Ethics and Patents: Issues in 2011… and Maybe Beyond

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A. Introduction

This article discusses several disparate issues, some of which are the subject of current litigation and one of which will be, someday. The latter includes, first, whether *TheraSense* is retroactive – does it apply only to conduct occurring after its date, or to patents not matter when obtained. Second, the impact of community property laws on patent ownership – analyzing whether additional steps in either obtaining assignment or conducting due diligence regarding acquisition of patents is necessary when ownership arises in a state that applies community property law.

This article is obviously not legal advice and does not represent an exhaustive review of every case from every jurisdiction. "Your results may vary, and there could be side-effects if you pretend this as legal advice," as the medical commercials might put it.

B. Lessons from Recent Cases

A review of recent cases illustrates a few things worth noting.[1]

First, missed deadlines remain the most common bases for malpractice claims against patent lawyers.[2] This is not surprising given that the practice is deadline-laden. One recent case demonstrated the need for firms to monitor to determine whether an incoming lawyer may carry with him a pre-existing obligation to notify a client of maintenance fees, annuities, and similar fees to protect other intellectual property. In some respects the boom in migration of lawyers among firms has also led to migrating malpractice claims.[3]

Second, as is discussed more fully below, disputes over client identity in the joint development and licensing context are likely to increase. This article below addresses recent case law on whether a lawyer for on party to a joint development agreement represents other parties to that agreement, and describes how the same problem can develop under some licensing arrangements. Disputes other than client identity have arisen from similar arrangements, including allegations that business decisions rather

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1 *See also* David McGowan, *Ethical Issues in Patent Practice,* PLI Order No. 24179 (2010).

2 *E.g., Elizabeth Arden, Inc. v. Abelman, Frayne & Schwab,* 2010 WL 4227241 (Ct. N.Y. Sup. Oct. 22, 2010); *Danner, Inc. v. Foley & Lardner, LLP,* 2010 WL 2608294 (D. Or. June 23, 2010); *Creative Compounds, LLC v. Lott & Friedland, PA,* 2010 WL 1854058 (E.D. Mo. May 7, 2010) (unspecified delay; presumably a section 102 bar arose); *Davis v. Brouse McDowell, LPA,* 596 F.3d 1355 (Fed. Cir. 2010) (lawyer agreed five days before PCT application was due to get it filed, even though he was going on vacation in the interim, but then decided it was not economical for client to do so, and so chose not to file); *Katims v. Millen, White, Zelano & Branigan PC,* 706 F. Supp.2d 645 (D. Md. 2010) (maintenance fees); *Warrior Sports, Inc. v. Dickinson Wright, PLLC,* 2010 WL 883006 (Fed. Cir. March 9, 2010) (same).

3 *Shamrock Lacrosse, Inc. v. Klehr, Harrison, Harvey, Branzburg & Ellers, LLP,* 99 U.S.P.Q.2d 1339 (N.J. Sup. Ct. 2010); *Genelink Biosciences, Inc. v. Colby,* 722 F. Supp.2d 592 (D. N.J. 2010).

than substantive law determined who prosecution counsel named as inventors on "joint" patents.[4]

Third, the propriety of parallel patent litigation – Firm A sues a non-client for infringing a patent when another firm sues a client of Firm A for infringing that same patent – continues to split the courts. This issue is also discussed more fully below.

Fourth, some recent cases arise from interesting fact patterns that may repeat themselves. For example:

- Substantive errors in patent prosecution (not "correctly" wording claims, for example) continue to be filed in what seems to be a new trend;[5]

- Substantive errors in patent litigation continue to be asserted in malpractice claims;[6]

- Whether a federal court applies state rules or federal law may be outcome determinative in disqualification motions, but which rules apply can be a difficult issue to litigate;[7]

- Whether "screening" can cure certain conflicts continues to split the courts;[8] and

- One recent case reasoned that, a suit against terminated prosecution counsel may result in waiver of privilege with respect to communications with replacement prosecution counsel.[9]

C. Is *TheraSense* Retroactive?

1. Introduction

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4 *Memorylink Corp. v. Motorola, Inc.,* 2010 WL 3167277 (N.D. Ill. Aug. 6, 2010).

5 *E.g., Minkin v. Gibbons PC,* 2010 WL 5419004 (D. N.J. Dec. 23, 2010) (claim scope); *Arc Prods., LLC v. Kelly,* 2010 WL 43634277 (E.D. Mo. Oct. 27, 2010) (abandonment); *Touchcom, Inc. v. Berreskin & Parr,* 2010 WL 3198902 (E.D. Va. Aug. 11, 2010) (failure to include software code in specification); *Genelink Biosciences, Inc. v. Colby,* 722 F. Supp.2d 592 (D. N.J. 2010) (lapse of foreign and abandonment of U.S. applications); *Revolutionary Concepts, Inc. v. Clements Walker PLLC,* 2010 WL 877508 (N.C. Sup. Ct. March 9, 2010) (failure to file PCT application); *Roof Technical Serv., Inc. v. Hill,* 679 F. Supp.2d 749 (N.D. Tex. 2010) (various allegations).

6 *E.g., Rockwood Retaining Walls, Inc. v. Patterson, Thuente, Skaar & Christensen, PA,* 2010 WL 2777273 (D. Minn. July 14, 2010); *Sirf Tech. Inc. v. Orrick Herrington & Sutcliffe LLP,* 2010 WL 2560076 (N.D. Cal. June 22, 2010).

7 *See Silicon Graphics, Inc. v. ATI Tech., Inc.,* 741 F. Supp.2d 970 (W.D. Wis. 2010).

8 *See Silicon Graphics, Inc. v. ATI Tech., Inc.,* 741 F. Supp.2d 970 (W.D. Wis. 2010).

9 *Leviton Mfg. Co. v. Greenberg Traurig LLP,* 2010 WL 4983183 (S.D.N.Y. Dec. 6, 2010).

The Federal Circuit's *en banc* decision in *TheraSense, Inc. v. Becton, Dickinson & Co.,*[10] made significant changes in the law regarding unenforceability of a patent due to inequitable conduct. The court adopted an approach to inequitable conduct that, the court admitted, was dramatically different and in many ways narrower than prior decisions. The court "tighten[ed]" the standards to find both materiality and intent.[11] It admitted that its new definitions reflected a change in the law based upon perceived policy needs, and there can be little argument that the case changed the prior interpretations of what constituted "inequitable conduct" for purposes of the patent act in numerous ways.

Whether those changes apply retroactively – to issued patents and conduct occurring before issuance of *TheraSense* – is a question that the Court did not address. Yet, it is critical: if *TheraSense* is retroactive, then patents that were of questionable value now have value, claims of unenforceabilty are less likely to be proper under Rule 11, summary judgment of enforceability is more likely, and parties that had engaged in infringing activities relying upon the belief that any infringed patent was unenforceable have to re-examine their conduct. These are massive consequences, and yet the court did not even consider this issue.[12]

This section analyzes whether *TheraSense* should be retroactive and, if so, to what extent.

2. What is Clear About the Temporal Impact of *TheraSense*.

Unfortunately, only one thing is proving to be clear about the temporal aspects of *TheraSense*, though two should be.

The only thing that is clear is that the decision does apply to patent applications filed after its date. Obviously, the case has prospective impact; there should be little controversy about that point.

There should be no confusion on the second point, which is that the new standards should not apply to patents issued prior to the decision's date. This is a key issue for patent litigators, since motions to dismiss or for summary judgment based upon

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[10] 2011 WL 2028255 (Fed. Cir. May 25, 2011).

[11] *Id.* The court recognized that it was raising the standard for intent, as it had done in the past, but was also "adjust[ing]" the materiality standard as well. *Id.* It also stated that it was, for the first time, "recogniz[ing]" an exception to its new standard for materiality. *Id.* The court clearly changed the law. Stating the obvious, a district court recently observed that "it is clear that *TheraSense* significantly heightened the requirements for a showing of inequitable conduct…." *Pfizer, Inc. v. Teva Pharma. USA, Inc.,* 2011 WL 3563112 (E.D. Va. Aug. 12, 2011).

[12] In doing so, the court remanded the case to apply the new principles to the case before it even though the patent involved had obviously been prosecuted before the changes to the law were announced. Neither the parties nor the court even pondered whether the changes should be given retroactive effect -- an issue often overlooked in litigation but perhaps outcome-determinative in that case.

TheraSense are being filed regularly,[13] and yet the case should not apply to patents issued before the case was decided because retroactive application would violate settled expectations, including, for example, those of the presumably many potential accused infringers who relied upon an opinion of counsel that a patent was unenforceable before proceeding with infringing activity.

The reasons for not applying *TheraSense* to existing patents are obvious. For example, companies and others have significantly relied upon pre-*TheraSense* case law in deciding whether to assert a patent, whether a patent that could be asserted against them is enforceable, and in valuing patents, both as buyer and seller. A patent that "was" unenforceable or arguably so and which is "now" enforceable has a significantly different value. The risk of unenforceability "was" significantly greater under *TheraSense,* and yet a party who relied upon an opinion of counsel before engaging in what otherwise would be infringing activities now is more likely to be found to have infringed an enforceable patent.[14] Liability for willful infringement raises the specter of treble damages, a form of punitive damages, and so raises serious due process and Constitutional issues if *TheraSense* is given retroactive application.[15] Giving the case's changes in the law retroactive effect will wreck havoc on settled expectations, in other words. Even in pending litigation, a party may have refused settlement or spent money litigating a case based upon existing case law. Those parties will be affected by retroactive impact of the changes announced in *TheraSense*: the "value" of the case is changed because the law changed.

However, as to this second point, several motions for summary judgment have already been granted to owners of patents issued before *TheraSense* by applying its standard. Thus, as with the litigants in *TheraSense* itself, apparently litigants presume that *TheraSense* is retroactive.[16]

Where even greater difficulties arise is with respect to applications pending on the date of the decision. Suppose in a pending application, a reference that is material under the pre-*TheraSense* standard has been withheld with an intent to deceive; but, under *TheraSense*, that reference is "no longer" material. Does that mean that, even though applicant in fact committed inequitable conduct by not disclosing the reference, now that

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[13] *E.g., Pfizer Inc. v. Teva Pharma. USA, Inc.,* 2011 WL 3563112 (E.D. Va. Aug. 12, 2011). *See also Am. Calcar, Inc. v. Am. Honda Motor Co.,* 2011 WL 2519503 (Fed. Cir. June 27, 2011).

[14] Presumably, if willful infringement is defended based upon an opinion of counsel defense in which counsel had advised a client that a patent was unenforceable based upon pre-*TheraSense* standards, the reasonableness of the client's reliance will be based upon pre-*TheraSense* standards.

[15] The Supreme Court has stated that "[t]he very labels given 'punitive' or 'exemplary' damages, as well as the rationales that support them, demonstrate that they share key characteristics of criminal sanctions. Retroactive imposition of punitive damages would raise a serious constitutional question" under the Due Process Clause." *Landgraf v. USI Film Prods.*, 511 U.S. 244, 281 (1994).

[16] *See generally,* Brian G. Slocum, *Overlooked Temporal Issues in Statutory Interpretation,* 81 Temp. L. Rev. 635 (2008) ("Some statutory interpretation cases should raise more issues than courts currently recognize.").

omission is cured by the change in the law? Does submitting the reference "cure" the prior inequitable conduct if the reference under the new standard is "no longer material"?

While the following discussion also relates to why *TheraSense* should not apply to issued patents, the focus here is on the general rules and not on specific application to pending litigation or those patents issued before *TheraSense*.

3. General Rules Regarding Retroactivity of Legislation and the Common Law

a. New Statutes and Amendments to Existing Statutes are Generally Given Only Prospective Effect Unless The Legislature Specifies Retroactive Application.

The general rule is that both new statues and legislative amendments to a statute are prospective, only applying to conduct occurring after the effective date of the new statute or amendment.[17] Consequently, if Congress were to amend the patent statute to provide that a patent could be unenforceable only if the information withheld from the patent office would have resulted in a rejection of a claim, that amendment would only apply prospectively – to, at most, actions taken after the effective date of the statute. Of course, at times a legislature can attempt to enact a retroactive statute, but such efforts must be explicit and create potential constitutional issues.

b. Pronouncements of the Common Law are Generally Retroactive

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[17] Gil J. Ghatan, *The Incentive Problem with Prospective Overruling: A Critique of the Practice,* 45 Real Prop. Tr. & Est. L.J. 179 (2010) (citing cases); Bradley Scott Shannon, *The Retroactive and Prospective Application of Judicial Decisions,* 26 Harv. J. L. & Pub. Pol'y 811 (2003). *E.g., also Landgraf v. USI Film Prods.,* 511 U.S. 244, 272, 280 (1994) (holding that "prospectivity remains the appropriate default rule" in statutory interpretation and requiring "clear congressional intent" for retroactive application); *Southwest Ctr. for Biological Diversity v. U.S. Dep't of Agric.,* 314 F.3d 1060, 1062 (9th Cir. 2002) (permitting application of legislation to a suit pending at the time of enactment only because the statute did not retroactively affect past action). *See* Linda D. Jellum & David Charles Hricik, MODERN STATUTORY INTERPRETATION (Carolina Academic Press 2d ed. 2009).

New or amended federal regulations, likewise, are generally only given prospective effect. Retroactive application of a new interpretation of an administrative regulation is subjected to stricter scrutiny than prospective application. *See Daughters of Miriam Center for the Aged v. Mathews*, 590 F.2d 1250, 1259 (3d Cir. 1978). Even when it expressly desires retroactivity, an "administrative agency may not apply a new rule retroactively when to do so would unduly intrude upon reasonable reliance interests." *Heckler v. Community Health Services, Inc.*, 467 U.S. 51, 104 S.Ct. 2218, 2224 n. 12, 81 L.Ed.2d 42 (1984). *See Daughters*, 590 F.2d at 1260 ("retroactive laws interfere with the legally-induced and settled expectations of private parties to a greater extent than do prospective enactments").

In contrast to statutory amendments, the general rule with "changes" to the common law is that they are retroactive.[18] In theory, a court is not "changing" the common law but is simply announcing what has always been. Another reason is that "[a]pplying new [judicial] rules only prospectively would require courts to announce new rules that would not be applied to the case before the court."[19] Also, if changes were prospective only, it would mean that a party would have little reason to argue for changes to the common law, since any change would not effect it.[20]

As with a legislature, a court can expressly provide that its holding is prospective only. When courts recognize that they are changing the law in ways that *change* as opposed to "announce" the common law, courts often recognize that the change as a matter of sound policy should be prospective, only, to avoid affecting settled expectations, among other things.[21]

c. Interpretations of Statutes or Regulations are Generally Retroactive.

Judicial interpretations of statutes and regulations are routinely given retroactive application on, essentially, the same principles that cases announcing the common law are: the courts are not making new law, but simply stating what the statutes and regulations already meant before the court's decision.[22]

4. New Interpretations of Statutes are not Automatically Given Retroactive Effect.

The foregoing shows that if the *TheraSense* court had been "announcing" the common law or simply announcing what Section 282 of the Patent Act has "always" meant, then the decision would receive retroactive application. But that is not what the court did: it changed prior interpretations, altering several aspects of its prior interpretations.

Under these circumstances, it seems most likely that courts would apply the following test to determine if the changed interpretation is retroactive:

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18 Jellum & Hricik, *supra.*

19 *Slocum, supra,* at 644.

20 Gil J. Ghatan, *The Incentive Problem with Prospective Overruling: A Critique of the Practice,* 45 Real Prop. Tr. & Est. L.J. 179 (2010).

21 *Id.*

22 *See Rivers v. Roadway Express, Inc.,* 511 U.S. 298, 311-12 (1994) ("The principle that statutes operate only prospectively, while judicial decisions operate retrospectively, is familiar to every law student...."); *Harper v. Va. Dep't of Taxation*, 509 U.S. 86, 97 (1993) ("When this Court applies a rule of federal law to the parties before it, that rule is the controlling interpretation of federal law and must be given full retroactive effect in all cases still open on direct review and as to all events, regardless of whether such events predate or postdate our announcement of the rule."); *Halpern v. Principi*, 384 F.3d 1297, 1302 (Fed. Cir .2004) ("[W]here a court announces the meaning of a statute, the court proclaims what the statute has meant since enactment.").

> First, the decision to be applied nonretroactively must establish a new principle of law, either by overruling clear past precedent on which litigants may have relied, or by deciding an issue of first impression whose resolution was not clearly foreshadowed. Second, it has been stressed that we must… weigh the merits and demerits in each case by looking to the prior history of the rule in question, its purpose and effect, and whether retrospective operation will further or retard its operation. Finally, we have weighed the inequity imposed by retroactive application, for where a decision of this Court could produce substantial inequitable results if applied retroactively, there is ample basis in our cases for avoiding the injustice or hardship by a holding of nonretroactivity.[23]

Although courts could reach different results depending on the facts presented, application of these three factors would seem to counsel for non-retroactivity of *TheraSense*.[24]

First, *TheraSense* clearly overruled past precedent upon which litigants are relying in defending infringement suits, and likely have relied in their commercial activities. About that, there is no doubt. Thus the first factor weighs heavily against retroactive application.

Second, retroactive application of *TheraSense* is the fact that doing so will reduce litigation defenses. Fewer litigants will plead inequitable conduct as a defense. That can, however, be said as to every decision that makes it more difficult for an affirmative defense, or a claim, to be successful. Further, applying the case only prospectively will not in any other way retard the goals of the case because, with respect to issued patents or conduct that has already occurred with respect to pending patents, that conduct is over. While patents may become more valuable if the case is applied retroactively, that also means that settled expectations in litigation and commercial activity will be devalued; an essential wash.

The third factor also counsels against retroactive application. There is no injustice in applying pre-*TheraSense* standards to conduct that was already over, at least where that conduct readily fits within those standards. On the other hand, relieving a party of intentionally deceiving the patent office based on then-exisiting standards

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[23] *Chevron Oil Co. v. Huson,* 404 U.S. 97 (1971) (quotations and citations and some brackets omitted). I hedge the statement because the Court has applied different tests depending on whether the context is civil or criminal, among other things. Thus it is possible that, for example, a different test would be used to determine retroactivity in a disciplinary proceeding brought by the Patent Office for violating Rule 1.56. From my research, however, it seems likely that the *Chevron Oil* test would be applied to patent infringement litigation.

[24] The case must be applied *either* retroactively or not; it cannot turn on the facts of each case. However, the facts of the case under decision may influence application of these factors to the particular case.

suggests injustice to the patent office and, again, to accused infringers who either were defending based upon pre-*TheraSense* case law or who undertook commercial activities relying on pre-*TheraSense* standards.

5. Conclusion

This issue likely has repercussions not even discussed here. But, it is clear that lawyers who are representing accused infringers who had raised inequitable defense claims pre-*TheraSense* should argue that the case is not retroactive. Parties who are sued for infringement but who relied upon an opinion of counsel with respect to materiality (or potentially at least, intent) should argue in any subsequent suit that *TheraSense* is not retroactive. Other parties, too, should consider this issue any time a patent that was issued or at least prosecuted in part pre-*TheraSense* is asserted or raised.

D. Patent Ownership Under Community Property Regimes

1. Introduction

What if one spouse of every inventor in a community property state has an undivided equal interest in every patent granted during marriage to the other spouse? If that is the law, then employers of inventors may need to obtain assignment of both spouse's interests for the employer to have full title. If that is the law, then many patent infringement suits can proceed only if the spouse of the inventor is joined as a party. If that is the law, many companies do not own, outright, the patents that they believe they do.

This section shows that there is a divergence of opinion on that question, but the divergence is *not* over whether one spouse in a community property owns an interest in the other spouse's patents. Instead, the division is between patent lawyers' practices and state law. State courts routinely hold that patents are community property. Patent lawyers never obtain assignments from spouses. Both cannot be correct.

The question of who has title to a patent is a question of state law.[25] In community property states, both spouses have undivided equal interests in "community" property, and the Federal Circuit has recognized in *dicta* that a spouse in a community property state has an undivided equal interest in patents issued to the spouse during marriage.[26] The court reasoned that patents issued from applications that were filed

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[25] *Akazawa v. New Link Tech. Int'l, Inc*., 520 F.3d 1354 (Fed. Cir. 2008) (also recognizing that foreign country law, including foreign probate law, may determine ownership; not federal law).

[26] *Enovsys LLC v. Nextel Com., Inc.,* 614 F.3d 1333, 1343 (Fed. Cir. 2010). The holding of the case, however was that the wife was collaterally estopped from claiming an interest in the patents because of her failure to list them as assets during divorce proceedings. *Id*. at 1343-44.

The Federal Circuit has also affirmed, on procedural grounds, the dismissal of a complaint that sought to collaterally attack a state court's award of patents as community property. *Weres v. Weres,* 2005 WL 44921 (Fed. Cir. Jan. 11, 2005).

during divorce "were thus presumptively community property in which [the wife] had an undivided half interest."[27]

This section shows that this *dicta* ostensibly is the law in community property states and so state law creates significant patent ownership issues for practitioners, employers of inventors, and existing assignees. This article first describes the applicable federal statutes concerning ownership of patents, case law applying them, and the practices that practitioners consequently follow. It then shows that state courts uniformly hold that patents and other forms of intellectual property obtained during marriage are community property under state law, as are revenues derived therefrom. Perhaps more significantly, they often assume *sub silentio* that the spouse has an ownership interest in the inventor's patents. State courts also have accepted as true the proposition that federal law does not preempt state community property law.

The approach of state courts and state divorce lawyers to this question stands in stark contrast to common patent practice, at least as I know it. In my experience patent practitioners do not obtain assignments from an inventor's spouse. Similarly, a key treatise on acquisitions makes no mention of spousal rights even as a part of due diligence during acquisition of patents. I have never seen litigated the question of whether an inventor's spouse must be joined as an indispensable party to a patent infringement brought by the inventor's assignee.[28]

The incongruity between how patent lawyers and divorce lawyers look at spousal rights is significant: if the state courts are right, then spouses may have rights in patents that assignees may think they own outright. If the spouse has an undivided equal interest in the patent, then they have the unfettered right to do exactly what the assignee can: sue, license, or otherwise enforce the patent. Either state divorce courts or patent lawyers have it wrong.

Whether those rights exist means turns on the myriad facts that can arise, as well as application of particular state law. This article cannot examine all the permutations, but instead next includes several scenarios that may commonly arise where state courts have found that the spouse holds an ownership interest. It concludes by describing potential avenues to reduce the uncertainty that may face assignees, attorneys, inventors, and spouses.

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[27] *Envosys*. at 1343.

[28] In at least two cases, courts have recognized that if the inventor had formally assigned an interest in the patent-in-suit to his wife, the wife was an indispensable party. The Supreme Court so held in the seminal case of *Waterman v. Mackenzie*, 138 U.S. 252, 254 (1891), where the court affirmed dismissal of an inventors patent infringement suit for lack of standing because he had assigned the patent to his wife who had then later re-assigned the patent to still others. Similarly, in *Switzer Bros., Inc. v. Byrne*, 242 F.2d 909 (6th Cir. 1957), the court held that wives who had been assigned interests in the patents-in-suit as tenants in common by their husband-inventors were indispensable parties to a suit.

2. Federal Statutes Governing Ownership of Patents and Common Practice

The Constitution of the United States rejects the proposition that inventions should at least initially belong to anyone other than their creator.[29] In light of this, federal statutes provide that a patent must be applied for in the name of the inventor.[30] If nothing further is done, the patent will issue in the inventor's name. At that point, state law determines ownership. "It is important to note that only inventorship, the question of who actually invented the subject matter claimed in a patent,' is a question of federal patent law. 'Ownership, however, is a question of who owns legal title to the subject matter claimed in the patent, patents having attributes of personal property.'"[31] Consequently, for example, absent written assignment, an inventor's employer will not own any patent naming the employee as the inventor.[32] This is true even if the employee uses only the employer's equipment to make the invention and is paid a general salary while conceiving of or reducing to practice the patented invention.[33]

State law determines whether there is an obligation of assignment and its scope. By federal statute, assignments are to be construed under state law.[34] Thus, the Supreme Court has held that state courts "may try questions of title, and may construe an enforce contracts relating to patents."[35] Similarly, state intestacy laws govern ownership of

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29 U.S. Const. Art. I, cl. 8.

30 *See* Stark v. Advanced Magnetics, Inc., 29 F.3d 1570 (Fed. Cir. 1994) (discussing statutes).

31 *E.I. DuPont de Nemours & Co. v. Okuley,* 344 F.3d 578, 582 (6th Cir. 2003).

32 *U.S. v. Solomon,* 825 F.2d 1292 (9th Cir. 1987) ("the necessity of a writing, like the necessity of an automobile certificate or a deed, to effect a valid transfer of a patent right has long been a matter of hornbook law."). *See SiRF Technology, Inc. v. International Trade Com'n,* 601 F.3d 1319 (Fed. Cir. 2010).

33 *Marshall v. Colgate-Palmolive-Peet Co.,* 175 F.2d 215 (3rd Cir. 1949) ("Absent a contrary understanding, the mere existence of an employer-employee relationship does not entitle the employer to ownership of an invention of the employee. This is true even though the employee uses the time and facilities of the employer, although the latter in that event may have 'shop rights' therein, that is, the right to a free, non-exclusive, personal license to use the invention in his business.") (collecting cases).

34 35 U.S.C. 261; *see Tri-Star Elec. Int'l, Inc. v. Preci-Dip Durtal SA,* 619 F.3d 1364, 1367 (Fed. Cir. 2010) ("An assignment of a patent is interpreted in accordance with statutory and common law of contract…."); *Bd. of Trustees of Leland Stanford Univ. v. Roche Molecular Sys., Inc.,* 2009 WL 3110809, *10 (Fed. Cir. 2009) (holding that a claim for a declaration of ownership fell within supplemental jurisdiction, not federal question jurisdiction).

However, the Federal Circuit has held that whether there is an assignment, as opposed to an agreement to assign, is a question of federal law. *Sky Tech. LLC v. SAP AG,* 576 F.3d 1374, 1379 (Fed. Cir. 2009) (reasoning that federal law applied to that determination because the question of whether there was an automatic assignment rather than an obligation to assign "is intimately bound up with the question of standing in patent cases").

35 *New Marshall Engine Co. v. Marshall Engine Co.,* 223 U.S. 473, 478 (1912). *See Becher v. Contoure Labs.,* 279 U.S. 388 (1929) (state court had jurisdiction over suit to compel assignment of patent).

patents of deceased inventors, and foreign intestacy laws govern patents owned by foreign individuals.[36]

There are other circumstances where state law determines ownership of an invention.[37] The point here is that nothing in the Patent Act, at least,[38] indicates that state marital property law should not also apply. Thus, absent operation of state law to the contrary, the inventor owns the patent.

As a result, it is routine for corporations and other entities that employ those likely to invent patents to require that employees assign any ownership rights to the entity. The assumption is that because the inventor has assigned his invention to the entity, the entity holds full legal title, and thus is the not just the only party with standing to enforce the patent, but also the only party necessary to enforce the patent. All rights, lawyers and assignees believe, belong to the assignee.

Consistent with this practice and beliefs, in my experience no patent lawyer seeks assignment of any right from any inventor's spouse. The form assignment used by patent practitioners that originated with the USPTO does not do so. Thus, if the spouse has an interest, then on its face the typical form and practice do not accomplish assignment of the spouse's interest, especially – for reasons that will become clear -- if the assignment is obtained after the patent has issued. The next question is: does the spouse have an interest?

3. State Court Application of Community Property Laws to Patent Ownership

The precise contours of each particular community property state are beyond the scope of this article. No doubt in particular circumstances those facts will matter greatly. However, three basic principles seem to apply across the jurisdictions, with no doubt differences at their margins but not at their core.

First, the community presumptively owns all property acquired during marriage, each spouse holding an undivided equal interest in the whole.[39] While it is just that – a presumption – nonetheless it is the starting point.

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[36] *Akazawa v. Link New Tech. Int'l, Inc.,* 520 F.3d 1354, 1357-58 (Fed. Cir. 2008) ("Thus, interpreting Japanese intestacy law, not United States patent law, is the first step in determining whether [the plaintiff] possessed standing to bring the suit.").

[37] *E.g., MyMail, Ltd. v. Am. OnLine, Inc.,* 476 F.3d 1372, 1375 (Fed. Cir. 2007) (applying Texas law to determine ownership of patent obtained by a state foreclosure action); *Teets v. Chromalloy Gas Turbine Corp.,* 83 F.3d 403 (Fed. Cir. 1996) (state contract law determined whether an implied-in-fact contract existed to assign a patent); *Regents of Univ. of N. Mex. v. Knight,* 321 F.3d 1111, 1118 (Fed. Cir. 2003) ("State law governs contractual obligations and transfers of property rights, including those relating to patents.").

[38] The question of a conflict and supremacy is below.

[39] *E.g., Weingarten v. Superior Court,* 102 Cal. App.4th 268, 277 (Cal. Ct. App. 2002); *Estate of Madsen v. Comm'r of Internal Rev.,* 650 P.2d 196 (Wash. 1982).

Second, with narrow exceptions addressed below, one spouse cannot alienate community property; only both spouses can. For example, a Louisiana statute provides:

> A spouse may not alienate, encumber, or lease to a third person his undivided interest in the community or in particular things of the community prior to the termination of the regime.[40]

Under this statute, any contract not signed by both spouses to alienate community property is void.[41]

Again, the statutes and case law do vary. Washington has a similar statute, but requires that both parties sign any agreement conveying community property only if it is real property.[42] Thus, it may be that in some community property states patents may be alienable by only the inventor.

Third, with respect to personalty, "property" is construed very broadly.[43] As one court stated:

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[40] LSA-C.C. Art. 2337.

[41] Holland v. Barrios, 892 So.2d 675 (Ct. App. La. 2004).

[42] Washington St. 26.16.030 only requires both parties join in selling with respect to real property, not personalty:

> Property… acquired after marriage or after registration of a state registered domestic partnership by either domestic partner or either husband or wife or both, is community property. *Either spouse or either domestic partner, acting alone, may manage and control community property*, with a like power of disposition as the acting spouse or domestic partner has over his or her separate property, *except*:
>
> (1) Neither person shall devise or bequeath by will more than one-half of the community property.
>
> (2) Neither person shall give community property without the express or implied consent of the other.
>
> (3) Neither person shall sell, convey, or encumber the *community real property* without the other spouse or other domestic partner joining in the execution of the deed or other instrument by which the real estate is sold, conveyed, or encumbered, and such deed or other instrument must be acknowledged by both spouses or both domestic partners.

(Emph. added).

[43] For a more complete discussion of the issues that intellectual property creates in divorce and related cases, see, e.g., Jonathan W. Wolfe & Kimber L. Gallo, *The Treatment of Intellectual Property in Divorce,* 258 N.J. Lawyer 24 (June 2009); Brett R Turner, *Intellectual Property Interests,* 20 Equitable Distribution J. 1 (2003).

> The word "property" is in law a generic term of extensive application. It is not confined to tangible or corporeal objects, but is a word of unusually broad meaning. It is a general term to designate the right of ownership and includes every subject of whatever nature, upon which such a right can legally attach. It includes choses in action and is employed to signify any valuable right or interest protected by law and the subject matter or things in which rights or interests exists.[44]

Patents are, of course, by federal statute to be treated as personal property under state law.[45] Thus, presumptively a patent acquired by one spouse during marriage belongs to the community, not separately to the inventor. As next shown, that is in fact the result that the courts have uniformly reached in the family law context, when addressing divorce, alimony, or child support.

While *patents* are personal property and treated as such by state courts, there is less agreement on whether intangible intellectual property that leads to or could lead to a patent is community property. The "inception of title" doctrine is a critical concept in community property states, and perhaps should be to patent lawyers, because if title is obtained prior to marriage, that property is separately owned. Thus, for example, if a husband conceives of an invention during marriage, and then gets divorced, the spouse may have an interest in any resulting patent. Conversely, if title only arises when the

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44 *Mears v. Mears,* 406 S.E.2d 376, 378 (S.C. 1991).

45 35 U.S.C. § 261 provides in full (with emphasis added):

> *Subject to the provisions of this title, patents shall have the attributes of personal property.*
>
> Applications for patent, patents, or any interest therein, shall be assignable in law by an instrument in writing. The applicant, patentee, or his assigns or legal representatives may in like manner grant and convey an exclusive right under his application for patent, or patents, to the whole or any specified part of the United States.
>
> A certificate of acknowledgment under the hand and official seal of a person authorized to administer oaths within the United States, or, in a foreign country, of a diplomatic or consular officer of the United States or an officer authorized to administer oaths whose authority is proved by a certificate of a diplomatic or consular officer of the United States, or apostille of an official designated by a foreign country which, by treaty or convention, accords like effect to apostilles of designated officials in the United States, shall be prima facie evidence of the execution of an assignment, grant or conveyance of a patent or application for patent.
>
> An assignment, grant or conveyance shall be void as against any subsequent purchaser or mortgagee for a valuable consideration, without notice, unless it is recorded in the Patent and Trademark Office within three months from its date or prior to the date of such subsequent purchase or mortgage.

patent issues, then the spouse would have no interest in patents issued after divorce from an employed inventor.

The state courts have recognized that inception of title to patent rights can occur before a patent issues:

> Arguably, inception [of title] may occur at any of three times: (1) when the concept is sufficiently developed to generate a plan to build the invention [*i.e.,* conception]; (2) when the invention is actually built [*i.e.,* actual reduction to practice]; or (3) on the effective date of the patent [*i.e.,* constructive reduction to practice].[46]

Courts have adopted the second view. For example, a Washington appellate court held that a patent issued during the marriage was community property even though the invention had been conceived prior to marriage.[47] A California court likewise divided patents that had been "perfected" during marriage.[48] In a rare case that provided somewhat extended discussion, a Florida appellate court reasoned that a patent application was subject to equitable division because it had been "deemed sufficiently well developed to submit to the federal patent authorities on a non-provisional basis."[49] Thus, a spouse can have an interest in patent applications filed during marriage, not just patents issued during marriage.

Some courts adopt a muddled view that seems to reflect both the third and first views. For example, the Supreme Court of Hawaii stated "a patent does not exist until it is granted," and so there was no right protected "unless and until the patent issues."[50] Nonetheless, it recognized that in making equitable division trial courts should determine "whether there was value in the pre-patent intangible intellectual property and the patent itself."[51] Further, it held that a trade secret became community property when the trade secret had presently existing value.[52] "[O]ne 'owns' a trade secret when one knows of it…."[53] This holding could, of course, create a conflict between the spouses over whether to file for a patent application or to maintain protection of the invention only as a trade secret. The employer's interests may conflict with the spouse's.

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46 *Alsenz v. Alsenz,* 101 S.W.3d 648, 652-53 (Tex. Ct. App. 2003) (holding that because all three events had occurred prior to marriage, patents were husband's separate property), quoting 2 Valuation & Distribution of Marital Property § 23.07[2] (Matthew Bender & Co. ed. 1997).

47 *Estate of Madsen v. Comm'r of Internal Rev.,* 650 P.2d 196 (Wash. 1982) (a patent that was conceived prior to marriage but

48 *In re Marriage of Weres,* 2000 WL 34472234 (Cal. Sup. Ct. Jan. 18, 2000).

49 *Gulbrandsen v. Gulbrandsen,* 22 So.3d 640 (Fla. Ct. App. 2009).

50 *Teller v. Teller,* 53 P.3d 240, 250 (Haw. 2002) (quoting *GAF Bldg. Materials Corp. v. Elk Corp. of Dallas,* 90 F.3d 479, 483 (Fed. Cir. 1996).

51 *Id.*

52 *Teller v. Teller,* 53 P.3d 240, 249 (Haw. 2002).

53 *DTM Research LLC v. AT&T Corp.,* 245 F.3d 327, 332 (4th Cir. 2001).

Numerous courts have divided patents issued during marriage as "property" under community property without needing to address whether inception of title could have occurred earlier. Several cases have simply assumed that patents are community property subject to division by just dividing them.[54]

Typically these courts assume a patent issued during marriage is community property and do not analyze whether that assumption is correct.[55] Occasionally a court engages in at least a minor amount of analysis. For example, a Florida appellate court stated that "[c]ourts outside Florida have reached the same logical conclusion -- a patent is personal property that may be the subject of equitable distribution when the inventor and his or her spouse dissolve their marriage."[56] The point here is that frequently state courts either assume or readily conclude that patents issued during marriage are community property.

The Kansas Supreme Court is the only court to have engaged in a lengthy analysis of the question, stating:

> Vincent believes that the interest in the patents does not have the qualities listed [in the definition of property.] This is not self-evident. The business plan, which is built on the patented concept, undoubtedly will be used in an effort to raise capital for the enterprise. Thus, there is a sense in which the patents may be said to have loan value. Another, perhaps more typical, arrangement is for a patent holder to enter into a licensing agreement with a manufacturer/distributor for use of a patent. Consideration under the licensing agreement might be a lump sum. An initial fee and royalties is another likely form for consideration to take.[57]

The court went on to state that:

> [I]ntellectual property, once it has been created, is less inextricably related to its creditor than other assets now characterized as marital property, such as pensions and professional goodwill. Unlike pensions and professional goodwill, rights in intellectual property are highly transferable, and title may be placed in the name of one who did not originally produce them.[58]

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[54] Cases from virtually every community property jurisdiction has, implicitly or otherwise, held that patents are subject to division. *See* Frank J. Wozniak, *Copyright, patent, or other intellectual property as marital property for purposes of ali-mony, support, or divorce settlement,* 80 A.L.R.5th 487 (2000). *See also* Brett R. Turner, *Division of Intellectual Property Interests Upon Divorce,* 12 No. 2. Divorce Litig. 17 (2000) (citing cases).

[55] *E.g, Estate of Madsen v. Comm'r of Internal Rev.,* 650 P.2d 196 (Wash. 1982).

[56] *Gulbrandsen v. Gulbrandsen*, 22 So.3d 640 (Fla. Ct. App. 2009).

[57] *In re Marriage of Monslow*, 912 P.2d 735, 944 (Kan. 1996).

[58] *Id*. at 745 (quoting 2 Arnold H. Rutkin, Valuation and Distribution of Marital Property ' 23.07[1] at 23-135).

Thus, state courts assume, conclude, or have held that patents issued during marriage are community property. The most-cited treatise by these courts as indicating that patents are community property does not aggressively take that position, instead discussing the cases and stating among other things that "a spouse would expect to share as fully in intellectual property acquired during marriage as in any other variety of property."[59]

Finally, while obviously income from patents that are community property belongs to the community, the majority of courts that have addressed the issue have also held that income received during a marriage from even separately owned patents is community property.[60]

4. Federal Law Allowing for Prosecution by Persons With a Proprietary Interest in the Application May Permit Spouses to Control or Interfere with Prosecution.

While it is clear that an assignee of the entire interest in application may prosecute it, federal law sometimes permits even those with merely a "proprietary interest" to continue and even undertake prosecution, at least where the inventor refuses to do so. Specifically, Section 118 of the Patent Act states:

> Whenever an inventor refuses to execute an application for patent, or cannot be found or reached after diligent effort, [1] a person to whom the inventor has assigned or agreed in writing to assign the invention or [2] who otherwise shows sufficient proprietary interest in the matter justifying such action, may make application for patent on behalf of and as agent for the inventor on proof of the pertinent facts and a showing that such action is necessary to preserve the rights of the parties or to prevent irreparable damage; and the Director may grant a patent to such inventor upon such notice to him as the Director deems sufficient, and on compliance with such regulations as he prescribes.[61]

The PTO has interpreted this statute to permit heirs, for example, to not only continue prosecution upon the death of an inventor,[62] but to file an application for an inventor who dies prior to filing the application.[63] The heirs thus must have a proprietary interest in the application or patent.

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[59] 2 Arnold H. Rutkin, Valuation and Distribution of Marital Property ' 23.07[1] at 23-120.

[60] *Alsenz v. Alsenz,* 101 S.W.3d 648, 652-53 (Tex. Ct. App. 2003) (income generated from separately owned patents generated during marriage is community property) (collecting cases).

[61] 35 U.S.C. 118.

[62] MPEP 409 ("If the inventor is dead, insane, or otherwise legally incapacitated, refuses to execute an application, or cannot be found, an application may be made by someone other than the inventor…..").

[63] MPEP 409.03. As explained more fully below, it is significant that the PTO recognizes that an inchoate invention, not yet put into a filed application, may be protected. *See* notes *infra*.

Does a spouse in a community property state? The meaning of "proprietary interest" would seem to encompass rights of a spouse in a community property state. "A 'proprietary' interest at the very least suggests some element of ownership or dominion…."[64] Given, as shown above, that a spouse in a community property state may have an undivided equal interest in the patent, that interest would clearly qualify as "ownership or dominion." Thus, federal law would seem to permit spouse to control prosecution if the inventor dies.[65]

5. Possible Ways to Defeat a Spouse's Interest

A. Federal Preemption of State Community Property Law

Courts have uniformly held that state law determines ownership of patents – in every context in which the issue has arisen.[66] Federal law thus does not seem to apply, and so there is no conflict, and nothing to preempt state law.

In fact, the few courts that have analyzed whether federal law preempts state law have each rejected it, though without rigorous analysis.[67] Divorce lawyers believe there is no conflict between state and federal law. As a leading commentator wrote:

> The federal statute on the transfer of patents, 35 U.S.C. § 261, states generally that patents constitute property and that they are subject to

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[64] *Staeger v. Comm'r of Patents & Trademarks,* 189 U.S.P.Q. 272 (D. D.C. 1976) (construing Section 118).

[65] What if an inventor is subject to an agreement to assign – not an absolute assignment – but refuses to do so? Presumably, the spouse could undertake assignment since the future assignor has no interest, merely a breach of contract action that might result in specific performance.

[66] *See supra*.

[67] *See also Sheshtawy v. Sheshtawy,* 150 S.W.3d 772, 775 (Tex. Ct. App. San Antonio 2004) (finding nothing to support argument that federal law preempted state community property law); *In re Marriage of Worth,* 195 Cal. App. 768, 776-77 (Cal. Ct. App. 1987) (federal copyright law did not preempt state community property law). The Hawaii Supreme Court stated:

> Because the United States Supreme Court has determined that Federal case law does not preempt the states' right to impose regulation on patents, we do not address federal preemption. *See Kewanee Oil Co. v. Bicron Corp*., 416 U.S. 470, 479, 94 S.Ct. 1879, 40 L.Ed.2d 315 (1974) ("The only limitation on the States is that in regulating the area of patents and copyrights they do not conflict with the operation of the laws in this area passed by Congress[.]"); *Aronson v. Quick Point Pencil Co*., 440 U.S. 257, 266, 99 S.Ct. 1096, 59 L.Ed.2d 296 (1979) (defining factors to determine if state law conflicts with the federal patent law); *Rodrique v. Rodrique*, 218 F.3d 432, 439 (differentiating between total preemption, such as ERISA, from limited preemptive scope of copyright law).

Teller, 53 P.3d at 250 n. 22. *See also Stein v. Soyer,* 1997 WL 104967 (S.D. N.Y. March 10, 1997) (analyzing similar issues with respect to copyrights).

> assignment. Courts considering the issue have held that an inventor's creditors can reach the inventor's patents, although with somewhat more difficulty than other types of assets. 60 Am. Jur. 2d Patents § 1168 (1987). Given these points, there is general agreement that federal law does not prevent a court from treating a patent as divisible property in a divorce case.[68]

Significantly, state courts have not analyzed this question at length, but instead seem to accept the proposition that patent law does not preempt state community property law. State courts regularly divide patents among divorcing spouses -- despite federal statutes and the Constitution and the obvious federal source of patent rights.

B. The Exception for Sole Management Community Property

Some states allow one spouse to alienate certain property, even if community property. The Washington statute quoted above, for example, requires both spouses to consent to alienation of real, but not personal, property.

Other states recognize similar doctrines, including recognizing that some community property is, nonetheless, subject to the "sole management" of one spouse.[69] Under this doctrine, it may be that an invention qualifies as "sole management" community property, and so assignment by the spouse is not required.

C. Estoppel

Estoppel likely would not be a useful tool at least in those states that require that both spouses engage in the conduct that gives rise to the estoppel. So, for example, in an Arizona case the fact that the husband engaged in conduct that might have estopped him from denying an agreement to sell property did not mean that the wife, or the community was estopped.[70] While facts could of course give rise to an estoppel against both, in routine transactions that seems unlikely.

6. Application of State Law to Common Fact Patterns

As explained in the introduction, accused infringers have raised ownership interests in spouses as a defense to standing in a few cases, but have lost due to procedural issues. The case law suggests that there may be more opportunities for this defense, and some thorny issues concerning ownership of existing patents that lawyers and owners of intellectual property need to consider.

Suppose, for example, that an inventor acquires a patent while married. If the buyer fails to obtain assignment from the spouse, then the buyer may acquire merely an undivided equal interest with the inventor's spouse.

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68 Brett R Turner, *Intellectual Property Interests,* 20 Equitable Distribution J. 1 (2003).

69 *See Gray v. U.S.,* 553 F.3d 410 (5th Cir. 2008) (applying Texas law).

70 *Heckman v. Harris,* 188 P.2d 991 (Ariz. 1948).

Or, suppose that the employee is subject to an obligation to assign any patent issued during assignment. The spouse may have an interest in a patent application filed on that invention before the obligation to assign the patent arises. Again, the purported assignor may own only an equal undivided interest in the patent.

There are myriad fact patterns that could arise. State law may provide the answer to some of them, indicating that the spouse has no interest, or that the inventor alone can alienate the property. But where state law indicates that the spouse has an interest, then only if state law is preempted or the spouse assigns its interest can the assignee feel comfortable in believing it owns full and clear title.

7. What to Do

As noted at the outset, this article was intended to raise the issues arising from the conflicting approaches of divorce lawyers and patent lawyers to patent ownership. It may be that state laws will need to be reformed to exclude patents from community property, or to allow for the inventor to alienate all rights without its spouse's consent. It may be that a condition of employment must be that the spouse either relinquish any community property rights or to permit the inventor to alienate any intellectual property rights without permission.

In pending cases, there may be standing defenses that can be raised, since the plaintiff may not have full title. Further, particularly thorny issues may face corporations that have acquired intellectual property from inventors or from small companies in bulk without due diligence on these issues.

E. Who is Your Client When Representing One Party to Certain Joint Development Agreements or Licensees?

A. Licenses and Joint Development Agreements and Other Circumstances May Make Litigation Over Who Represents Who More Likely

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. 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 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.[71]

In recent years, several disputes have arisen out of failed joint development agreements. So far two have resulted in reported opinions, and they split but even the favorable decision's approach to resolution of the issue indicates that it is better to be clear about who is the client than to leave it to later litigation.

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[71] 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.

In a case involving a joint development agreement, *Max-Planck-Gseellschaft Zur Foerderung der Wissenschaften E.V. v. Wolf Greenfield & Sacks, PC.,*[72] 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."[73]

After rejecting WGS's argument that *Sun Studs* controlled,[74] the court rotely 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.

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[72] 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.

[73] *Id.* quoting *DeVaux v. Am. Home Assurance Co.,* 444 N.E.2d 355, 357 (Mass. 1983) (internal citations omitted in original).

[74] 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 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 Massachussets law, "an exectuion of a power of attorney creates a fiduciary relationship."[75] 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.

In a case involving a license, *Layne Christensen Co. v. Purolite Co.,*[76] 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.

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75 *Id*. (collecting cases).

76 __ F. Supp.2d __, 2011 WL 1113543 (D. Kan. March 24, 2011).

SenGupta and the licensee then moved to disqualify, arguing 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.[77]

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. What to Do.

These cases present a real trap for patent 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.

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.

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77 *Id.*

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.

F. Representing a Patentee Against a Non-Client Defendant Might be Adverse to a Current Client if the Patentee Sues Your Client on that Same Patent.

1. Three Courts Split on Adversity in Parallel Patent Litigation.

Suppose, as happens, a firm is approached by a patentee with a list of possible infringers. The firm determines, however, that of the, say, five possible targets, one is a client of the firm. As shown above, the firm cannot represent the patentee against its client. Nor can it help some other firm in that suit. Suppose the patentee-client retains the firm, but only to sue the non-client defendants. It retains another firm to act separately and file suit against the first firm's client. Is the first firm, nonetheless, disqualified from representing the patentee against non-clients?

Two district courts have addressed this issue in the context of patent litigation. Naturally, they split on their answer to the question. In the first case, *Enzo Biochem, Inc. v. Applera Corp.*,[78] the court found no adversity; a month later, the second court in *Rembrandt Technologies, LP v. Comcast Corp.*,[79] did. The cases are fact intensive. The *Rembrandt* court distinguished *Enzo* and ordered disqualification, as follows:

> In *Enzo*, the Hunton firm represented a client in a patent case against one defendant. The same plaintiff, represented by the Greenberg firm, sued a different defendant. Some of the same patents were asserted in both cases. A client of the Hunton firm, GE, later acquired the defendant being sued in the second case. The Hunton lawyers representing the plaintiff in the first case aided, to a certain extent, the Greenberg lawyers representing the plaintiff in the second case. GE contended that the Hunton firm's concurrent representation of Enzo in the first case and the GE subsidiary sued by Enzo in the second case amounted to an impermissible conflict of interest. GE intervened in the first case and moved to disqualify the Hunton firm. The court evaluated the evidence and concluded that GE had not demonstrated a sufficient showing of direct adversity. The court stated that "while the construction of [the plaintiff's] patents applicable to the infringement claims brought against two separate accused infringers ... implicates pretrial *Markman* overlap, *the trials of how those constructions apply to the respective accused products or conduct are wholly separate*." *Enzo*, 2007 WL 30338 at *7 (emphasis added). As a result, the court refused to disqualify the Hunton firm from

[78] 468 F.Supp.2d 359 (D. Conn. 2007).
[79] 2007 WL 470631 (E.D. Tex. Feb. 8, 2007).

representing the plaintiff in the first case. The court agrees with Enzo that the mere possibility of overlapping Markman proceedings is insufficient to show direct adversity, particularly when the trials of how the constructions apply to accused products or conduct varies from defendant to defendant.

Here, in contrast to *Enzo*, F & R is not simply advocating claim construction positions that might, at some later date, adversely impact Time Warner. F & R advocates that the Comcast defendants infringe the patents because the defendants comply with industry standards. In particular, F & R advocates in this case that Comcast infringes because it adheres to the ATSC standard for United States Patent No. 5,43,627 ("the 627 patent") and DOCSIS for United States Patent Nos.5,852,631, 4,937,819, and 5,719,858 ("the 631, 819, and 858 patents"). The practical significance of Rembrandt's infringement theory is to indict for patent infringement all major cable companies who follow the industry standards. A finding of infringement and an injunction issued by this court against a cable company for compliance with industry standards would have a significant practical effect on Time Warner.

There are additional distinctions between this case and the *Enzo* decision that lead the court to find the requisite direct adversity. Rembrandt filed its cases in the same district. Its case against Time Warner is pending before the same judge at roughly the same time as this case, but this case was filed first. Although it is true that the claim construction rulings in this case would not be binding on Time Warner, there is a likelihood that the positions taken by F & R in this case could, as a practical matter, prejudice Time Warner in subsequent proceedings. As a result, on these facts, this court reaches a different conclusion from the one in Enzo. F & R's representation of Rembrandt in this case is directly adverse to Time Warner.

More recently, a California district court denied a motion to disqualify, but it faced a unique set of facts not likely to arise again. Nonetheless, the court's focus on practical impact makes the case worth discussing.

In the spring of 2011, the Southern District of California joined the fray when it denied a motion to disqualify in *Multimedia Patent Trust v. Apple, Inc.*[80] In that case, the district court in earlier proceedings had already construed the asserted patents in prior case among different parties, with one construction then vacated on appeal after settlement by the parties. After those claim constructions and the vacation of the earlier appeal, Patentee retained Law Firm A to sue a new defendant, Defendant A for infringing the '123 Patent. At the same time, Patentee retained Law Firm B to sue another defendant, Defendant B, for infringing the '123 Patent. Defendant B was a client of Law Firm A in unrelated matters. Defendant B then intervened in the suit by Patentee against

[80] 2011 WL 1636923, 98 U.S.P.Q.2d 1655 (S.D. Cal. Apr. 29, 2011)

Defendant A, arguing that Patentee's suit against Defendant A was adverse to it, Client B.

Law Firm A argued that its suit naming only non-client Defendant A as defendant was not adverse to Client B even though another firm was suing Client B for infringement of the same patent in co-pending litigation. The firm court denied, without prejudice, the motion to disqualify, reasoning:

> The Court is more persuaded by the reasoning of the *Enzo* court. The *Enzo* Court recognized the Hunton firm may be "making arguments on behalf of Enzo with respect to patent invalidity that are contrary to the views of Amersham, but [the] issue [was] one relating to the circumstances of Enzo's patents and independent of the specific circumstances of Amersham." *Enzo*, 468 F.Supp.2d at 367. Furthermore, "while the construction of Enzo's patents applicable to the infringement claims brought against two separate accused infringers, Amersham and Applera, implicates pretrial *Markman* overlap, the trials of how those constructions apply to the respective accused products or conduct are wholly separate." *Id*. Likewise, the accused products in this case are not the DirecTV accused products. Thus, Quinn Emanuel may not take any position in this litigation that would necessarily be adverse to DirecTV in its MPT litigation. Furthermore, the Rembrandt case even recognized that "the mere possibility of overlapping *Markman* proceedings is insufficient to show direct diversity, particularly when the trials of how the constructions will apply to accused products or conduct varies from defendant to defendant." *Rembrandt*, 2007 WL 470631 at *4.
>
> As a practical matter, the claim construction in this case is unlikely to be joined with the MPT v. DirecTV case. A claim construction hearing, along with briefing schedule, has been set in MPT v. DirecTV for August 23, 2011. No claim construction hearing has been set for this case. Thus, the claim construction in *MPT v. DirecTV* will likely be completed before claim construction starts in this case. Also, the claim construction in this case and MPT v. DirecTV will both require evaluation of three patents: the '266 patent, the '878 patent, and the '377 patent. All asserted patents in this case have been construed by this Court in a previous case. Thus, the claim construction to be performed in this case and MPT v. DirecTV may be informed partially by the previous constructions the Court has also already performed in past cases.
>
> The Court has carefully considered the parties' argument and the balance between protection of the duty of loyalty against the right to choose one's counsel. California Rule of Professional Conduct 3–310(c)(3) and ABA Model Rule of Professional Conduct 1.7 prohibit cases where there is direct adversity. The Court concludes that DirecTV has not met the heavy burden to show that Quinn Emanuel's representation of MPT in

> this case—where Quinn Emanuel only represents DirecTV in unrelated matters—will necessarily be adverse to DirecTV in its wholly separate case. At present, any potential direct conflict between Quinn's representation of MPT in this case and DirecTV in the separate *MPT v. DirecTV* case is speculative. Accordingly, the Court denies the motion to disqualify Quinn Emanuel without prejudice.[81]

In light of these cases, a fact and legal intensive inquiry is required to determine if a firm has a conflict of interest even where it is not adverse to a current client, and even if it is not helping a firm to sue a current client, if there is "enough" practical impact to establish direct adversity. In *Enzo* and *Multimedia Patent Trust,* there was not enough to constitute "adversity," but the fact that the patent covered a standard, the litigation was pending before the same judge, and the other facts tipped the scale in *Rembrandt*.

2. Even if not Adverse, Can You Ethically Represent the Patentee Without Coordinating with Counsel in the Other Case?

A firm that cannot represent a party opposing a current client in litigation also cannot help some other firm to do the same thing, trying to avoid adversity solely by not making an appearance in court.[82] Put the other way, if a firm would be disqualified if it appeared in court, it cannot avoid disqualification by simply acting only out of court. In some ways, a firm that tries to help out "behind the scenes" can be portrayed in even a harsher light than a firm that appears in court, since the failure to appear can be characterized as a strategic, cynical decision designed to "hide" the conflict.

In the context here, even if a firm concluded that it was not "adverse" to its client, the defendant in the parallel suit, it could not do behind the scenes what it could not do in that lawsuit. If the lawyer participates behind the scenes too significantly, then he is acting adversely to his client, the accused infringer. If he doesn't effectively coordinate with counsel representing the patentee in the parallel case, then he may be sued by the patentee for not zealously representing the patentee – for "pulling punches" because the lawyer was unable to coordinate adequately due to its obligation not to become adverse behind the scenes. In the worst-case scenario, both parties could sue the lawyer.

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81 *Id.*

82 *E.F. Hutton & Co. v. Brown,* 305 F. Supp. 371, 378-79 (S.D. Tex. 1969) (disqualifying New York firm that had represented employee from assisting Houston firm from litigating against him in substantially related matter).