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# CONFLICTS OF INTEREST AND DISQUALIFICATION IN INTELLECTUAL PROPERTY LITIGATION

RICHARD E. FLAMM\* AND PAUL W. VAPNEK\*\*

## INTRODUCTION

The concept that courts have the inherent power to disqualify attorneys, when necessary, in the interests of justice, is not a new one,<sup>1</sup> and motions seeking to disqualify attorneys from representing clients in intellectual property cases have not been uncommon.<sup>2</sup> In recent years, however, high-powered law firms representing "high tech" companies have repeatedly been the object of conflict of interest charges and disqualification motions;<sup>3</sup> so much so that one reporter recently referred to the filing of disqualification motions in intellectual property cases as "Silicon Valley's Recurring Nightmare."<sup>4</sup>

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1. See *Ex parte Burr*, 22 U.S. (9 Wheat) 529, 529-30 (1824) (the power to disqualify an attorney from a case is "incidental to all courts, and is necessary for the preservation of decorum, and for the respectability of the profession").

2. See, e.g., *Freeman v. Chicago Musical Instrument Co.*, 689 F.2d 715 (7th Cir. 1982); *Novo Terapeutisk v. Baxter Travenol Labs.*, 607 F.2d 186 (7th Cir. 1979); *Schloetter v. Railoc*, 546 F.2d 706 (7th Cir. 1976), all of which arose out of patent infringement litigation.

3. See *Motion to Disqualify, Synoptics Communications, Inc. v. 3Com Corp.*, No C-94 20892 (N.D. Cal., Aug. 24, 1995); Cf. *Motion to Determine Propriety of Representation of Adverse Parties, Cirrus Logic, Inc. v. Prakash Agarwal, et al.*, Santa Clara County Superior Court Action No. CV 745373 (May 30, 1995); *Paramount Communications, Inc. v. Donaghy*, 858 F. Supp. 391 (S.D.N.Y. 1994); *Palumbo v. Tele-Communications, Inc.*, 157 F.R.D. 1229 (D.D.C. 1994).

4. See Walsh, *Welcome to Silicon Valley's Recurring Nightmare*, THE RECORDER, Sept. 29, 1995, at 2.

While the factual basis for seeking disqualification varies from case to case,<sup>5</sup> an analysis of the many disqualification decisions which have been issued in intellectual property actions suggests that three phenomena may help to explain why disqualification motions appear to be “recurring” in this type of case: (1) the lateral mobility of attorneys within the firm sought to be disqualified; (2) the ambiguous nature of the relationships which sometimes exist between intellectual property attorneys and persons other than their paying clients; and (3) the problems courts experience in attempting to apply the “substantial relationship test” to intellectual property cases.

In this article we discuss each of these bases for disqualification. We conclude with a discussion of some of the prophylactic measures intellectual property attorneys and firms can take to avoid becoming the object of conflicts challenges in the future.

### I. CONFLICTS PROBLEMS RESULTING FROM THE LATERAL MOVEMENT OF INTELLECTUAL PROPERTY ATTORNEYS

In 1988, the principal author of this article published an article on the conflicts of interest problems faced by law firms due to mergers with other firms or hiring established attorneys or practice groups.<sup>6</sup> Since that time, the perils associated with law firm mergers,<sup>7</sup> de-mergers,<sup>8</sup> and other types of lateral movement,<sup>9</sup> have become painfully familiar. In fact, several recent disqualification motions can be attributed to just these types of transfers.<sup>10</sup>

On August 24, 1995, 3Com Corporation moved to disqualify the law firm of Brobeck, Phleger & Harrison from representing its adversary, Synoptics Communications, Inc., in a patent infringement action.<sup>11</sup> The basis of the motion was a conflict of interest 3Com contended arose due to attorney Tower C. Snow, Jr. moving from another firm to Brobeck in January 1995. Snow had represented 3Com in a variety of matters. 3Com contended that Snow’s representation of its interests did not terminate with his move to

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5. See *Shakman v. Democratic Org. of Cook County*, 919 F.2d 455, 460 (7th Cir. 1990) (disqualification decisions are fact-specific).

6. See generally Richard E. Flamm, *Importing Taint in Lateral Hires*, CAL. LAW. MAG., Sept., 1988.

7. See, e.g., *Picker Int’l Inc. v. Varian Associates*, 670 F. Supp. 1363, 1367 (N.D. Ohio 1987) *aff’d*, 869 F.2d 578 (Fed. Cir. 1989) (a law firm cannot drop a less lucrative client like a hot potato prior to the merger of two law firms in order to avoid a conflict and sue that client on behalf of a second client).

8. See *Elan Transdermal Ltd. v. Cygnus Therapeutic Sys.*, 809 F. Supp. 1383 (N.D. Cal. 1992).

9. See, e.g., *Motion to Disqualify, Synoptics Communications, Inc. v. 3Com Corp.*, No. C-94-20892 (N.D. Cal., Aug. 24, 1995).

10. See, e.g., *Motion to Determine Propriety of Representation of Adverse Parties, Cirrus Logic, Inc. v. Prakash Agarwal, et al.*, Santa Clara County Superior Court Action No. CV 745373 (May 30, 1995).

11. *Motion to Disqualify, Synoptics Communications, Inc. v. 3Com Corp.*, No. C-94-20892 JW (PVT) ENE (N.D. Cal., Aug. 24, 1995).

Brobeck and that, because this was so, Brobeck was now in the position of concurrently representing and suing it.<sup>12</sup> The *3Com* case was eventually settled without the disqualification motion being decided.

The motion to disqualify Brobeck in *3Com* followed hard on the heels of Cirrus Logic, Inc.'s successful bid to preclude the law firm of Orrick, Herrington & Sutcliffe (Orrick) from representing Cirrus' adversary, Neomagic Corporation, in a trade secret dispute.<sup>13</sup> That case involved former Jackson, Tufts, Cole & Black attorney Terence McMahon, whom the court described as "a talented local practitioner."<sup>14</sup> McMahon was representing Neomagic in a suit against Cirrus Logic, and hoped to keep the case when he moved to Orrick, despite Orrick's concurrent representation of Cirrus in an unrelated matter. Unlike many firms which wait to be challenged by a disqualification motion before taking action on a conflict, Orrick took the bull by the horns by filing a motion to have the court determine that its representation of Neomagic was proper, despite its concurrent adverse representation. The court, however, denied its motion.<sup>15</sup>

The *3Com* and *Cirrus* motions both exemplify the types of conflict concerns which arise in connection with lateral movement by a single partner. This type of problem is multiplied when not only partners, but entire practice groups, make a move. A case in point is *Elan Transdermal Limited v. Cygnus Therapeutic Systems*.<sup>16</sup> In that action, the plaintiff (Elan) initiated a suit against its rival alleging infringement of its patent for a patch that delivers nicotine through the skin. Elan's counsel in that case, the firm of Irell & Manella, had previously acted as counsel for Cygnus for approximately four years. During its representation, Irell provided Cygnus with intellectual property advice during the development of Cygnus' nicotine patch. On the basis of this prior representation, Cygnus moved to disqualify Irell from representing its competitor, Elan.<sup>17</sup>

The relevant facts of the case were not in dispute. In the mid-1980s, Cygnus was represented in intellectual property matters by the Menlo Park law firm of Ciotti & Murashige.<sup>18</sup> On March 1, 1987, Ciotti merged with Irell & Manella. The merged firm, Ciotti & Murashige, Irell & Manella, continued to act as intellectual property counsel to Cygnus from March 1, 1987 to August 31, 1991.<sup>19</sup> In September 1991, the Menlo Park office of Irell de-merged. Almost all its personnel affiliated with Morrison & Foerster,

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12. See Memorandum in Support of Motion to Disqualify, Synoptics Communications, Inc. v. 3Com Corporation, No. C-94-20892 JW (PVT) ENE (N.D. Cal., Aug. 24, 1995).

13. Order of the Honorable Conrad S. Rushing, *Cirrus Logic, Inc. v. Prakash Agarwal, et al.*, Santa Clara County Superior Court Action No. CV 745373 (June 20, 1995).

14. See *id.*

15. *Id.*

16. 809 F. Supp. 1383 (N.D. Cal. 1992).

17. *Id.* at 1384-85.

18. See *id.* at 1385 & n.1.

19. See *id.*

including Thomas Ciotti, the partner in charge of the relevant patent work for Cygnus. Cygnus subsequently retained Morrison and Foerster to handle its patent work.<sup>20</sup>

Elan received its nicotine patch patent on August 7, 1990.<sup>21</sup> On May 10, 1991, when Elan filed its patent infringement complaint, both Elan and Cygnus had nicotine patches before the Food and Drug Administration for testing and eventual clearance for marketing. Elan claimed the product Cygnus was seeking FDA clearance for was within the scope of Elan's patent, and that Cygnus had infringed its rights to that patent.<sup>22</sup> Ciotti and most of the other attorneys who worked on the Cygnus representation for Irell had been based in Irell's Menlo Park office.<sup>23</sup> Even so, when Elan substituted attorneys from Irell's Los Angeles office in for the firm that had previously represented it in the case against Cygnus, Cygnus promptly sought to disqualify Irell.<sup>24</sup>

The thrust of Cygnus' claim was that Irell had breached Rule 3-310(D) of the California Rules of Professional Conduct by accepting employment adverse to the interests of a former client in a matter substantially related to the work it had performed for that client.<sup>25</sup> Irell countered by offering declarations from its current attorneys who had charged time to Cygnus, or who had been mentioned in other lawyers' records related to Cygnus.<sup>26</sup> The declarations disavowed any knowledge of the matters at issue in the pending litigation.<sup>27</sup> On this basis, Irell contended that no duty of confidentiality to its former client was threatened by its current representation. Irell also argued that Rule 3-310 and California case law applied only to individual lawyers—not to a firm that had formerly represented a party it was now litigating against.<sup>28</sup>

Despite these protests, the district court found that the motion raised "serious issues about the duties attorneys owe their former clients and the lingering after-effects of the law firm merger boom."<sup>29</sup> Noting that a tradition has developed that is "unbending and inveterate,"<sup>30</sup> the court held that the presumption that members of a firm share client confidences is conclusive under California law.<sup>31</sup> The court further found that, because the

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20. *Id.* at 1385.

21. *Id.*

22. *Id.*

23. *Id.*

24. *Id.* at 1385-86.

25. *Id.* at 1386-87.

26. *Id.* at 1387.

27. *Id.*

28. *Id.* at 1388.

29. *Id.* at 1385.

30. *Id.* at 1384 (quoting *Meinhard v. Salmon*, 164 N.E. 545, 546 (N.Y. 1928)).

31. *See id.* at 1390 n.11 (citing *Rosenfeld Construction Co. v. Superior Court*, 286 Cal. Rptr. 609, 615 (Ct. App. 1991)).

work Irell had performed for Cygnus and the work it did for Elan was substantially related, there was no need to inquire whether relevant confidential information was actually in Irell's possession.<sup>32</sup> The court concluded that "the time-honored rules designed to protect clients and the honor of the legal profession are no less meaningful in a time of mergers and de-mergers."<sup>33</sup> Because Irell had previously represented Cygnus on a substantially related matter, and because Irell sought by its representation of Elan to "attack the very fruits of its work as intellectual property counsel to Cygnus," disqualification of the Irell firm was warranted.<sup>34</sup>

As the foregoing examples indicate, there have been a number of recent intellectual property cases in which disqualification motions have been predicated primarily on lateral transfers by partners. However, this phenomenon is not new, and older cases have also examined this problem.

In *Novo Therapeutisk v. Baxter Travenol Labs.*,<sup>35</sup> a patent infringement action, the court considered the appropriate ethical standard when a partner leaves a law firm, takes a client with him, and then finds himself and his client in litigation against a party represented by his former firm.<sup>36</sup> The *Novo Therapeutisk* court denied a defense motion to disqualify plaintiff's counsel due to his and the client's prior association with the defendant's law firm. The district court found no substantial relationship between the services the challenged firm rendered to the former client and the new litigation.<sup>37</sup> On appeal, a panel of the Seventh Circuit Court of Appeals reversed, finding the matters were substantially related.<sup>38</sup> On rehearing en banc, however, a majority of the Seventh Circuit Court of Appeals affirmed the district court's original order. The court found the challenged firm had successfully rebutted the presumption that confidential information from the prior representation had been shared with counsel representing the new client.<sup>39</sup>

Three circuit judges dissented from the en banc decision in *Novo Therapeutisk*. One of them, Circuit Judge Sprecher, had authored an opinion in which a panel of the same court reached a somewhat different result three years earlier in *Schloetter v. Railoc of Indiana, Inc.*<sup>40</sup> In that case the plaintiff, Schloetter, alleged that defendant Railoc had infringed Scholetter's patent. Defendant Railoc was represented by the Donnelly firm. During the course of the litigation, Donnelly's attorney discovered that a former Donnelly partner had substantially participated in the process of applying for the

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32. *Id.* at 1390.

33. *Id.* at 1393.

34. *Id.*

35. 607 F.2d 186 (7th Cir. 1979).

36. *Id.* at 186-88.

37. *Id.* at 195.

38. *Id.* at 192.

39. *Id.* at 196-97.

40. 546 F.2d 706 (7th Cir. 1976).

original patent for Railloc's adversary, Schloetter.<sup>41</sup> Schloetter moved to compel the Donnelly firm to withdraw; the district court so ordered. On appeal, the Seventh Circuit upheld the disqualification order.<sup>42</sup> The circuit court found that

it would be unreasonable to expect the public or clients like Schloetter, who have reposed confidences in a member of a law firm, to accept the proposition that the danger of those confidences being used against the client in a closely related matter has entirely dissipated upon the departure of the individual member from the firm.<sup>43</sup>

## II. RELATIONSHIPS BETWEEN INTELLECTUAL PROPERTY ATTORNEYS AND "NON-CLIENTS"

The lateral mobility of intellectual property attorneys goes part of the way toward explaining why motions for disqualification have sometimes been made in these types of cases. However, not every disqualification motion which has been made in intellectual property cases has been based on a moving attorney conflict. In several intellectual property cases, disqualification motions have been predicated upon the more traditional claim<sup>44</sup> that a client's former attorney has in his or her possession confidential information which may be disclosed in the pending proceeding to the detriment of the former client.<sup>45</sup>

Generally, an attorney cannot, upon termination of employment, represent one whose interest in the same matter is adverse to that of his former client.<sup>46</sup> Typically, however, courts will not disqualify an attorney on the basis of his former representation of a client in a different matter unless the party seeking disqualification shows (1) that there was in fact an attorney-client relationship between the movant and the attorney it seeks to disqualify,<sup>47</sup> and (2) that the matter on which the client was previously represented is "substantially related" to the matter on which the attorney is presently acting adverse to the former client's interests.<sup>48</sup>

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41. *Id.* at 708.

42. *Id.* at 713.

43. *Id.* at 711.

44. *See* Grunberg v. Feller, 505 N.Y.S.2d 515, 517 (N.Y. Civ. Ct. 1986) ("The majority of cases involving a motion to disqualify an attorney from representing a party deal with conflict of interests where the attorney . . . has in his or her possession confidential information which may be disclosed . . . to the detriment of the adverse party." (citations omitted)).

45. *See, e.g.*, DCA Food Indus., Inc. v. Tasty Foods, Inc., 626 F. Supp. 54, 59-60 (W.D. Wis. 1985).

46. *See, e.g.*, CAL. RULES OF PROF. CONDUCT, Rule 3-310. *Cf.* Madison v. Graffix Fabrix, Inc., 404 S.E.2d 37, 40 (S.C. App. 1991).

47. *See* Morgan v. North Coast Cable Co., 586 N.E.2d 88, 90 (Ohio 1992) (and citations therein).

48. *See, e.g.*, Plotnik v. Greenberg, 614 N.Y.S.2d 825, 827 (A.D. 1994).

In deciding a disqualification motion therefore, the initial inquiry is often whether an attorney-client relationship between challenged counsel and the party seeking disqualification ever existed.<sup>49</sup> In most instances this is not a complicated question. However, a review of reported intellectual property cases in which motions for disqualification were made reveals that challenges to the moving party's claim to "former client status" have been made quite frequently.<sup>50</sup>

These disputes over whether an attorney-client relationship existed may be explained, at least in part, by the nature of the patent application procedure. In the process of applying for patents attorneys tend to become involved in relationships with individuals and entities other than their formal, fee-paying clients.<sup>51</sup> Sometimes these relationships are intimate and protracted. As a consequence, the individuals and entities with whom the attorneys are involved, although not fee-paying clients, may come to believe (or at least claim they believe) that an attorney-client relationship has arisen between them and their company's attorneys.<sup>52</sup>

Consider the relationship formed between a company employee who creates a new invention, and the attorney hired by the company to prepare and prosecute the patent on that invention. When an inventor employed by a company develops an invention in the course of her employment, she is customarily required to execute the papers necessary for the company's patent counsel to pursue a patent application on the company's behalf.<sup>53</sup> Even where the invention has been assigned to the company, however, the inventor still must apply for the patent.<sup>54</sup> Because this is so, inventor and patent counsel often work closely to prepare and prosecute the patent application.<sup>55</sup>

While the attorney may not believe his relationship with the inventor is an attorney-client one, the inventor may think otherwise. At a minimum, the inventor may believe her relationship with the attorney is sufficient to require that any confidential information she imparted to the attorney may not be used against her later, should she move on to another company and subsequently become involved in related litigation in which the lawyer she worked with now represents the other side. A case in point is *Telectronics*

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49. See, e.g., *Teja v. Saran*, 846 P.2d 1375, 1376 (Wash. App. 1993), review denied 859 P.2d 604 (Wash. 1993); *Kenn Air Corp. v. Gainesville-Alachua County Regional Airport Auth.*, 593 So. 2d 1219, 1222 (Fla. App. 1992).

50. See, e.g., *Telectronics Proprietary Ltd. v. Medtronic, Inc.*, 836 F.2d 1332 (Fed. Cir. 1988); *Pain Prevention Lab, Inc. v. Electronic Waveform Labs, Inc.*, 657 F. Supp. 1486 (N.D. Ill. 1987); *DCA Food Indus., Inc. v. Tasty Foods, Inc.*, 626 F. Supp. 54, 59-60 (W.D. Wis. 1985). Cf. *SMI Indus. Can. Ltd. v. Caelter Indus.*, 586 F. Supp. 808, 816 (N.D.N.Y. 1984).

51. See, e.g., *Telectronics Proprietary Ltd.*, 836 F.2d at 1336-37.

52. *Id.* at 1337.

53. *Id.*

54. *Id.*

55. *Id.* See also *Sun Studs, Inc. v. Applied Theory Assocs., Inc.*, 772 F.2d 1557 (Fed. Cir. 1985). Cf. *Levin v. Ripple Twist Mills*, 416 F. Supp. 876, 885 (E.D. Pa. 1976).



*Proprietary Ltd. v. Medtronic*.<sup>56</sup> Telectronics filed a declaratory judgment action seeking a declaration of patent invalidity, unenforceability, and noninfringement with respect to three patents.<sup>57</sup> Medtronic counterclaimed for infringement of these patents and for another patent, and sought a declaration that the four patents were valid, infringed, and enforceable.<sup>58</sup> Medtronic moved to disqualify Telectronics' counsel, attorneys Nealon and Rackman, who had served as in-house and outside counsel respectively for American Optical Corporation (AOC), the original patent holder on one of the patents, on the grounds that they had participated in the prosecution of that patent for AOC.<sup>59</sup> Although the attorneys had never worked for Medtronic, Medtronic claimed the status of "former client" for itself, as the assignee of the patent. It also claimed this for its employee, Barouh V. Berkovits, who invented the fourth patent, and who was employed by AOC when the patent was prosecuted.<sup>60</sup> Medtronic further contended that Berkovits had worked closely with the challenged lawyers in preparing and processing the patent application.<sup>61</sup> Berkovits alleged that he considered Nealon and Rackman to be his lawyers, and that they had unencumbered access to all of the inventor's files.<sup>62</sup>

It is not difficult to see why a person in this situation might believe he had formed some type of attorney-client relationship with the lawyer with whom he had worked. But the Court of Appeal for the Federal Circuit had little trouble concluding that an inventor is not automatically entitled to former client status merely because, as a company employee, he assisted the corporation's attorney in preparing and prosecuting the patent application.<sup>63</sup> The court further found that the inventor had no reasonable expectation that information he conveyed to the attorney would have been withheld from the company he worked for.<sup>64</sup> The circuit court observed that "attorneys represent clients—not legal positions or patents."<sup>65</sup> On this basis, the court held that where the moving party fails to prove the existence of an attorney-client relationship, courts will not apply the vague standard of "an appearance of impropriety" to create a rule "unique to the practice of patent law" that would disqualify counsel where no actual impropriety has been exhibited.<sup>66</sup>

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56. *Telectronics Proprietary Ltd. v. Medtronic, Inc.*, 836 F.2d 1332 (Fed. Cir. 1988).

57. *Id.* at 1333.

58. *Id.*

59. *Id.* at 1334.

60. *Id.*

61. *Id.*

62. *Id.* at 1337.

63. *Id.* at 1336-37.

64. *Id.* at 1337.

65. *Id.*

66. *Id.* at 1338.

In yet another patent infringement action, *Pain Prevention Lab, Inc. v. Electronic Waveform Labs, Inc.*,<sup>67</sup> the plaintiff, PPL, brought an action against EWL—the other party to a proposed joint venture—seeking a declaration that the product which PPL was selling did not infringe any of the defendant's intellectual property rights.<sup>68</sup> PPL was represented in the litigation by the law firm of Dick and Harris.<sup>69</sup> Defendant (EWL) moved to disqualify Harris and his firm on the grounds that Harris was allegedly representing EWL in preparing the patent application that was to cover the device.<sup>70</sup> However, the district court, after thoroughly reviewing the principles governing attorney disqualification in a number of non-intellectual property cases, found that it was undisputed that there was never any formal attorney-client relationship between EWL and Harris, and that there was no proof that an implied attorney-client relationship had been created.<sup>71</sup>

The court observed that an attorney-client relationship does not arise when one consults an attorney in a capacity other than as an attorney.<sup>72</sup> Communicating technical information to an attorney primarily to enable the attorney to prepare a patent application does not automatically involve the attorney in rendering legal advice.<sup>73</sup> Finding no evidence to suggest that EWL independently sought legal advice from Harris, exercised control over Harris' activity, or paid Harris for his work, the court concluded that the prerequisite showing of an attorney-client relationship had not been met.<sup>74</sup>

One of the cases the *Pain Prevention* court relied on in coming to this conclusion was *DCA Food Industries, Inc. v. Tasty Foods, Inc.*<sup>75</sup> In that case DCA moved to disqualify defendant's counsel on the basis of his prior relationship with DCA in connection with an earlier action involving a DCA patent.<sup>76</sup> As in the cases previously discussed, however, the court denied the disqualification application. The court held that, whatever subjective impression DCA had about the attorney's role, it could not have reasonably believed that the attorney was acting as DCA's attorney.<sup>77</sup>

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67. 657 F. Supp. 1486 (N.D. Ill. 1987).

68. *Id.* at 1488.

69. *Id.* at 1495.

70. *Id.*

71. *Id.* at 1496-97.

72. *Id.* at 1497 (citing *Westinghouse Elec. Corp. v. Kerr McGee Corp.*, 580 F.2d 1311, 1320 (7th Cir.), *cert. denied*, 439 U.S. 955 (1978)).

73. *Id.* at 1497 (citing *Ashland Oil Inc. v. Delta Oil Products Corp.*, 209 U.S.P.Q. 151, 152-53 (E.D. Wis. 1979)); *Jack Winter, Inc. v. Koratron Co., Inc.*, 54 F.R.D. 44, 47 (N.D. Cal. 1971) (both holding that no attorney-client privilege attached to such information).

74. *Id.*

75. 626 F. Supp. 54 (W.D. Wis. 1985).

76. *Id.* at 55.

77. *Id.* at 61. *Cf. Levin v. Ripple Twist Mills*, 416 F. Supp. 876, 885 (E.D. Pa. 1976) (where the inventor sought to disqualify two patent attorneys from representing a party the inventor accused of patent infringement, the court denied disqualification, finding that the relationship between the inventor and the patent counsel should not be considered a "prior representation" within the meaning of the substantial relationship test).

A case which presents a variation on the same theme is *SMI Indus. Canada Ltd. v. Caelter Indus.*<sup>78</sup> In that case, the plaintiff acquired a patent from the defendant's former parent corporation, then sued the defendant in an infringement action.<sup>79</sup> Defendant's counsel, the law firm of Limbach, Limbach & Sutton, had previously represented the defendant's parent in an effort to secure the patents.<sup>80</sup> The crux of plaintiff's motion was that the plaintiff, as assignee of an asset, had succeeded to the attorney-client privilege of the assignor.<sup>81</sup> Plaintiff contended that even though Limbach never represented it or any of its affiliated companies, plaintiff stood in the shoes of the former client; thus, Limbach's representation of the defendant was adverse to plaintiff's interests within the meaning of the adverse representation rule.<sup>82</sup>

It is easy to understand why a plaintiff would prefer not to have a firm that prosecuted the patent for its assignor representing an adversary in an action for infringement of that patent. Nevertheless, the court denied the disqualification motion. The court noted that "[n]o attorney-client relationship has ever existed between plaintiff and the Limbach firm...,"<sup>83</sup> therefore, the court failed "to see how the plaintiff's receipt of assets from the Limbach firm's former client confers former client status upon it within the meaning of [the relevant ethical rule]."<sup>84</sup> On a practical note, the court said that were it to accept the argument advanced by the plaintiff, courts would be "open to a deluge of spurious disqualification motions. . . . Any purchaser of another firm's assets would be able to raise an adverse representation claim against the seller's counsel in any subsequent litigation involving the transferred assets."<sup>85</sup>

The ruling of the Federal District Court for the Northern District of New York in *SMI* was not surprising in light of the prior holding of the Fifth Circuit Court of Appeals in *In re Yarn Processing Patent Validity Litigation*.<sup>86</sup> In that case, the court held that the assignment of a patent does not assign the attorney-client relationship along with it.<sup>87</sup>

While the *SMI*, *DCA Food Industries*, and *Pain Prevention* courts were all firm in concluding that former client status should not be liberally bestowed on those claiming that an attorney-client relationship existed

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78. 586 F. Supp. 808, 816 (N.D.N.Y. 1984).

79. *Id.* at 813.

80. *Id.*

81. *Id.* at 814.

82. *Id.*

83. *Id.* at 816.

84. *Id.*

85. *Id.*

86. 530 F.2d 83 (5th Cir.), *reh'g denied*, 536 F.2d 1025 (5th Cir. 1976).

87. *Id.* at 90. *Cf.* *Beghin-Say v. Rasmussen*, 212 U.S.P.Q. 614 (there was no attorney-client relationship between inventor's attorney and inventor's assignee, even though the attorney prosecuted the patent application after it had been assigned).

between them and intellectual property counsel, not every court has agreed. For example, in the lower court phase of the *Telectronics Proprietary Ltd.* case,<sup>88</sup> which was ultimately appealed to the U.S. Court of Appeals for the Federal Circuit,<sup>89</sup> the district court indicated it was uncertain whether former client status may be accorded to an inventor.<sup>90</sup> Nevertheless, “[t]o permit the same attorneys who had unrestricted access to the inventor, his records, his knowledge and strategy and who undertook the extensive collaboration needed to draft and prosecute his patent application to lead the attack to undermine those efforts and invalidate the resulting patent may taint the underlying trial and damage the integrity of the judicial process.”<sup>91</sup> In reaching this conclusion, the court relied in part on a decision of the Eastern District Court of Michigan.<sup>92</sup> In that case, the court held that, whether an attorney-client relationship exists or not, “[o]ne who assists an inventor in preparing a patent application is quite likely to acquire from the inventor information that could be quite useful in preparing an attack on the validity of the patent.”<sup>93</sup>

Even though the order of disqualification in *Telectronics* was ultimately reversed on appeal,<sup>94</sup> the district court’s initial decision in favor of the moving party was significant. That decision demonstrates that when it comes to deciding whether relationships between intellectual property attorneys and the inventors they work with are attorney-client ones, reasonable minds can and do differ.<sup>95</sup>

Another case highlighting this controversy is *Henry Filters, Inc. v. Peabody Barnes, Inc.*<sup>96</sup> In that case, appellee expressly appointed the challenged firm to advance its position in the Patent and Trademark Office, supplied the firm with confidential information, and agreed to pay one-half of attorney fees.<sup>97</sup> On that basis, the Ohio Court of Appeals concluded the lower court could have properly inferred that appellee reasonably believed the firm owed duties to it to the same extent the firm owed duties to appellant. The appeals court affirmed the lower court’s finding that the confidential information appellee supplied the challenged law firm could not subsequently be used to degrade its interests.<sup>98</sup>

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88. *Telectronics Proprietary Ltd. v. Medtronic, Inc.*, 690 F. Supp. 170 (S.D.N.Y. 1987).

89. *Telectronics Proprietary Ltd. v. Medtronic, Inc.*, 836 F.2d 1332, 1338 (Fed. Cir. 1988).

90. *Telectronics Proprietary Ltd.*, 690 F. Supp. at 175.

91. *Id.*

92. *Hooper v. Steelplank Corp.*, 215 U.S.P.Q. 829 (E.D. Mich. 1981).

93. *Telectronics Proprietary Ltd.*, 690 F. Supp. at 174 (citing *Hooper*, 215 U.S.P.Q. at 832).

94. *Telectronics Proprietary Ltd.*, 836 F.2d 1332.

95. *Cf. Hooper v. Steelplank Corp.*, 215 U.S.P.Q. 829 (E.D. Mich. 1981) (district court found that the individual was the alter ego of the corporation, and thus an attorney-client relationship existed).

96. 611 N.E.2d 873 (Ohio 1992).

97. *Id.* at 876.

98. *Id.* at 876-77.

An analogous result was reached in *Brennan's Inc. v. Brennan's Restaurants, Inc.*<sup>99</sup> In that case attorney Edward Wegmann represented the Brennan family, which owned numerous corporations.<sup>100</sup> On behalf of the Brennan family, he registered a trademark which was issued in the name of Brennan's, Inc. (BI). Subsequently, the Brennan family split into two groups; BI went to one group, and Brennan's Restaurants, Inc. (BRI) went to the other. The BRI group used the trademark issued in the name of BI, and BI sued BRI for trademark infringement and unfair competition. When Wegmann appeared on behalf of BRI, BI sought to disqualify him. Responding to the challenge, BRI argued that because Wegmann previously represented BI and BRI jointly, no confidences arose; therefore, Wegmann did not violate any ethical duty by representing the BRI faction against the BI group. The Fifth Circuit Court disagreed. It said the fundamental flaw in BRI's position was a confusion between the attorney-client evidentiary privilege and the ethical duty to preserve a client's confidences.<sup>101</sup> The court emphasized that the ethical duty is broader than the evidentiary duty because the ethical duty "exists without regard to the nature or source of information or the fact that others share the knowledge."<sup>102</sup> The court concluded that Wegmann's conflict of interest was "readily apparent" and Wegmann had to be disqualified.<sup>103</sup>

### III. THE SUBSTANTIAL RELATIONSHIP TEST

Once an attorney-client relationship has been established between the party bringing a disqualification motion and the challenged law firm, the moving party's next hurdle is to demonstrate that there is a substantial relationship between the work the attorney previously performed and the work it is now performing that is allegedly adverse to the former client.<sup>104</sup> The Southern District of New York is usually given credit for first articulating the substantial relationship test in *T.C. Theatre Corp. v. Warner Bros. Pictures*.<sup>105</sup> However, as one judge on the same court noted more than forty years ago: "Unfortunately, the cases furnish no applicable guide as to what creates a 'substantial relationship.'"<sup>106</sup>

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99. 590 F.2d 168 (5th Cir. 1979).

100. *Id.* at 170.

101. *Id.* at 172.

102. *Id.* (quoting ABA CODE OF PROFESSIONAL RESPONSIBILITY EC 4-4 (1970)).

103. *Id.*

104. *See, e.g., Solow v. W.R. Grace & Co.*, 632 N.E.2d 437, 439 (N.Y. 1994).

105. 113 F. Supp. 265, 269 (S.D.N.Y.) *reh'g denied* by 125 F. Supp. 233 (S.D.N.Y. 1952). *Cf. Allegaert v. Perot*, 565 F.2d 246, 248 n.3 (2d Cir. 1977).

106. *United States v. Standard Oil Co.*, 136 F. Supp. 345, 355 (S.D.N.Y. 1955). *See also Silver Chrysler Plymouth, Inc. v. Chrysler Mot. Corp.*, 518 F.2d 751, 754 (2d Cir. 1975), *overruled on other grounds, Armstrong v. McAlpin*, 625 F.2d 433 (2d Cir. 1980) (en banc), *vacated*, 449 U.S. 1106 (1981).

Over the years, courts have utilized the substantial relationship test both in the context of attorneys moving from one firm to another,<sup>107</sup> and in cases involving government attorneys who return to the private sector.<sup>108</sup> The decisions in these cases shed some light on how substantial relationship may be analyzed. For example, it is now well-established that the party seeking disqualification bears the burden of proving that the present and prior representations are substantially related,<sup>109</sup> a burden often said to be a heavy one.<sup>110</sup>

Nevertheless, because of the complexity of the factual issues which typically underlay intellectual property actions, determining whether two actions are substantially related can be a daunting task. Two recent District Court of New Jersey holdings exemplify this difficulty. In *Ciba-Geigy v. Alza Corp.*,<sup>111</sup> the district court declined to disqualify counsel from representing Ciba-Geigy in a patent infringement case involving a nicotine skin patch, despite the fact the firm formerly represented defendant Alza in litigation involving the same type of product. The court's decision was based on the difference it perceived between the substances involved which resulted in differences between the two products. According to the court, because a qualitative difference existed between the patches involved in the former and present representations, the factual bases for them were not "substantially related."<sup>112</sup> However, in another decision rendered later that year in *Kaselaan & D'Angelo Associates, Inc. v. D'Angelo*,<sup>113</sup> the same court concluded that *Ciba-Geigy* had been wrongly decided. The *Kaselaan* court said an examination of the factual bases underlying the successive representations was not crucial to resolving the substantially related issue. It held that, in the absence of a supervening federal statutory or decisional law interest, a disqualification standard that equates substantially related to factually identical was "unnecessarily restrictive."<sup>114</sup> Thus, whereas the *Ciba-Geigy* court concluded the fact that a firm formerly represented a defendant in nicotine patch litigation involving transdermal delivery systems was insufficient to prove the prior representation was substantially related to present litigation also involving skin patches, the *Kaselaan* court reached the opposite conclusion, holding that similarities in the two representations warranted disqualification.

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107. See, e.g., *In re American Airlines, Inc.*, 972 F.2d 605, 614 (5th Cir. 1992), cert. denied, 113 S. Ct. 1262 (1993); *Borges v. Our Lady Sea Corp.*, 935 F.2d 436, 439 (1st Cir. 1991).

108. See *Fund of Funds, Ltd. v. Arthur Andersen & Co.*, 567 F.2d 225, 235 (2d Cir. 1977).

109. See, e.g., *In re American Airlines, Inc.*, 972 F.2d at 614.

110. See, e.g., *Thomson U.S. Inc. v. Gosnell*, 573 N.Y.S.2d 375, 378 (1991), *aff'd*, 181 A.D.2d 558, 581 N.Y.S.2d 764 (1992) (quoting *Government of India v. Cook Indus., Inc.*, 569 F.2d 737, 740 (2d Cir. 1978)).

111. 795 F. Supp. 711 (D.N.J. 1992).

112. *Id.* at 717-18.

113. 144 F.R.D. 235, 242 (D.N.J. 1992).

114. *Id.* at 243.

Another disqualification appeal that focused on conflicts between a firm's present and former representations was *General Electric Co. v. Valeron Corp.*<sup>115</sup> In that case, G.E. brought a patent infringement action against Valeron. G.E. moved to disqualify an attorney appearing on behalf of Valeron, because he formerly worked for G.E. as a patent lawyer. G.E. contended the attorney's prior work was substantially related to the subject matter of the pending lawsuit.<sup>116</sup> The trial court agreed, as did the Sixth Circuit on appeal.<sup>117</sup> The latter rejected Valeron's argument that G.E. had to show a substantial relationship between the attorney's prior work for G.E. and the actual issues in the present lawsuit.<sup>118</sup> The court held that a former client who seeks to disqualify an attorney now representing its adversary need only show that the matters embraced within the pending suit are substantially related to the matters or cause of action in which the attorney previously represented it.<sup>119</sup>

An analogous result, predicated on similar reasoning, was reached in *Quark, Inc. v. Power Up Software Corp.*<sup>120</sup> In that case the defendants contended that a pending action and a prior litigation the challenged attorney was involved in were not substantially related. The court found, however, that the defendants defined the inquiry too narrowly. It noted that, under *Smith v. Whatcott*,<sup>121</sup> a prior suit need not be identical—or even similar—to a pending suit.<sup>122</sup> The two actions need merely share a related factual context. The court found that because both the present action and the prior action involved the same software and questions of intellectual property the actions were substantially related.<sup>123</sup>

The bottom line is that whereas determining whether any two cases are "substantially related" is seldom a simple task, when a disqualification motion obliges a court to compare and contrast two intellectual property matters, the complexity of the factual issues involved may make the determination an exceedingly difficult one for the court. This difficulty may translate into an opportunity for the moving party to persuade the court that a substantial

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115. 608 F.2d 265 (6th Cir. 1979), *cert. denied* 445 U.S. 930 (1980).

116. *Id.* at 266.

117. *Id.* at 267.

118. *Id.*

119. *Id.*

120. 812 F. Supp. 178, 180 (D. Colo. 1992).

121. 757 F.2d 1098, 1100 (10th Cir. 1985).

122. *Quark*, 812 F. Supp. at 179.

123. *Id.* See also *Novo Therapeutisk v. Baxter Travenol Labs.*, 607 F.2d 186 (7th Cir. 1979) (in which the Seventh Circuit had little trouble concluding that information regarding the enzyme labeled microbial rennet was relevant to a patent infringement action that alleged use of patented milk-coagulating enzymes). *But see* *Moyroud v. Itek Corp.*, 528 F. Supp. 707, 708 (S.D. Fla. 1981) (holding that an attorney's prior representation of defendant in an action involving patents in the photo-typesetting field did not preclude his representation of plaintiff in a suit against defendant for alleged infringement of other patents in the same field).

relationship between the two matters exists even though the facts, if properly understood by the court, would not warrant such a finding.

#### IV. DISQUALIFICATION OF NON-ATTORNEYS IN I.P. ACTIONS

In addition to concerns raised by the prevalence of motions to disqualify intellectual property attorneys, intellectual property cases have also spawned conflicts charges involving non-lawyers. For example, in *Wang Laboratories, Inc. v. CFR Assoc., Inc.*,<sup>124</sup> a protective order was granted in a patent infringement suit to prohibit defendant from using plaintiff's former employee as an expert in light of that employee's confidentiality agreement with plaintiff.<sup>125</sup>

#### V. WHAT INTELLECTUAL PROPERTY ATTORNEYS CAN DO

There is nothing magical about intellectual property cases that makes them lightning rods for conflicts charges. However, the fact that intellectual property attorneys, and even whole practice departments, may seem to be in an almost continuous state of flux makes them conspicuous targets for such charges. In addition, the ambiguous nature of the relationships intellectual property attorneys sometimes form with key players in the patent prosecution process, as well as the complexity of the factual issues involved, inevitably result in additional conflicts claims and disqualification motions. Obviously, intellectual property attorneys cannot hope to avoid these problems in all cases. However, becoming aware of the source of these charges and recognizing that neither the inherent nature of the practice, nor the tactical nature of their adversaries, account for all such claims may go a long way to suggesting a partial cure.

First, intellectual property attorneys should never underestimate the possibility that their conduct could later provide grounds for a disqualification motion or appeal which places the vital interests of their clients in jeopardy. Because the number of firms which specialize in intellectual property litigation is finite, the likelihood of this type of conflict situation arising is greatly increased when intellectual property attorneys move from firm to firm. The peril is multiplied still further when, as in the *Elan* case, an entire practice group moves to a new firm. Lateral transfers may be a fact of life, but courts have tended to display little sympathy towards firms whose business decisions have placed them afoul of the relevant ethical rules. In practice, attorneys who find themselves on the wrong end of a disqualification

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124. 125 F.R.D. 10 (D. Mass. 1989).

125. *Id.* at 13-14. See also *Rigaku Corp. v. Ferro-Fluidics Corp.*, 800 F.2d 1115, 1118 (Fed. Cir. 1986).



motion are apt to confront significant sanctions in addition to disqualification.<sup>126</sup>

Therefore, firms should be extremely careful to consider the possible conflict implications of any proposed merger or lateral hire. Should a firm decide to proceed with a lateral acquisition, it should consider available options for minimizing the risk that the acquisition will precipitate a disqualification motion. One possible option is for the firm to erect a "screen"—sometimes called an "ethical wall"—around the tainted attorneys.<sup>127</sup> While not every court agrees that screening will suffice to cure the conflict problem where the tainted attorneys have moved from one private firm to another,<sup>128</sup> a number of courts have indicated that effective screening may be one way of averting disqualification in certain cases.<sup>129</sup>

Second, intellectual property attorneys would do well to remember that an individual whom they may not consider a client may nevertheless consider the lawyer to be his or her attorney. When it comes to a swearing match on this issue, the putative client's reasonable perception may control.<sup>130</sup> While attorneys cannot be expected to inform every person with whom they meet that a meeting alone does not create an attorney-client relationship, attorneys can do more to make their non-representation clear. This is especially true when lawyers have reason to anticipate that a particular non-client may ultimately appear on the opposite side of a suit.

Finally, once conflict allegations have been leveled, intellectual property attorneys often make a strategic decision they would undoubtedly counsel their own clients against: they represent themselves.<sup>131</sup> This is ill-advised because an attorney who has been challenged by a disqualification motion is often poorly equipped to objectively perceive how his conduct may be viewed by others, including judges. As a result, the challenged attorney is not in the

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126. See, e.g., *In re Ellis*, 822 S.W.2d 602, 607 (Tenn. App. 1991) (noting that if the probate court found that the challenged attorney's conduct was not consistent with the Code of Professional Responsibility, it may not only disqualify him on those grounds but send a copy of the entire court record to the Board of Professional Responsibility).

127. See, e.g., *Novo Terapeutisk v Baxter Travenol Labs.*, 607 F.2d 186, 196 (7th Cir. 1978).

128. See, e.g., *Klein v. Superior Court*, 244 Cal. Rptr. 226 (Ct. App. 1988).

129. See, e.g., *United States ex rel. Lord Elec. Co. v. Titan Pac. Constr. Corp.*, 637 F. Supp. 1556, 1564 (W.D. Wash. 1986); *Haagen-Daaz Co. v. Perche No! Gelato, Inc.*, 639 F. Supp. 282, 287 (N.D. Cal. 1986). *But cf. Atasi Corp. v. Seagate Technology*, 847 F.2d 826, 831 n.5 (Fed. Cir. 1988) (declining to approve an ethical wall where the Ninth Circuit had not yet indicated whether it would do so).

130. See, e.g., *Teja v. Saran*, 846 P.2d 1375, 1376-77 (Wash. App.) *review denied* 859 P.2d 604 (Wash. 1993); *Ambac Indem. Corp. v. Bankers Trust Co.*, 546 N.Y.S.2d 265, 270 (1989) ("[t]he courts in ruling on motions such as this have sometimes looked to the expectations of the prospective or putative client, rather than to the formal understanding of the attorney").

131. See, e.g., *Telectronics Proprietary Ltd. v. Medtronic, Inc.*, 690 F. Supp. 170 (S.D.N.Y. 1987); *DCA Food Industries, Inc. v. Tasty Foods, Inc.*, 626 F. Supp. 54 (W.D. Wis. 1985); *Motion to Determine Propriety of Representation of Adverse Parties, Cirrus Logic, Inc. v. Prakash Agarwal, et al.*, Santa Clara County Superior Court Action No. CV 745373 (May 30, 1995).

best position to objectively determine how to oppose such a motion. Worse still, it may be difficult to justify to a client why the client should be obliged to pay the fees to defend the attorney against charges that he acted unethically. Furthermore, because law firms may be reluctant to expend large amounts of non-billable time defending such a motion themselves, there may be a tendency to give disqualification motions less attention than they deserve.

The ethical issues raised by disqualification motions are often quite complex and there is an enormous body of case law that must be mastered before an attorney can confidently frame the relevant issues for the court. This being the case, firms that are too penny foolish to do the necessary research, or too enamored of their own abilities to retain an expert who can help them make sense of this large and complicated field, are often ill-prepared to defend their own interests and those of their clients when targeted by a disqualification motion. In spite of these risks, the many cases cited hereinabove reflect that challenged firms often do defend themselves, at least at the trial court level.

Intellectual property litigation is typically waged in federal court. Because this is so, and because the United States Supreme Court has repeatedly held that interlocutory appeals of disqualification orders are not permitted,<sup>132</sup> where disqualification motions in intellectual property cases are concerned, the trial court battle is, as a practical matter, often the only one.<sup>133</sup> Given the finality of such motions, combined with the high stakes of intellectual property litigation, intellectual property attorneys should never underestimate the importance of caution, prevention and, ultimately, obtaining expert help.

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132. *Richardson-Merrell, Inc. v. Koller*, 472 U.S. 424 (1985); *Flanagan v. United States*, 465 U.S. 259, 263-64 (1984); *Firestone Tire & Rubber Co. v. Risjord*, 449 U.S. 368, 374 (1981).

133. *See e.g.*, *Quark, Inc. v. Power up Software Corp.*, 812 F. Supp. 178 (D. Colo. 1992); *Elan Transdermal Ltd. v. Cygnus Therapeutic Sys.*, 809 F. Supp. 1383 (N.D. Cal. 1992); *Pain Prevention Lab, Inc. v. Electronic Waveform Labs, Inc.*, 657 F. Supp. 1486 (N.D. Ill. 1987); *DCA Food Indus., Inc. v. Tasty Foods, Inc.*, 626 F. Supp. 54 (W.D. Wis. 1985); *SMI Indus. Can. Ltd. v. Caelter Indus.*, 586 F. Supp. 808 (N.D.N.Y. 1984).

