

Patent Attorneys and the Revolution in Corporate Governance

Patent attorneys have always believed themselves to be, if not better than the great masses of attorneys, at least very different. First, we are, with very few exceptions, engineers and scientists by education. Few non-patent attorneys share that experience. During our undergraduate days, we spent Saturday mornings in one lab or the other, and Saturday nights writing lab reports, while most future attorneys partied their little hearts out. Many of us worked as engineers before we moved on to practice patent law. More than a few of us wear pocket protectors, and could be picked out of any line up based upon attire and demeanor alone.

We are the only legal specialty that is required to take a second bar exam to do our thing, a difficult six hour exam put on by the US Patent and Trademark Office. We huddle together in firms, large and small, that accept only Intellectual Property work, and in isolated departments of mega-firms and corporations.

One aspect of this isolation from the greater world of law has been insensitivity to ethical issues, and to the development of ethical standards outside our little world. As patent attorneys we have the naive ideas that being honest is the same as being ethical, and that we have no responsibility for what our clients may do with our work. Those ideas were based largely upon the facts that clients until recently just didn't sue patent attorneys for malpractice, and that neither state bars nor the PTO was very aggressive in going after those who may have broken a rule or two.

We patent attorneys tend to think of ourselves as craftsman. We are summoned to make something, we deliver it and we get paid. We then go away until we are summoned again. What the customer does with what we made is none of our concern. Patents have a long history as the bait for scams. And then came Enron.

Those happy, carefree days, however, are gone forever. Clients do sue these days, sometimes it seems at the drop of a hat, to the extent that many patent attorneys cannot get malpractice insurance at any price. Moreover, both the PTO and state bars are beginning to take a closer look at how we operate. It's time to rethink many of our standard practices, and to pay closer attention to the trend toward stricter ethical standards for all attorneys, including patent attorneys. In this article I focus on three areas where we need to do better – the duty of disclosure, conflicts and corporate governance.



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The Duty of Disclosure

Our Patent and Trademark Office is by and large a pretty forgiving place. Once we manage to get an application filed properly, our PTO provides us almost endless opportunities to find claims and arguments that the examiner will accept as justifying the issuance of a patent, at a price of course. If we manage to allow the application to become abandoned by failure to take an action timely, it can be revived by payment of a large fee. But there is one thing about which our Patent Office cuts no slack, and that is the duty of disclosure.

First, a patent is in essence a monopoly, one limited in time and duration, but a monopoly nonetheless, and one that can enrich its owner while impoverishing others. Obviously, there is a strong public interest in making sure that patents are awarded only for inventions that meet the very strict statutory conditions.

Second, patent prosecution is *ex parte*; the Patent Office will not, except under extremely limited conditions, hear what anyone other than the applicant and his or her attorney have to say.

Finally, our Patent Office is not a place where matters are carefully weighed and determined. On average an examiner has less than two business days to study an application, search the literature and millions of prior US patents and argue with the applicant over the proper form of the application and the language of the claims. Given the complexity of most inventions, the length of most applications and the tenacity of most applicants, that is a very short amount of time indeed. The examiner is necessarily dependent upon the applicant to help. Since third parties are kept at bay, the examiner can only look to the applicant to provide pertinent information.

Thus, enshrined in 37 CFR 1.56 is the Duty of Disclosure, which obligates everyone associated with the prosecution of a patent application to disclose all information that is material to the issuance of the application as a patent. Everyone means the inventors, the owner of the patent rights and all patent attorneys who worked on the file. Every savvy patent attorney figured out long ago that both the patent attorney's interests and that of the applicant are best protected by submitting to the PTO everything that could conceivably be argued to be pertinent to an examiner. The attorney's interests are protected because any decision to exclude is subject to second-guessing after the patent issues, whereas it's hard to complain about a decision to submit. Since that second-guessing could be by the PTO in a determination whether an attorney gets to continue his or her livelihood, it is not something anyone wants to chance.

At first glance, it appears that the patent applicant would want to submit as little as possible, preferably nothing, because that maximizes the chances of getting a patent, but at closer analysis in fact the opposite is true. Having a patent that is invalid because pertinent prior art or some other information was not submitted is more trouble than it is worth. Competitors will find the prior art –

they always do- and likely will be able to establish it was withheld, so the patent can be safely ignored or the owner even harried with it. On the other hand, a patent is presumed by law to be valid over art cited by the examiner. In today's overcrowded Federal courts, few judges have any interest in reconsidering an issue decided by the examiner. The secret to a strong patent is to get everything considered by the examiner during prosecution.

However, patent attorney tend to view the Duty as a formality. They don't often enough explain to clients the full scope of information that must be disclosed – prior sales and offers for sale, disclosures to third parties, prior inventions of others, etc. – and they tend not to objectively weigh what they are told by clients.

While attorneys have no duty to spend endless hours searching for information to disclose, at the same time the Patent Office expects some investigation. For example, most R&D projects in the end yield not just one invention, but a family of related inventions, each of which ends up the focus of one application. Each of these applications spawns its own set of continuations, divisions and foreign applications. Sometimes, to make the game more interesting, the client sends some applications to one firm or attorney, and others to another one.

The client and the attorneys are going to be held by the Patent Office to “know” of everything in all these files when it comes to their Duty of Disclosure, whether they actually know or not. Moreover, the Patent Office expects that the examiner of each such application will be kept absolutely up to date as information flows into these various files. This requires careful file management, and attention to detail. Of course, it would be sensible to take the view that it's the Patent Office's job to find and correlate all this data, but that won't work. The Patent Office has imposed the duty on inventors, owners and attorneys and is prepared to treat any failing of that duty harshly.

In a way, we patent attorneys act as translators. Our clients provide us with comments about the prior art, the position taken by the examiner and the invention, and we work this material into a form that fits Patent Office practice. But our Patent Office does not expect us to stop there. Rather our Patent Office expects us to function as a gatekeeper, refusing to pass on anything that we believe isn't right or credible. The Patent Office expects to make sure that there is proof of every conclusory statement we include in our Patent Office responses. This is a nebulous and difficult duty to carry out. Clients don't like being challenged or asked for proof and sometimes you can get fired that way. But a duty it is and one that we must do a better job at satisfying in the future.

Conflicts

Conflicts present the greatest ethical problem to patent attorneys for the simple reasons that no one is sure what is or is not a conflict, and finding them in a large law firm can be a daunting task.

The problem is not with patent litigation or even with opinions. In these situations, a new client will be able to tell you exactly who is on the other side, and it's just a matter of making sure that you don't represent any of those named, or their affiliates or related companies. It is patent prosecution that is the difficulty.

A new client comes to you and asks you to prepare and file a patent application on, let's say, a bridge strut. You ask the client who are their competitors in the bridge strut business. Maybe they know because they are now in the business, or maybe they don't because this is a new idea, and something they might want to get into. Either way, it is fairly easy to locate the leading players in this business, and see if you represent them or have done so. But sadly, that alone won't tell you whether you have a conflict. To understand why we have to digress for a moment and briefly explain something basic to US patent law, an "interference."

An invention when made belongs to the inventors, although they have often agreed in advance to assign the rights to this invention to someone else, typically their employer. The process of getting a patent starts with the owner of the invention deciding whether to invest the considerable funds necessary to try to get a patent. If the decision is made to proceed, then the next step is for a patent application on this invention to be prepared by a patent attorney who then places it on file. After a wait of a year or two the application gets examined, and, if all the myriad rules and laws are satisfied, then one Tuesday – all patents issue on Tuesday – the patent springs to life.

What happens, however, if two inventors separately make the same invention, and each file a patent application? Which one gets the prize? In most of the world, the patent goes to the first to file, something reasonably easy to ascertain. But in the US the patent goes to the "first to invent," something that has often very hard to decide.

Obviously, before you agree to represent that new client with a bridge strut, you want to make sure you don't already have in the file room an interfering application directed to that same bridge strut invention. The problem is that no law firm is organized to do that properly. You need at minimum a database that has every word in every application you are handling now or have ever handled, in searchable form. Few firms have even the titles of their application in such form, and creating such a data base from scratch will take a very long time and a lot of money, particularly since the data base should include both abandoned applications and issued patents back for a number of years.

But the problem is worse than this. Even a search done by a skilled person won't catch every interference because different people can express the same concepts in many different ways using different language. Moreover, what is an interference, and what is not, is something that can often be subtle and arguable. It is even occasionally the case that an examiner will not find interference in two applications that are before him or her. But it gets worse.

You may have patent applications in your files that aren't an interference, but which might affect your new client. How could they do that? In lots of possible ways, ways that are hard to predict and to see. Patent applications are like putty; they can be twisted and molded into a lot of different shapes depending upon what you want to accomplish. Maybe someone knowing of the earlier application would be able to change the latter one to obtain an advantage, and vice versa. But finding that conflicting application is very, very difficult. It gets worse.

In reality, every patent application a client asks you to file is a project requiring a conflict check. But no one does conflict checks on patent applications from existing clients. As a practical matter, clients won't retain attorneys who accept some applications, and not others. And attorneys in a firm can only respond to so many conflict inquiries. Some patent law firms file thousands of patent applications a year. It is impossible to completely and fairly check for conflicts with that many applications. Totally impossible, but that is the standard to which patent attorneys are almost certainly going to be held in the future.

In the past, this problem was a theoretical one, because clients didn't sue and neither state bars nor the Patent Office was prepared to get very excited about it. When a conflict became known the offending application was simply transferred over to a friend in another law firm, who was grateful and would reciprocate in due course. That is not going to be enough in the future and every patent attorney in private practice needs to consider how he or she is going to do a better job finding and eliminating conflicts.

Corporate Governance Issues

We patent attorneys tend to think of ourselves as craftsmen. We are summoned to make something, we deliver it and we get paid. We then go away until we are summoned again. What the customer does with what we made is none of our concern. Whether the customer is honest or dishonest is likewise none of our business. In fact most patent attorneys can tell a few funny stories about clients who were obviously scallywags and crooks. Florida waterfront land and patents both have a long history as the bait for scams. And then came Enron.

Most corporate lawyers already understood the personal dangers of participating in the schemes of dishonest corporate owners and executives. But poring over the fine points of Sarbanes - Oxley can only make cautious corporate type even more cautious. Patent attorneys for the most part inspected this new landscape and yawned. What did Sarbanes - Oxley have to do with us? Interestingly enough the answer is both almost nothing, and everything.

Why almost nothing? Sarbanes - Oxley puts the screws to corporate officers and directors, providing real punishment for looting and pillaging, and trying to better protect the stockholder. But patent attorneys whether in a firm or working as an employee seldom are either an officer or director, because they are viewed as just not knowledgeable about the corporation as a whole and how

to manage it. For those few who had been serving as directors, the message was that you better take that responsibility very seriously, or give it up.

Why almost everything? Because the most important effect of Enron and the societal response to it has not been the provisions of Sarbanes – Oxley, significant as they are; it is the response of society as whole that when corporations are misused to cheat their owners and others, those who are caught will face heavy punishment, maybe criminal, maybe civil, maybe both. Prudent patent attorneys now have to open their eyes, apply some common sense, and refuse to work for people who use their work product to defraud investors and others.

A valid patent can be used to shelter a new product or service from competition, and thus allow a start-up business to seize a market and build the profits and capital needed to grow and prosper. But of course the patent has to effectively cover the invention and the invention has to offer something to a market that the market is willing to buy. And the patent has to be valid, i.e. to comply with the numerous requirements for issuance of a patent.

It isn't hard to get a patent; in fact almost anything with the slightest novelty or appearance of novelty can be the basis of a patent. However, there are patents that are worth billions of dollars and there are patents, likely more than half of them, that are worth nothing. They are worth nothing because they don't cover anything that is worth protecting, or because they are so clearly invalid that they will not be respected. It's not always so easy to tell the difference and for a layman all patents look the same.

And thus it has been the case since the beginning of the patent system that dishonest businessmen have touted a worthless patent or the prospect of one as the best thing since sliced cheese to raise money that is supposed to be used to grow the company under the "protection" of the patent, but which instead can be spent or stolen by the founders. Patent attorneys for the most part have had no problem getting these patents and even providing opinions that can be twisted and used to further the fraud. When it all collapsed, the investors would of course sue the corporate officers and directors, but the patent attorneys by and large were spared.

That is no longer good enough. Prudent patent attorneys will refuse such representation or resign as soon as such a plan becomes apparent.