . . . this does not magically transform them into counsel” for the limited partners); Meyerland Cmty. Improvement Ass’n v. Temple, 700 S.W.2d 263, 267–68 (Tex. App.—Houston [1st Dist.] 1985, writ ref’d n.r.e.) (no attorney-client relationship between association’s lawyers and members of association); Fortson v. Winstead, McGuire, Secrest & Minick, 961 F.2d 469, 472–74 (4th Cir. 1992) (no duty owed by counsel for partnership to limited partners). See also Hopper v. Frank, 16 F.3d 92, 95–96 (5th Cir. 1994) (lawyer hired by individual partners to assist in sale of limited partnership assets had attorney-client relationship only with partnership, and so individuals who retained lawyer could not sue for malpractice) (Mississippi law); Quintel Corp. v. Citibank, 589 F. Supp. 1235 (S.D.N.Y. 1984) (lawyer for general partner has no fiduciary duty to limited partners); Rice v. Strunk, 670 N.E.2d 1280, 1289 (Ind. 1996) (lawyer for partnership has no attorney-client relationship with anyone except the managing general partner); Hackett v. Village Court Assocs., 602 F. Supp. 856, 858 (E.D. Wis. 1985) (limited partners could not bring a malpractice claim against partnership’s lawyers); Rose v. Summers, Compton, Wells & Hamburg P.C., 887 S.W.2d 683 (Mo. Ct. App. 1994) (lawyer for limited partnership owes no duty to individual partners on which they may sue for malpractice); Morin v. Trupin, 711 F. Supp. 97, 103–04 (S.D.N.Y. 1989) (lawyer for partnership cannot be sued by its limited partners); Am. Bar Ass’n Comm. On Ethics and Prof. Resp., Formal Op. 91-
But the majority of courts, although rejecting a “one big client” approach, also reject an “only the ‘real’ client counts” approach. As a result, practitioners who are unclear about client identity, when undertaking to represent a corporation or other entity, run the risk that a court will later deem them to have represented more than just the entity that signed the engagement letter. For example, if a lawyer represents Company A in prosecuting an application, and his or her firm is asked to represent another client against Company A’s parent corporation, the firm may be disqualified because by representing Company A, the lawyer will be deemed to represent Company A’s parents, affiliates, or other entities.

Unfortunately, there is no uniform approach among the jurisdictions, and often there are different approaches reflected within a jurisdiction, a client identity in this context. Some authority holds that lawyers always represent affiliated entities; others hold that they never do; and, perhaps a majority, apply a vague, multifactored balancing test. A 1995 American Bar Association (ABA) opinion illustrates the scope of disagreement on the proper way to address “corporate family” conflicts, and the disagreements expressed in that opinion persists in the law today. In that ABA opinion, a majority concluded that representation of one entity does not automatically disqualify the lawyer from being adverse to related entities. Two members of the Committee vigorously dissented, which is unusual 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, and espoused a third approach.

The newer version of the ABA Model Rules in a comment adopts a middle ground, highly indeterminate, weighing test that rejects both the “all” and “nothing” approach to corporate family conflicts:

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. 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.


29 Id. A related issue arose in Strausbourger Pearson Tulcin Wolff, Inc. v. Wiz Tech., Inc. 82 Cal. Rptr. 2d 326 (Cal. App. 1999), the one of a series of cases involving the question of whether a
law firm that receives confidential information from a corporation while acting on behalf of a third party can be disqualified from being adverse to that corporation. Only a very few courts have addressed this issue, and their approaches have not been uniform.

In Strasbourger, the Stroock firm represented Strasbourger, an investment banking firm, in its capacity as underwriter for Wiz’s public offering. Among other things, Stroock prepared the registration statement, the prospectus and other filings, and did due diligence on Wiz. To perform these and other tasks, Stroocks’ lawyers repeatedly met with Wiz personnel, who disclosed information to Stroock as requested. Wiz, as part of the underwriting agreement, agreed to pay Stroock’s fee. Stroock performed blue sky work for Wiz as part of the arrangement. A short time later, Wiz retained Coopers & Lybrand as auditors. Stroock was also Coopers’ counsel. Wiz disclosed certain information to Coopers concerning an Securities and Exchange Commission (SEC) investigation. Eventually, Coopers resigned as Wiz’s auditors.

Strasbourger thereafter sued Wiz for breaching the underwriting agreement. Strasbourger alleged that Wiz was selling its shares on its own, among other things. In the suit, Strasbourger was represented by Stroock. Wiz then moved to disqualify Stroock. The district court granted the motion to disqualify, finding both that Stroock had represented Wiz and that it should be disqualified for having received Wiz’s confidential information.

Strasbourger appealed. On appeal, the California appellate court reversed. The court concluded that Stroock had not represented Wiz because of the precise language of the underwriting agreement at issue. In reaching its conclusion, it distinguished two other decisions that have addressed this or similar fact patterns, stating:

Any inference [that Stroock represented Wiz] to the contrary is rebutted by the habit and custom of parties in stock underwriting transactions. The company traditionally pays for the blue sky work done by the underwriter’s counsel. A savvy company involved in a stock offering would not consider the underwriter’s counsel to be its attorney simply because it performed blue sky work for the transaction.

Wiz asserts that International Tele-Marine v. Malone & Associates, (D. Colo. 1994) 845 F. Supp. 1427 compels a contrary conclusion. The case involved a stock offering with an underwriting agreement under which the underwriter’s counsel was to perform functions similar to those Stroock performed, and the company was to pay the underwriter’s counsel for its blue sky work. The company and the underwriter’s counsel entered into another agreement, however. That agreement was consistent with the underwriting agreement in some respects but also referred to “withdrawal as counsel for the company.” The court found that language could be construed as creating an attorney-client relationship and denied summary judgment. Nothing in International Tele-Marine mandates a finding the evidence here was sufficient to establish an attorney-client relationship, particularly in the absence of any express representation by Stroock. Indeed, the International Tele-Marine court noted the mere performance of blue sky work in an offering does not create an attorney-client relationship between the underwriter’s counsel and the issuing company.

Wiz also relies heavily on Jack Eckerd Corp. v. Dart Group Corp. (D. Del. 1985) 621 F. Supp. 725. In Eckerd, Dart wanted to obtain shares in another company, but wanted to avoid the restrictions inherent in being labeled an “investment company” under the Investment Company Act of 1940. It hired First Boston Corporation, an investment banking firm, to advise it. First Boston obtained the services of Fried, Frank, Harris, Shriver & Jacobson (Fried, Frank) in connection with the work. Fried, Frank received permission from Dart’s regular outside counsel to confer with Dart. One of Fried, Frank’s attorneys obtained information from Dart and prepared a complex memorandum discussing the issue. By agreement with First Boston, Dart paid Fried Frank’s fee. When jack Eckerd Corporation sued Dart later on a substantially related matter, Dart sough to have Fried, Frank disqualified as Eckerd’s counsel. The district court granted the
Thus, the ABA in the comment simply refers to “circumstances” that indicate the affiliate “should be considered a client,” or there is an “understanding,” or the adverse matter will materially limit the lawyer’s ability to be adverse to the affiliated entity. This has led to at least three separate “tests” for loyalty under these circumstances:

1. Is the affiliate de facto a current client of the law firm?
   1.1 Does the current corporate client have an objectively reasonable belief that its affiliate has de facto become a current client of the law firm, either because of the law firm’s relationship and dealings with the affiliate during the representation, or because of significant overlaps in personnel and infrastructure between the corporate client and its affiliate?
   1.1.1. Do the current corporate client and its affiliate share the same directors, officers, management, or other personnel?
   1.1.2. Do the current corporate client and its affiliate share the same offices?
   1.1.3. Do the current corporate client and its affiliate share the same legal department (or report to the same general counsel)?
   1.1.4. Do the current corporate client and its affiliate share a substantial number of corporate services?; and
   1.1.5. Is there substantial integration in infrastructure between the current corporate client and its affiliate, such as shared computer networks, e-mail, intranet, interoffice mail, health benefit plans, letterhead and business cards, etc.?

motion, finding there had been at least an implied attorney-client relationship between Fried, Frank and Dart.

Although the fact situations of Eckerd and this case are similar, the distinctions mandate a different result. No agreement, like the one here, designated Fried, Frank as First Boston’s counsel. To the contrary, First Boston was required to obtain Dart’s approval of the counsel First Boston obtained for the work. Indeed, the district court in Eckerd found First Boston acted as Dart’s agent in obtaining Fried, Frank. And, unlike the blue sky work here, which inured to Strasbourger’s benefit, the memorandum Fried, Frank prepared affected only Dart’s interests. 82 Cal. Rptr.2d at 330 (citations and brackets omitted).

The court then rejected Wiz’s other evidence of an attorney-client relationship—including the fact that Stroock had “advised” Wiz of certain legal needs and had made various decisions on its behalf (82 Cal. Rptr. 2d at 331). Finally, the court rejected the argument that Stroock should be disqualified by reason of Wiz’s disclosure of confidential information to Coopers, as Coopers had then passed that information along to Stroock in its capacity as Coopers’ counsel. After noting that “Wiz’s argument on this point is not entirely clear” (82 Cal. Rptr. 2d at 332), the court then rejected Wiz’s reliance on a case that held that disqualification was proper where a nonlawyer had received information while employed as a paralegal. Wiz argued that “the disqualified firm never had an attorney-client relationship with the opposing party and argue[d] for the same result” (82 Cal. Rptr. 2d at 333). The court held that because the information came from Stroock’s client, Coopers, it could not serve as the basis for a motion to disqualify (82 Cal. Rptr. 2d at 334).

available at
2. Is there a significant risk that the law firm’s representation of either the current corporate client or the adverse client in the adverse representation will be materially limited by the law firm’s responsibilities to the other client?

3. During its representation of the corporate client, did the law firm learn confidences and secrets from either the client or its affiliate that would be so material to the adverse representation as to preclude the law firm from proceeding?  

Although the New York City Bar Association’s opinion is typical, courts and bar associations that apply these various alternative tests do not do so uniformly.  

While uniformity is sorely lacking in this area, uniformly the authorities recognize that one important factor in determining whether a separate legal entity should nonetheless be treated as part of the “real” client is whether the same in-house lawyer may be or already is involved in both the matter on which the firm is representing the client and the matter in which the firm will be adverse to the related entity. Another factor that often is identified as important is whether the lawyer in representing the corporate client might have obtained information about the entity to which the firm is adverse.  

Finally, even if the engagement letter specifies that the “real” client is the practitioner’s only client, nothing precludes a practitioner who is representing an entity from also—intentionally or otherwise—forming an express or implied attorney-client relationship with one or more of the entity’s constituents. The Fifth Circuit’s approach in Hopper v. Frank exemplifies the approach to whether a lawyer who represents an entity also has an attorney client relationship with its constituents. In that case, the court reasoned that, by itself representing a partnership did not constitute representation of a constituent representation of one of its partners. Instead, the court must look to “such factors as whether the lawyer affirmatively assumed a duty of representation to the individual partner, whether the partner was separately represented by other counsel when the partnership was created or in connection with its affairs, whether the lawyer had represented an individual partner before undertaking to represent the partnership, and

31 Id.


whether there was evidence of reliance by the individual partner on the lawyer as his or her separate counsel, or of the partner’s expectation of personal representation.\textsuperscript{34}

Of course, in real practice the facts and circumstances in \textit{Hopper v. Frank} can and often do occur. Failing to clarify up front who is and is not the client thus permits entity-constituents to argue, in hindsight, that they “had been” a client. For example, a lawyer representing a corporation might on a daily basis be in contact with individuals; those individuals (who are oblivious to what the ethical rule may say) can become confused about who the lawyer represents, particularly where the individual is a principal in the corporation or other entity being represented.

\textbf{B. What to Do}

Practitioners who do not use an engagement letter “choose” the default that will apply in the context of entity representations risks letting a court later decide it for them or, more likely, of possibly having to decline a new matter because of the liability to clear conflicts. It does not take “magic language,” just thoughtful language to reduce these problems. Language such as “by representing the entity that has retained us, we do not represent any of its shareholders, officers, directors, or entities which it or they owns or controls” will go a long way toward reducing uncertainty concerning client identity.\textsuperscript{35} Consider this as another possible term in any engagement letter with a business entity:

If you are signing the accompanying letter on behalf of a business entity, including a corporation, partnership, limited partnership, or similar entity, it is important that you be aware that our client is only the entity. We do not, by representing the entity, have an attorney-client relationship with you, or the entity’s other individual executives, directors, partners, managing agents, shareholders, or other constituents, agents, or employees. Likewise, we do not represent any person or entity that owns or controls the entity, such as a parent corporation or general partner. We also do not represent entities owned by our client, such as its affiliates or subsidiaries. Where we represent an entity as a client, our professional responsibilities are to that entity alone.

We will gladly explore with you whether we can ethically also represent a person or entity associated or related to our client. However, we will do so only by way of a separate written agreement.

\textsuperscript{34} \textit{Hopper}, 16 F.3d at 95–96 (quoting A.B.A. Op. 91-361 (1991) [internal quotation marks omitted]).
