Representing Technology Start-ups in New Mexico: Navigating the Intellectual Property and Business Law Challenges

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Representing Technology Start-ups in New Mexico: Navigating the Intellectual Property and Business Law Challenges

Presenter Biographies

Jeffrey H. Albright is a partner with Lewis Roca Rothgerber LLP. Albright has an "AV/Preeminent Rating" with Martindale-Hubbell in the areas of administrative law and utility law. He is listed in the 2008–2016 editions of *The Best Lawyers in America*® in the categories of administrative/regulatory, environmental, litigation-environmental, and communications law. He has been listed in *Southwest Super Lawyers* in the category of environmental law since 2012. Albright has been active in many sections and committees of the State Bar of New Mexico. He has been a member of the Board of Directors of the Intellectual Property Law Section since its formation in 2007. He was elected as the initial chair of the Section in 2008, was re-elected in 2012 and is the chair-elect for 2016. As an active member on the Committee on Women and the Legal Profession and serving as past-co-chair (1999–2003), he assisted in drafting legislation for gender neutral language which eventually was codified at NMSA 1978 § 2-3-13.1 in 2013. He has been a past participant in the Gene Franchini High School Mock Trial Program and has been a regular student of 5th graders during the annual Constitution Day program. Albright was awarded the State Bar of New Mexico Young Lawyer of the Year Award in 1999.

Perry Bendicksen is a member of the business department at the Rodey law firm. He is a graduate of Amherst College and Harvard Law School. He practiced in New York for several years before coming to his senses and moving to New Mexico in 1989. He represents companies and investors in debt and equity investment transactions, recapitalizations and mergers and acquisitions in New Mexico and elsewhere. His clients include ABQid, Verge Fund, Sun Mountain Capital, the New Mexico Venture Capital Association, Boomtime, Lavu and Dions Pizza. Perry is occasionally an angel investor with a very mixed track record.

Kevin W. Bieg is currently senior IP counsel at Sandia National Laboratories. He received a Ph.D. in Chemical Engineering from the University of Illinois in 1976 and performed extensive research in pulsed power science and inertial confinement fusion at Sandia prior to serving as a Science Advisor at the U.S. Department of Energy in the 1990s. In 1996, he was awarded a congressional fellowship by the American Institute of Physics and served on the Committee on Science in the U.S. House of Representatives. Bieg received his J.D., with honors, from the George Washington University Law School in 2001 and returned to Sandia where he practices in the areas of technology transfer and intellectual property protection. He has prepared and prosecuted more than 150 patents related to microelectromechanical systems, nanotechnologies, materials, optics and photonics, pulsed-power technologies and chemical and biological sensors. Bieg is licensed to practice law in New Mexico, California and the District of Columbia.

Eduardo Duffy practices in the areas of corporate and securities law, business transactions and public finance. He represents private companies in securities offerings, mergers and acquisitions, corporate governance, reorganizations and general corporate matters. Duffy has counseled clients from start-up and initial organization through angel and growth equity fundings, redemptions and recapitalizations, initial and follow on offerings and successful exits. He also advises companies and local governments in local economic development incentives, including industrial revenue bonds and Local Economic Development Act transactions and other state and local tax incentives.

Michèle Huff has practiced law for more than 25 years. She is currently senior associate University Counsel at UNM, specializing in technology, research and IP. She spent eight years in Silicon Valley at Sun Microsystems, and after a three-year sabbatical in Taos, returned to the Valley as a co-founder and COO of a software start-up. Prior to joining UNM, Huff was managing partner of the Archer Law Group, a boutique firm specializing in IP and licensing. Huff served on the boards of the Santa Fe Business Incubator and Coronado Ventures Forum. She presents on IP and negotiating to students, faculty, entrepreneurs and incubator clients. Huff has taught licensing as an adjunct professor at the UNM School of Law and will be teaching negotiation for UNM's Continuing Education department. Huff was born and raised in New York City, received her B.A. from Colorado College and her J.D., *magna cum laude*, from Arizona State University College of Law. She is a member of the State Bar of New Mexico (2004) and State Bar of California (1985). Huff has written *The Transformative Negotiator: Changing the Way We Come to Agreement from the Inside Out* (Unhooked Books, 2015). Follow her at http://www.michelehuff.com.

Zachary Lerner is the principal attorney of Lerner Venture Law, an Albuquerque-based law practice specializing in legal support for startups and entrepreneurs. His practice focuses on entity formations, early-stage financings and general corporate and LLC matters. Lerner began his legal career in as a transactions associate with O'Melveny & Myers LLP in San Francisco, where he gained experience in a variety of corporate transactions, ranging from secured credit facilities, mergers and acquisitions, public securities offerings, restructurings and bankruptcies. In 2010 he joined Wilson Sonsini Goodrich & Rosati, PC, and specialized in corporation finance for venture-backed companies. He holds a B.A. in Biological Basis of Behavior from the University of Pennsylvania and a J.D. from the University of Kansas School of Law, where he earned membership into the Order of the Coif. As an entrepreneur himself, Lerner has a passion for helping founders navigate the legal issues associated with launching a successful software startup or other business venture.

Gary Oppedahl is the director of economic development for the City of Albuquerque. A serial entrepreneur who has fostered many start-ups in New Mexico and Silicon Valley, he approaches his role in government with an entrepreneurial mindset: he doesn't just think outside of the box; he gets rid of ineffective boxes and those boxes are happy to be clear of his uncontrollable torrent of ideas. Oppedahl's willingness to try new things, be inclusive of all people and to always ask, "why not?" instead of "why?" has established him locally and nationally as the visionary behind Albuquerque's burgeoning innovation district, Innovation Central. As a result of his leadership, initiatives are underway to develop a collaborative environment that will identify opportunities for growth, creativity, job creation and technology commercialization in Albuquerque. By facilitating the commercialization of research generated by Sandia National Labs and the University of New Mexico, as well as ideas that come from community members, Oppedahl envisions an economy that evolves from being predominantly reliant on government jobs, to being self-sustaining through mind-to-market businesses. Oppedahl recently came to the public sector as a business owner with awards such as Top CEO and Best Innovator.

Representing Technology Start-Ups in New Mexico: Introduction to Intellectual Property

1

Why is intellectual property (IP) important for technology start-ups?

- Means to achieve competitive advantage
  - Protects the start-up's freedom–to-operate
  - Prevents competitors from copying start-up's products or services
- Important to investors
  - Protects investor's investment and increases the value of the business
  - Improves start-up's chances of securing financing
- Marketing tool
  - Enhances start-up's reputation and product image
- Revenue generation through licensing out
- Means to acquire technology or settle disputes through licensing in or cross-licensing

2

A few things for the start-up to think about....

- Balance cost of IP protection versus other business costs
  - Need to especially protect brand name and core technologies
- Timing, type(s), and scope of IP protection
  - Generally desirable to identify company name and protect important IP early
  - Copyright, trademark, patent, and/or trade secret
  - Going global? Domestic versus international protection
- Keep good records of inventions, inventors, disclosures, employee agreements, etc.
  - May be important, if disputes arise later
- Enforcement of start-up's IP and infringement of another's IP
- Develop technology in-house, acquire it, or license it?
- Use of outside consultants, strategic alliances, and joint ventures

...in addition to hiring and managing employees, getting product to market, growth, raising capital, control of company...

3

Types of Intellectual Property

- Copyright
- Trademarks
- Patents
- Trade Secrets

4

What is a Copyright?

"The Congress shall have Power...to promote the Progress of ...useful Arts, by securing for limited times to Authors... the exclusive right to their respective writings...."

Statutory Definition

- ❑ Protects literary, musical, dramatic works, motion pictures, sound recordings, and computer programs [17 U.S.C. §§102-105].
- ❑ Original, work of authorship, fixed in a tangible medium of expression [§102a], does not extend to ideas (patent) [§102b].

Exclusive rights

Owner has a bundle of exclusive rights [§106, limited by §§107-122]:

- Reproduce
- Prepare derivatives
- Distribute copies
- Publicly perform (literary, musical, dramatic, and sound recordings)
- Publicly display (movies, music, art)

Term

- ❑ Works published after 1978= life of author plus 70 years.
- ❑ Works made for hire =95 years from first publication or 120 years from date of creation, whichever expires first [§ 302]

5

Idea v. Expression Dichotomy

Copyright protects the expression of an idea, but not the idea itself (Baker v. Selden 1879). Also known as merger doctrine.

An idea expressed in a limited number of ways, i.e., no difference between the idea and its expression, has merged. When this happens, expressions of the idea are not entitled to copyright protection because that would protect the idea, outside the scope of copyright and within the scope of patent. This means that even if work are substantially similar, or even identical, there may be no infringement.

Software is utilitarian, not purely a work of authorship. At a binary level, software tells the computer which instructions to execute and in what order. In that sense, there is often a merger of the expression and idea.

Software copyright in code can be open source (terms like GNU, BSD, or Apache) or proprietary (protected by a commercial license) or hybrid (creative commons license).

6

What limits a Copyright?

Rights of attribution and Integrity [§106a]

(1) shall have the right

(A) to claim authorship of that work, and

(B) to prevent the use of his or her name as the author of any work of visual art which he or she did not create;

(2) shall have the right to prevent the use of his or her name as the author of the work of visual art in the event of a distortion, mutilation, or other modification of the work which would be prejudicial to his or her honor or reputation; and

(3) subject to the limitations set forth in section 113(d),shall have the right

(A) to prevent any intentional distortion, mutilation, or other modification of that work which would be prejudicial to his or her honor or reputation, and any intentional distortion, mutilation, or modification of that work is a violation of that right, and

(B) to prevent any destruction of a work of recognized stature, and any intentional or grossly negligent destruction of that work is a violation of that right.

Limitations: these are defenses to infringement:

- ❑ **Fair Use [§107]**
- ❑ **Libraries and archives [§108]**
- ❑ **First sale doctrine [§109]**

7

U.S. Copyright Protection

Administered by the U.S. Copyright Office (www.copyright.gov).

Notice not required but recommended [§410]:

(1) the symbol © (the letter C in a circle), or the word "Copyright", or the abbreviation "Copr.".

(2) the year of first publication of the work; in the case of compilations or derivative works incorporating previously published material, the year date of first publication of the compilation or derivative work is sufficient. The year date may be omitted where a pictorial, graphic, or sculptural work, with accompanying text matter, if any, is reproduced in or on greeting cards, postcards, stationery, jewelry, dolls, toys, or any useful articles,

(3) the name of the owner of copyright in the work, or an abbreviation by which the name can be recognized, or a generally known alternative designation of the owner

Registration not required, but recommended [§§408-412].

- ❑ No civil infringement action without registration [§411]
- ❑ No statutory damages allowed [§412].

Weak form of protection: only against direct copyright of expression.

8

U.S. Copyright infringement

Exercise of any of the exclusive rights of the copyright owner without permission is infringement. [§501]

You may also be an infringer if you help someone else infringe based on common law tort principles of secondary liability: vicarious and contributory.

Plaintiff bears the burden of proving work is infringing (Registration establishes presumption of validity and ownership).

Usually there is no direct evidence of copying, so courts look infer infringement from *access* and *substantial similarity*.

9

Enforcing your Copyright

Cease and Desist Letter

Informs alleged infringer, requests that infringing activity be stopped, and may request damages or fees for past infringement

Lawsuit in Federal Court

Remedies

- Injunction to stop infringing activity [§502]
- Impoundment [§503]
- Compensatory damages for lost profits [§504]
- Enhanced damages and attorneys fees for willful infringement
- Willful infringement is a criminal offense [§506]

Defenses

- Copyright invalid
- Exception to the rules (fair use, parody, library, etc.)
- No proof of copying (direct evidence, or access + substantial similarity)

10

What is a Trademark?

Statutory

- Protected by the Lanham Act [15 USC §§ 1051-1127]. Federally registered trademarks are national in scope, regardless of the actual geographic use.
- State common law (no registration only use). Limited to geographic area in which mark is used.
- **Protects** word, name symbol, design or logo used to identify goods or services in commerce.

Federal Registration Benefits

- Use the ® symbol to deter others
- Sue in federal court
- Recover attorneys fees

Term

- 10 years with renewals.

11

U.S. Trademark protection

Administered by U.S. Patent and Trademark Office (www.uspto.gov).

- Searching advised (but will not reveal common law marks).
- Application fee is per class, per mark and is non-refundable.
- Must include evidence of USE or intent to USE.

No application for marks that are descriptive or confusingly similar. The more fanciful the mark, the greater the degree of protection (e.g., Apple for computers, Java for programming language.

Obligations on Owner to Police the Mark

- Make sure the Mark is being used properly
- Stop improper uses of the Mark
- Make sure the Mark does not become generic (XEROX)

12

U.S. Trademark infringement

Plaintiff bears the burden of proving defendant's mark is infringing.

Anyone who uses a mark that creates a likelihood of confusion, mistake and/or deception with consuming public.

Factors include:

similarity in the two marks
similarities of the goods and services involved (including marketing channels for goods),
strength of mark,
evidence of actual confusion by consumers,
intent of the defendant in adopting its mark,
physical proximity of the goods in the retail marketplace,
degree of care likely to be exercised by the consumer, and
likelihood of expansion of the product lines

13

Enforcing your Trademark

Cease and Desist Letter
Informs alleged infringer, requests that infringing activity be stopped.

- **Lawsuit in Federal Court**

Remedies
- ❑ Injunction to stop infringing activity (most common)
- ❑ Attorneys fees if federal registration ($ damages rarely awarded)

Defenses
- ❑ Trademark not entitled to protection (or lost protection/generic)
- ❑ No confusion in the relevant market

14

Intellectual Property Essentials for the Technology Start-up:
Patents and Trade Secrets

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1

Patents

"everything that can be invented has been invented"
U.S. PTO Director (1899)

2

What is a (utility) patent?

- Statutory
  - Constitutionally based: "The Congress shall have Power…to promote the Progress of Science and useful Arts, by securing for limited times to Authors and Inventors the exclusive right to their respective writings and discoveries."
  - Protects processes, machines, articles of manufacture, compositions of matter (35 U.S.C. § 101)
  - Useful, novel, nonobvious (35 U.S.C. §§ 101-103)
- <u>Exclusionary</u> right
  - Exclude others from making, using, offering for sale, selling, or importing the patented invention
  - Does not necessarily enable the patentee to practice the invention
    - Regulatory approvals
    - Classified, export control, or other national security restrictions
    - May be licensed out
    - Other contractual restrictions (e.g., joint ownership agreement)
    - Market may not deem invention competitive
- Limited time
  - Patent term is nominally 20 years from date of filing of patent application

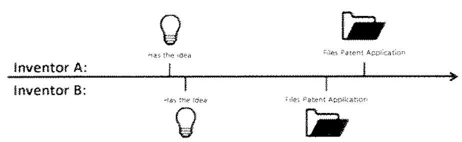
3

U.S. patent protection

- **Administered by United States Patent and Trademark Office (USPTO) in Dept. of Commerce**
- **U.S. patent rights only enforceable in the United States**
- **America Invents Act (AIA)**
  - Effective as of March 16, 2013
  - Changed from "First to Invent" to "First to File"
    - Race to the Patent Office: more pressure to file earlier
  - Public disclosures that may be "prior art" include patents, printed publications, in public use, on sale, or disclosures "otherwise available to the public" (e.g. oral presentations)
  - One-year grace period retained in the U.S.
    - Inventor who makes the first public disclosure of an invention is allowed up to one year to file a patent application thereon

4

What has changed under the AIA?



First to Invent (Old Law) → First to File (AIA)

Inventor A gets the patent

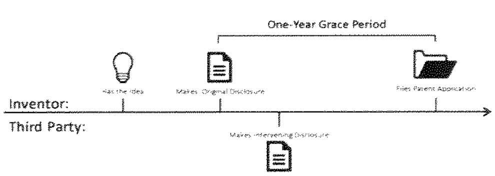
Inventor B gets the patent

5

The One-Year Grace Period

"A public disclosure made one year or less before the effective filing date of a claimed invention shall not be prior art to the claimed invention, IF…the disclosure was made by the inventor…" 35 U.S.C. § 102(b)(1)

- HOWEVER, public disclosures prior to patenting are risky! USPTO will interpret the inventor's original disclosure very narrowly. Intervening disclosures of related subject matter or "patenting around" by third parties may limit your patent rights!
- AND, publicly disclosing an invention prior to patent filing will prevent foreign patent protection.



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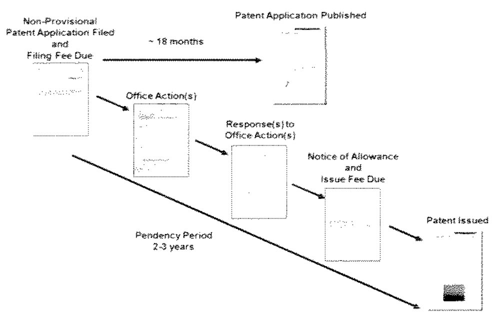
US Patent Prep & Pros

- **Patent application preparation**
- **Patent prosecution with USPTO (pendency period)**
  - May file provisional patent application
    - Establishes an "effective" filing date
    - Not examined by the USPTO
  - File non-provisional (regular) patent application
    - Must file within one-year of provisional to obtain benefit thereof
    - Establishes actual filing date from which patent term is calculated
    - Initiates patent examination at the USPTO
  - Examiner sends Office Actions (usually two or more) and Applicant submits responses
  - Patent granted, if one or more claims allowed (establishes issue date)
- **Patent maintenance**
  - Patent term expires 20 years from actual filing date, if no patent term adjustments
  - Escalating maintenance fees due at 3.5, 7.5, and 11.5 years to avoid abandonment of patent
    - Maintenance fee payments at https://ramps.uspto.gov/eram/patentMaintFees.do

7

Patent Prosecution



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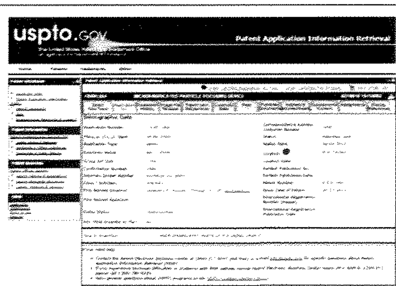
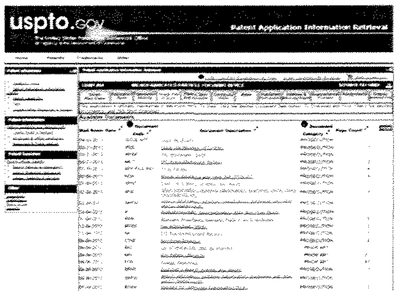
Public PAIR (Patent Application Information Retrieval) for Published Applications and Issued Patents http://portal.uspto.gov/external/portal/pair

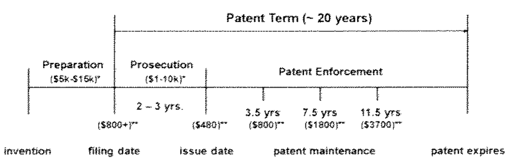


9

Prosecution History (File Wrapper)



Life of a U. S. Patent



Estimated patenting cost for life of patent: ~ $20-25K for small entity

* Estimated outside counsel costs for patent application preparation and prosecution
** Small entity USPTO fees

Why file a provisional application?

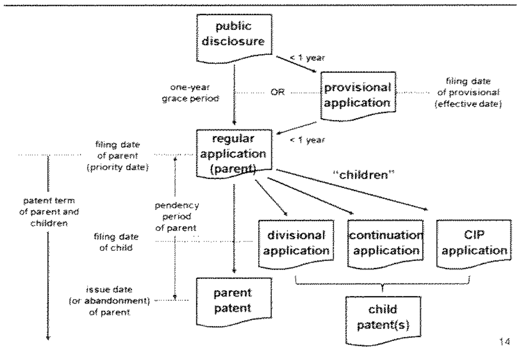
- **Establishes an "effective" filing date**
  - Overcome prior art references by others that have a publication date or filing date after the filing date of the provisional
  - Avoid being barred by your own publications that are published within one year prior to the filing date of the provisional
  - However, only effective to protect eventual claims in the non-provisional for subject matter that is adequately described in the provisional
- **Less formality and lower cost to file ($130 filing fee for small entity)**
  - However, you still must pay to prepare an adequate provisional
- **Practically extends patent term for another year**
  - May be important if most sales expected near end of patent term
- **Provides more time to build, test, and further develop the invention**
- **Provides more time to market or license the invention while "patent pending"**
- **Provides more time to evaluate patentability of the invention**

Patent application families

- Regular ("parent") application can have later-filed "children" application(s) that claim benefit to the parent
- Types of "child" applications
  - Divisional - more than one separate invention claimed in the parent (e.g., claims to both a device and a method for making or using the device)
  - Continuation – invention described, but not claimed, in the parent
  - Continuation-in-Part (CIP) – contains "new matter" from parent
    - » Improvements to the invention disclosed in the parent
- Must file child application during pendency of parent to maintain "continuity of prosecution" (i.e., before parent issues or is abandoned)
- 20-year patent term of the child application begins from the filing date ("priority date") of the parent application

13

Family of U.S. patent applications



14

Patent Application Publication

- USPTO will keep patent application confidential, unless and until application is published or issues as a patent
- Publication occurs 18 months from earliest effective filing date (provisional or non-provisional), unless the applicant files a non-publication request (NPR) and only files in the U.S.
  - Can request early publication
  - Publication required, if USPTO is receiving office for PCT international application
- Puts potential infringers on notice of patent pending
  - "Provisional rights" between date of publication of application and date of issuance of patent (i.e., "reasonable royalty" for pre-issuance infringement) 35 U.S.C. § 154(d)
- Once published, application becomes prior art, as of its effective filing date, to another's patent application
- Third parties may submit prior art against your pending patent application

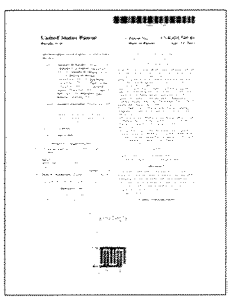
15

U.S. Utility Patent

- Cover Page
- Drawings
- Specification
- Claims

16

Cover Page



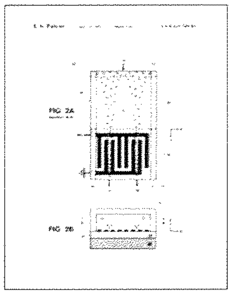
17

Cover Page

- **Patent No.:** US X,XXX,XXX B(1 or 2)
- **Date of Patent:** date of issuance
- **Inventors:** name and residence
- **Assignee:** entity(s) that owns the patent rights
  - Assignments are recorded at http://assignment.uspto.gov/
- **Notice:** adjustments to patent term
  - Term extensions due to delays caused by the USPTO
  - "terminal disclaimer" shortens patent term so that expiration coincides with an earlier expiring patent, to avoid "double patenting" of non-patentably distinct inventions
- **Appl. No.:** patent application number (e.g., 14/XXX,XXX)
- **Filed:** actual filing date of this non-provisional patent application
- **Prior Publication Data:** number and date of publication of application
- **Related U.S. Application Data**
  - Provisional patent application(s)
  - Earlier filed regular ("parent") application that this "child" application claims benefit of
- **References Cited** (by applicant, examiner, or third parties)
- **Statement of Government Interest**
  - Government may have rights in inventions funded by the government!

18

Drawings and Specification



19

Claims

20

Claims

- **Define scope of legal rights ("metes and bounds" of property)**
  - "particularly point out and distinctly claim" the invention
    - Over prior art
    - Clear and precisely worded
  - Only the claimed invention is legally enforceable!
- **Amendment of claims during prosecution not desirable**
  - Can amend claim only if amendment is supported by description in the application as it was filed
  - Extends pendency period and reduces patent enforcement period
  - Doctrine of Equivalents may not apply to amended claims
    - Courts will interpret amended claims literally (i.e., narrower scope)
    - Easier for competitors to "design around" amended claims
  - Prosecution history contained in "file wrapper" at USPTO

21

Claims

- Preamble – names device or purpose of method to be claimed
  - Device / Apparatus
  - Process - method of making or using
  - Composition of matter
- Transition words
  - "comprising" – can include additional elements (i.e., open-ended)
  - "consisting of" – limited to only those elements listed (i.e., closed)
- Body
  - Elements (or process steps)
  - Interconnection of elements (or steps) and how they work together

device   transition word

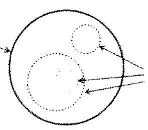
We claim:
1. A microfabricated particle focusing device, comprising:
elements a substrate having a front and a back side; and
an enclosed channel, on the front side of the substrate
for flow of a particle-containing fluid therein ...

interconnection of elements

22

Claims

- Independent claim (Claim 1: "A device...")
  - Broad claim that stands alone
    - Fewest number of elements absolutely necessary
    - Describes elements in broadest terms possible
- Dependent claims (Claim 2: "The device of claim 1, ...")
  - Narrower claim that depends upon and further defines the broader elements of an independent claim
    - Incorporates by reference the limitations of the independent claim and includes further significant limitations to the independent claim
    - Recites element of the independent claim more specifically ("wherein..."), or adds an additional element ("further comprising...")
      - E.g., "... wherein the substrate comprises glass ..."
  - Advantages of dependent claims
    - Fall-back, in case the independent claim is rejected in prosecution or later invalidated in court
    - Can separately license dependent claims
    - Useful to show extent of infringement during litigation

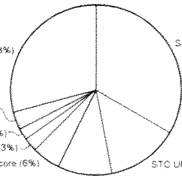


23

Utility patents granted in 2014

- USPTO granted 300,678 utility patents in 2014 *
  - 39,708 granted to California assignees****
  - 7,481 granted to IBM Corporation**
  - 453 granted to Univ. of California system***
  - 275 granted to Massachusetts Institute of Technology***
- 332 utility patents granted to New Mexico assignees****
  - 110 granted to Sandia Corporation
  - 52 granted to STC UNM

  7 patents are jointly owned



* http://www.uspto.gov/web/offices/ac/ido/oeip/taf/us_stat.htm
** http://www.ipo.org/wp-content/uploads/2015/06/2014-Top-300.pdf
***http://www.academyofinventors.com/pdf/NAI-IPO-Top-100-Universities-2014.pdf
**** http://patft.uspto.gov/

24

International patent protection

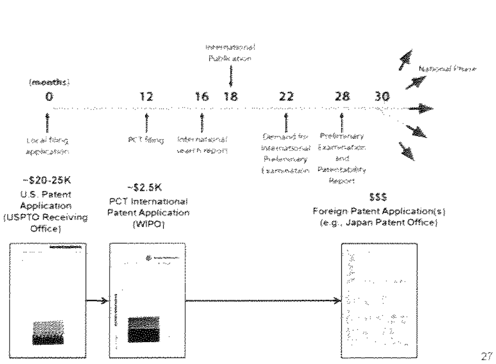
- No "world patent"
- First-to-file system
- No one-year grace period - must file before ANY public disclosure!
- Must file separately in foreign countries or regions (e.g., EPO)
  - Preparation, prosecution, maintenance, and enforcement in foreign countries varies and can be costly
  - Generally, only want patent protection in foreign countries/regions with manufacturing facilities, significant commercial market, robust patent protection, or licensee willing to pay for foreign filings
- Paris Convention
  - Administered by the World Intellectual Property Organization (WIPO)
  - Patent Cooperation Treaty (PCT) Process
    - File in any member jurisdiction ("receiving office")
      - Can be a U.S. provisional or non-provisional application filed with USPTO
      - U.S. filing receipt typically includes a "foreign filing license"
    - File "international application" with WIPO within one-year of the filing date in the receiving office (~$2,500 PCT fees for small entity)
    - Application published for opposition 18 months from the filing date in receiving office
    - File "national stage" foreign application(s) within 18 months of international application
    - Provides up to 30 months from filing patent application in receiving office to filing costly foreign application(s)

25

PCT Countries

(http://www.wipo.int/pct/en/)

26



27

Patent infringement

- **Patent litigation has risen dramatically in the past decade**
  - 6,081 new patent cases filed in 2013*
    - ~ 60% brought by non-practicing entities (including "patent trolls")**
    - Vast majority settle. Patentees only win about ¼ cases that are decided on merits ***
  - Cost to defend a patent infringement lawsuit through trial is ~$1M to $6M or more
  - Recent awards have been large
    - *Apple Inc. v. Samsung Electronics Co.* $548M
  - AIA post-grant proceedings intended to push patent validity challenges back to USPTO
    - Congress considering additional legislation to curb "abusive" patent litigation
- **Types of infringement**
  - Direct infringement – making, using, selling, offering for sale, or importing a patented invention without permission from the patent owner
  - Indirect infringement - inducing someone else to infringe or contributing to the infringement by another
- **Time of infringement**
  - Claimed invention can only be infringed after patent issues and before it expires
  - Provisional rights after publication of patent application
- **Infringement by government agency or contractor**
  - No infringement, if the government has rights in the invention
  - Compulsory license - reasonable royalty to the patent owner for government's use, if the government does not have rights in the invention (28 U.S.C. § 1498)

* Mathew Sag, "IP Litigation in United States District Courts: 1994 to 2014," *Iowa Law Review* (tbd)
** David L. Schwartz and Jay P. Kesan, "Analyzing the Role of Non-Practicing Entities in the Patent System," *Cornell Law Review* (2014)
*** John R. Allison et al., "Understanding the Realities of Modern Patent Litigation," *Texas Law Review* (2014)

28

Enforcing your patent

- **Demand letter**
  - Informs alleged infringer of patent, requests that infringing activity be stopped, and may request damages or royalty for past infringement
  - Alleged infringer may sue for declaratory judgment or initiate USPTO post-grant proceeding in attempt to invalidate patent
- **Offer infringer a license or cross-license**
- **Lawsuit in federal court**
  - Remedies
    - Injunction to stop infringing activity
    - Compensatory damages for lost profits or reasonable royalty
    - Enhanced damages and attorneys fees for willful infringement
  - Defenses
    - Patent invalid
    - Patent not in-force (expired or no longer maintained)
    - Lack of standing – plaintiff doesn't own or control all patent rights
    - Inequitable conduct – patent owner mislead USPTO during patent prosecution
    - File wrapper estoppel – patent owner disclaimed certain rights during patent prosecution
    - Patent misuse – violation of antitrust laws or unethical business practices
    - Statute of Limitations (35 U.S.C. § 286) or laches of 6 years
- **Action before U.S. International Trade Commission (USITC)**
  - Blocks importation of products that infringe a U.S. patent

29

What if you are accused of infringing another's patent?

- **Determine if allegedly infringed patent is valid <u>and</u> enforceable**
- **Try to invalidate the patent**
  - Declaratory judgment (DJ) action, if you have "reasonable apprehension" of a pending lawsuit
  - AIA provides several new USPTO post-grant proceedings to challenge validity of U.S. patent claims (35 U.S.C. Chapters 31 and 32)*
    - *Inter Partes* Review (IPR)
      - Can be filed by anyone other than the patent owner
      - Defendant must file IPR within one year of being sued in federal court. ~80% of IPRs subject to co-pending litigation
    - Covered Business Method (CBM) patent review – directed to business method patents**
    - Post-Grant Review (PGR) – allows immediate challenge to newly issued patents (within nine months of issuance)
- **Determine if you may be infringing the <u>claims</u>**
  - Ignore demand letter; reply asking for more information; or reply stating that you think the patent is invalid, unenforceable, or not infringed
  - Stop infringing activity or "design around" the patented invention
  - Ask patent holder for a license or cross-license
  - Settle, submit dispute to arbitration, or litigate

* Kevin Bieg, "Post-Grant Patent Proceedings and why you need to know about IPR," in *New Mexico Lawyer* (May 2015)
** Kevin Soules, "Go Ask Alice: New Criteria for Patent Eligibility," in *New Mexico Lawyer* (May 2015)

30

Trade Secrets

("proprietary information")

31

What information is a trade secret?

1. **Not generally known or ascertainable through legal methods**
   - Generally known – published, publicly displayed, or commonly used within an industry
   - Readily ascertainable – bribery, fraud, or other deceptive methods not required to obtain it
2. **Provides a competitive advantage or has economic value**
   - Benefits derived from use of the trade secret, costs of developing the secret, licensing of the secret
   - Would business be damaged if a competitor acquired the information?
3. **Is the subject of reasonable efforts to maintain secrecy**
   - Maintain physical security - locking facilities, monitoring visitors, labeling proprietary information, encryption and restricting access to computers and information
   - Requirement that employees, contractors, investors, etc. have a need-to-know and enter into nondisclosure agreements (NDAs) and noncompetition agreements
   - Federal employees are bound by statute (18 U.S.C. § 1905) to not disclose information marked as proprietary

32

Nondisclosure Agreements (NDA)

- Legal contract between at least two parties ("receiving" and "disclosing" parties) that identifies proprietary information that the parties wish to share with one another in confidence and not disclose to third parties
- Typically used by parties that are considering doing business together and need access to other's proprietary information to evaluate the potential business relationship
- Many venture capitalists will not sign an NDA
  - May want to file at least a provisional patent application before disclosing proprietary information to a venture capitalist

33

Types of information that may be protected as a trade secret

- Chemical, mechanical, and manufacturing processes
- Physical devices and articles
- Business strategies and methods
- Designs, blueprints, and specifications
- Formulas (e.g., Coca-Cola)
- Computer software
- Customer lists
- Databases
- Know-how
- Business information (cost and pricing lists)
- Pending unpublished patent applications

34

Types of Information that cannot be protected as a trade secret

- Reasonable efforts not used to maintain secrecy of information
- Information is generally known or readily ascertainable
- Trade secret information that is learned through independent discovery
- Trade secret information that is lawfully acquired through reverse engineering

35

Misappropriation of trade secrets

- Unauthorized disclosure or use of a trade secret by a person who had a duty to maintain secrecy
  - Current and former employees
  - Receiving party under NDA
- Acquisition of a trade secret by a person who has reason to know that the trade secret was obtained by improper means
  - Obtaining the secret from a supplier or consultant who had signed an NDA
- Disclosure or use of a trade secret by a person who used improper means to acquire it
  - Theft by former employees
  - Bribery of current or former employee
  - Stealing it through industrial espionage
    - Computer and Internet hacking
- Theft or misappropriation subject to state law (e.g., Uniform Trade Secrets Act) and federal Economic Espionage Act
  - Congress considering federal civil legislation

36

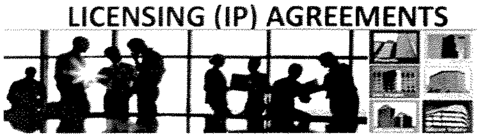
Protect innovations through patenting or trade secret?

- Patent protection lasts for 20 years (from filing date); trade secret lasts as long as the information can be kept secret
- Trade secret rights can be acquired immediately; it may take several years to obtain patent rights
- Patent protection can be costly (~$20K per patent); whereas trade secret protection may be less expensive
- Patent requires disclosure of details of the invention to the public; trade secrets do not.
  - Competitors may be able to "design around" your patent claims
- Trade secrets can protect information broadly; patent protection is limited to the patentable subject matter and the claims in the patent.
- Patent owner can stop anyone from making, using, selling, or importing the invention; trade secret owner cannot stop those who reverse engineer or independently invent
- Those who independently invent may patent your trade secret and sue you for infringement
  - "Prior-user right "defense to infringement – if you commercially used a proprietary method more than one-year before the patent's effective filing date (35 U.S.C. § 273)
- Patent infringement generally easier to prove; must prove that trade secret misappropriator acquired proprietary information through improper means
- Patent with government rights attached may have little commercial value if there is only a government market; trade secret may have value even in a government market
- Investors may prefer patents as signaling quality of investment

37

LEWIS ROCA
ROTHGERBER

LICENSING (IP) AGREEMENTS



Jeffrey H. Albright
November 6, 2015
Direct: 505.764.5435
Facsimile: 505.764.5462
E-mail: JALBRIGHT@LRRLAW.com

Outline

- Basic Provisions
- Unique Considerations
- Valuation-Establishing Royalty Rates
- Pit Falls / Lessons Learned
- Sample Licensing Agreement

BASIC PROVISIONS

CONTRACT LAW

(1) Offer
(2) Acceptance
(3) Consideration
(4) Meeting of the Minds

TYPES OF VALUATION TECHNIQUES

- Market Approach
- Cost Approach
- Income Approach
- Twenty-Five Percent (25%) Rule

TYPES OF COMPENSATION

- A one time lump sum payment (paid up license)
- A set annual fee regardless of how many units are sold
- A percentage of licensee's sales, e.g.,5% of licensee's sales
- An ongoing royalty in a fixed amount based on each product sold
- Combination of previous two

TYPES OF COMPENSATION (cont'd)

- Ongoing royalty based on a "click" charge, e.g., $0.002 per hit on the web site
- Percentage of licensee's "buys" made in advertising and promoting services

MARKET APPROACH

Market Approach – Easiest to understand and the one most frequently used

- Measures the present value of future benefits by obtaining a consensus of what the marketplace determines value to be
- Requires an active market
- Requires an abundance of comparable properties

(Analogous example: real estate)

COST APPROACH

A technique that seeks to measure the future benefits of ownership by quantifying the amount that would be required to replace the future service capability of the subject property. Sometimes called "cost of replacement."

Typically used in the valuation of patent and technology rights when no comparables

Least relevant in merchandising area

INCOME APPROACH

Focuses on the income-producing capability of the property: i.e. the value of the property can be measured by the present worth of the net economic benefit (cash receipts less cash outlays) to be received over the life of the property.

Example: The worth of an asset (building, land, equipment, patent, trademark, copyright) is only what it can earn in the open market.

INCOME APPROACH (cont'd)

Three essential factors:

(1) The amount of the income that can be generated by the property

(2) The duration of the income stream

(3) The risk associated with the realization of the forecasted income

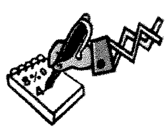
INCOME APPROACH (cont'd)

$$V = I / r$$

V = Value of earning stream

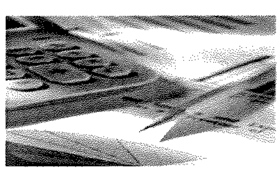
I = Income (net cash inflows & outflows)

r = Capitalization rate affecting risk



TWENTY-FIVE PERCENT RULE

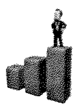
25% Rule is typically used in the valuation of patents and technology and calculated as a royalty of the gross profits, before taxes, from the enterprises' operation in which the licensed property is used.



TWENTY-FIVE PERCENT RULE (cont'd)

Gross profits include direct costs of producing the licensed products, including raw materials, direct labor, manufacturing, utility expenses and even depreciation.

- gross profit difficult to define
- licensee still has to invest in developing and marketing



LICENSE AGREEMENT PROVISIONS

- Defining parties (individual/LLC's)
- Definitions
- Exclusive & Non-Exclusive
- Affiliates / Subsidiaries
- Disclosure / Nondisclosure of terms
- Length / Duration

LICENSE AGREEMENT PROVISIONS (cont'd)

- Liability disclaimers
- Change in $$ - renegotiation
- Breach / Termination
- Prosecution
- Accounting and audits
- Survival provisions
- IP maintenance requirements

LESSONS LEARNED

- Treat each one as a unique contract
- The "Let's Make a Deal Syndrome" (resist)
- Don't sell the farm
- Include provisions for termination
- Provide for successors in interest, heirs, assigns

LESSONS LEARNED (cont'd)

- Include provisions for reassessment
- Include responsibility for potential infringers
- Maintain proper control and quality control

MOST IMPORTANT

DISCUSS WITH YOUR CLIENTS!

LICENSE AGREEMENT
BETWEEN
CLIENT
AND
PARTY

This License Agreement is between [ ], an individual residing at [ ] on behalf of [ ] ("**Licensor**"), and [ ], a county owned health care entity located and operating at [ ] ("**Licensee**"). Each of Licensor and Licensee may be referred to herein as a "**Party**" or collectively as the "**Parties**." This License Agreement is effective as of the date of the Contract for Professional Services ("Professional Services Agreement") adopted and incorporated herein by reference (the "**Effective Date**").

RECITALS

A. The "[ ]"© consists of training techniques, training manuals, and a core curriculum for families pregnant for the first time and for parents of their first born child to support them with the parenting, education and health of their children (the "**Program**"). The Program may be offered through, without limitation, training manuals, the core curriculum, instructional videos, CD ROMs, DVDs, brochures, plans, documentation protocols and devices.

B. Licensor holds federal copyright registrations [#] and [#] for the [ ].

C. Licensee filed the word mark [ ] at the U.S. Patent and Trademark Office ("USPTO") under Serial Number [ ]. That mark has proceeded to registration and has been assigned registration number [ ].

D. Licensee assigned the entire interest in the trademark under registration number [ ] to [ ] as received and recorded at the USPTO on [Date], reel/frame number 4013/0661.

E. [ ] assigned the trademark to [ ], LLC, as received and recorded at the USPTO on [Date], reel/frame number 4477/0360.

F. [ ] is an independent contractor of Licensee, and provides services to [ ] pursuant to the "Contract for Professional Services effective as stated in the Professional Services Agreement, adopted herein by reference.

G. Pursuant to the Provisions of this License Agreement, Licensor wishes to formally grant Licensee any and all rights she may currently have and may develop in support of the [ ] to freely implement the Program in Grant County and Hidalgo County, New Mexico, consistent with the Consideration and Renewal provisions of this License Agreement and to use the [Name] marks in connection with the Program within Grant County and Hidalgo County.

H. Licensee agrees to bear all costs and expenses relating to the implementation and execution of the Program in Grant County and Hidalgo County. Licensor acknowledges and agrees that Licensee shall control and choose the source of all funds and resources necessary to pay all costs and expenses associated with the continued implementation and execution of the Program in Grant County and Hidalgo County.

I. The Attachments referred to herein are considered to be integral to this License Agreement and shall have the same weight as the Agreement Provisions.

For valuable consideration, including, without limitation, the mutual exchange of promises herein, the receipt and sufficiency of which are acknowledged, the Parties agree as follows:

[Remainder of this page intentionally left blank]

AGREEMENT PROVISIONS

1. Recitals. The aforementioned recitals are adopted herein and are considered to have the same effect as the Agreement Provisions.

2. Grant. Subject to the terms and conditions set forth herein, Licensor agrees to and hereby grants Licensee a terminable and exclusive License to implement the Program in Grant County, New Mexico and for further expansion in Hidalgo County, New Mexico. This License Agreement allows Licensee to use the materials and know-how associated with the Program as necessary to replicate the Program in Grant County and Hidalgo County, New Mexico. Licensee may not reproduce (make copies or replicate in any manner or in any form or by any means), distribute copies, perform or display the Program and materials associated therewith to any third parties, such as, but not limited to, other companies, organizations, hospitals, state or local government agencies, and/or individuals that are interested in replicating the Program, without prior and written consent from Licensor, and whose consent shall not be unreasonably withheld. This prohibition does not apply to the normal use of the Program's materials as necessary for the implementation of the Program in Grant County by [ ] or expansion into Hidalgo County.

3. Assignment of Rights of Trademark/Servicemark Serial Number [ ], USPTO Registration No. [ ]. Pursuant to the terms and conditions described below and for the consideration described in this License Agreement, Licensee has assigned its entire interest in Trademark/Servicemark Serial Number [ ]/Registration No. [ ] (hereinafter referred to as "Trademark Serial Number [ ]") to Licensor, including its ownership, legal rights and all good will associated with Trademark Serial Number [ ]. Pursuant to 15 U.S.C. § 1051(d) and 15 U.S.C. § 1060, Assignor will bring the application into conformity with 15 U.S.C. § 1051(a) or the filing of a verified statement of use under 15 U.S.C. § 1051(d)(1) of the Trademark Act of 1946, as amended. Prescribed fees shall be the responsibility of Assignee now that the recordation of the assignment has been completed. The assignment to Licensor is an exclusive assignment. Licensee has the right under this License Agreement to use the aforementioned trademark in Grant County in conjunction with the Program and/or to expand the use of the aforementioned trademark in Hidalgo County, New Mexico, consistent with the descriptions contained in the classes of services described in Licensee's application and as accepted by the USPTO. Subsequent to assignment to Licensor, the use of Trademark Serial Number [ ]/Registration No. [ ] will be subject to all provisions of this License Agreement, and shall exist for the duration of this License Agreement and any agreed-to extensions of this License Agreement between the Parties. The assignment of Trademark Serial Number [ ]/Registration No. [ ] to Licensor shall survive any termination, expiration or expiration of renewals of this License Agreement.

4. Ownership of the Program. Nothing contained in this License Agreement shall be construed as an assignment or other transfer to Licensee of any right, title, or interest in and to the Program or any rights therein other than as specifically granted herein.

5. IP Protection and Indemnification. Licensor shall have the sole right and discretion to file copyright applications for the Program with any local, state, federal or international entity. Licensor agrees to indemnify and to hold harmless Licensee from any claim made by a party who is not a party to this License Agreement concerning any alleged copyright, trademark/servicemark

infringement of any material associated with the Program or the Trademark Serial Number [ ]/Registration No. [ ], except for any alleged claims made by a third party under any agreement made between that third party and Licensee prior to the Effective Date of this License Agreement or for any use made by a third party of Program material provided by Licensee to the third party prior to this License Agreement and without approval of Licensor. Licensor agrees to indemnify, hold harmless and defend Licensee from any and all claims by third parties of copyright or trademark infringement, abuse or violations as of the date of this License Agreement and as defined in respective federal and state copyright and trademark laws as of the subsequent laws. Licensor agrees to pay all costs associated with any third party claims for copyright infringement or trademark violation asserted against Licensee and related to the use of any license or trademark granted by Licensor pursuant to this License Agreement. Licensor agrees to timely notify Licensee of any copyright application filed by Licensor or on behalf of Licensee in connection with the Program that may affect the implementation of the Program in Grant County and/or Hidalgo County by Licensee. Licensee agrees that it shall not acquire any rights to any of Licensor's copyrights, marks or names with any local, state, federal or international entity, without Licensor's consent. Licensee agrees that, during the term of this License Agreement and thereafter, it will not directly or indirectly harm, misuse or bring into disrepute Licensor's rights in the Program. Licensee agrees not to use or seek registration for domain names, trade names or business names that incorporate the mark or any confusingly similar variation of Trademark Serial Number [ ]/Registration No. [ ]. Licensee agrees that, during the term of this License Agreement and thereafter, it will not directly or indirectly contest, challenge, harm, misuse or bring into disrepute Licensor's rights in the Program. Licensor shall have the sole responsibility for trademark prosecution and maintenance at the USPTO for Trademark Serial Number [ ]/Registration No. [ ].

6. Control of the Integrity of the Program. Licensee shall abide by all laws in the use of materials belonging to third parties, and both Licensor and Licensee shall ensure they have the permissions needed to use such materials in connection with the Program in Grant County and/or in Hidalgo County. Inclusion of any third party materials into the operations of the [ ] must be authorized by the Licensor to ensure Program fidelity. To ensure that the Program's integrity is maintained, that the Program is being executed in a manner consistent with Licensor's guidelines and instructions, with Licensor's reputation and goodwill associated therewith, Licensee agrees to follow the Program's usage guidelines as determined by Licensor. Licensee also agrees to grant Licensor or its duly authorized representative the right to review and supervise the manner in which the Program is being promoted and executed by Licensee in order to ensure that the implementation and execution of the Program meets the standards, specifications and directions of Licensor. Licensee agrees to adopt any and all quality control measures Licensor may request. Licensor shall be entitled to review of any translated material to ensure program integrity. Any translations will incorporate the "notice" language described below.

7. Goals and Trademark Quality Control. To ensure that the use of the Trademark is consistent with the Program's goals and with the goodwill associated therewith, Licensee agrees to follow the trademark usage guidelines Licensor may submit to it from time to time. Licensee also agrees to grant Licensor or its duly authorized representative the right to inspect and review the way Licensee is using the Trademark in connection with the Program. When requested, Licensee shall allow Licensor to review sample documents which may permit Licensor to determine whether

Licensee's use of the Trademark meets the standards, specifications and directions of Licensor. Licensee agrees to adopt any and all quality control measures Licensor may request.

8. Payment. Licensee paid Licensor a maximum of Thirteen Thousand Dollars ($13,000) (USD) for use of the license with an effective date of January 1, 2009 through June 30, 2010. Licensee made an initial payment of Three Thousand Dollars ($3,000.00) (USD) to Licensor within thirty (30) days of execution of the original License Agreement. Payment of the remaining Ten Thousand Dollars ($10,000.00) was contingent upon Licensor's rejection of Licensee's assignment of Licensee's Trademark as described in paragraph 9 of this Agreement. Annual payments for contract renewals under the terms of this License Agreement will be $1000.00 (USD) per year as discussed below.

9. Assignment of Licensee's Trademark. At the option of the Licensor, Licensee will assigned Licensee's Trademark Serial No. [ ] to Licensor in lieu of a payment of any balance owed to Licensor in excess of the initial Three Thousand Dollars ($3,000.00) payment. For the purposes of this Agreement and assignment, Licensor and Licensee agreed that the value of such assignment was Ten Thousand Dollars ($10,000.00).

Having agreed to accept the assignment of Licensee's Trademark as described above, in lieu of payment, Licensor and Licensee executed a separate assignment agreement, as attached to the initial license agreement as Attachment A. Licensee has assisted Licensor with the recordation of the exclusive assignment of the entire interest of Trademark Serial Number [ ]/Registration No. [ ] at the USPTO.

10. Costs. All costs and expenses incurred in the implementation of the Program in Grant County and Hidalgo County, New Mexico shall be borne by Licensee, including, but not limited to, costs and expenses with the advertisement, promotion and implementation of the Program, applications for public and private grants, travel expenses incurred by Licensor in connection with the implementation of the Program, translation of the Program's materials into Spanish or other languages, as well as any government fees and taxes that may apply.

11. Funding. Licensor acknowledges that Licensee has implemented this Program prior to this Licensing Agreement through the grant of funds from the State of New Mexico and that the Licensee intends to continue to seek grants as the funding source to support and implement the Program. Licensor also acknowledges that she has assisted with prior grant funding to implement and support the Program in Grant County and is knowledgeable regarding requirements by the State of New Mexico associated with such grants and consents to Licensee's continued use of State of New Mexico grant funding to support and implement the Program in Grant County, Hidalgo County and in other geographical/governmental areas as agreed to between the Parties in the future. Licensor and agents of Licensor agree to actively support, seek, and include Licensee in third party funding for the Program as licensed by this Licensing Agreement.

12. Term, Termination and Renewals. This License Agreement is effective beginning on the same effective date as the Licensor's Professional Services Agreement with Licensee and will remain in effect through [Date], expiring [Date] unless extended or renewed by mutual agreement of the parties. This License Agreement will renew automatically subject to the notification requirements

and the payment of an annual fee mutually agreed to by the Parties, unless the License Agreement is terminated pursuant to the termination provisions contained herein.

Licensor may terminate this License Agreement in case of a material breach of any of the Provisions contained in this License Agreement. Material breach includes failure to effect the trademark assignment and recordation pursuant to paragraph 9 of this agreement. Licensor will provide a 30 day written notice to Licensee if she believes that a material breach has occurred. Licensee will have 30 days from receipt of the written notice from Licensor to cure any alleged material breach. Upon termination of this License Agreement, all rights granted to Licensee shall immediately revert back to Licensor. Licensee agrees that upon expiration or termination of this License Agreement or any renewals under this License Agreement, it will cease and desist from continuing uses of the License and all other rights granted under this License Agreement. Licensee may terminate this License Agreement with or without cause with sixty (60) days prior written notice or immediately upon notice that its use of the license granted pursuant to this License Agreement is in violation of any state or federal law. The assignment of Trademark Serial Number [ ]/Registration No. [ ] to Licensor survives any termination, expiration, or non-renewal or non-extension of the License Agreement.

13. Notices. Licensee agrees to use proper trademark and copyright notices in all materials used in the promotion, advertising, and implementation of the Program, and any other materials and documents that relate to the Program. The copyright notice must read "©1985, 2006 [ ], All rights reserved." This notice will be amended for any subsequent copyright registrations filed by Licensor with the US Copyright Office for new Program material. Licensee agrees to comply with federal, state and local laws and regulations governing the use of trademarks and the provision of services in connection with the Program. Licensor shall provide Licensee with a statement of ownership of copyrights, trademarks and any additional assets that the Licensor is licensing to the Licensee. Licensor shall also provide Licensee with copies of documents associated with the Program that have been filed in the US Copyright Office. Such documents will also include all new Program material developed under the direction of Licensor.

14. Infringements. Licensee and Licensor shall make reasonable efforts to prevent the infringement of any Intellectual Property or other rights in the Trademark and in the Program by Licensee's employees, agents, or Licensee's independent contractors. Licensee shall promptly notify Licensor of any infringement that comes to Licensee's attention, and take appropriate steps to avoid its recurrence. Licensor has the right, but not the obligation, to take action against alleged infringers.

15. Confidentiality. The Parties acknowledge that this License Agreement contains confidential and protected information and therefore, agree that the terms of this License Agreement as well as other data and information disclosed between the parties during the negotiations of this License Agreement, will not be disclosed to others or discussed with third parties except as required under NMSA 1978, §§ 14-3-1 *et seq.* (Public Records Act). Because of the sensitive and confidential nature of patients/individuals who participate in the Program, Licensor agrees to execute and adhere to Licensee's Business Associate Agreement and Confidentiality Agreement and Acknowledgment, separately agreed to between the Parties.

16. Renewal. Upon mutual and written agreement and upon payment of new consideration by the Licensee, the Parties or their heirs or successors in interest may renew or expand this License Agreement pursuant to the provisions of paragraph 12.

17. Amendments. This License Agreement may be amended by mutual agreement of the Parties or their heirs or successors in interest. Any additions or changes to this License Agreement must be in writing and signed by both Parties or their heirs or successors in interest.

18. Assignments. This License Agreement and all Attachments referenced herein or attached hereto are binding upon the Parties' subsidiaries and parent companies, as well as the Parties' successors, heirs and assignees. The Licensee may not assign the rights and obligations in this License Agreement without the Licensor's written consent.

19. Governing Law. This License Agreement shall be governed by and construed in accordance with principles of United States federal trademark law, United States federal copyright law, federal common law, or if there is found to be no such common law, then the law of the State of New Mexico, by statute, rule, regulation, or common law.

20. Incorporation. This License Agreement and all Attachments hereto contain the entire understanding and agreement between the Parties with respect to the License Agreement and supersede any prior or contemporaneous written or oral agreements, representations or warranties between them respecting the subject matter hereof. To the extent that any provision of this License Agreement may be conflicting with prior agreements between the Parties, including, but not limited to, the Professional Services Agreement between the Parties, the current License Agreement should prevail.

21. Severability. If any section, paragraph, sentence, clause, or any part of this License Agreement is declared to be illegal, invalid, unenforceable or of no effect, the remaining sections, paragraphs, sentences, clauses, or parts thereof shall be in no manner affected thereby but shall remain in full force and effect.

22. Waiver. No provision in this License Agreement shall be deemed waived by any act, delay, omission or acquiescence of the Licensor, nor shall any waiver by Licensor of a breach or default of a provision by Licensee constitute a change in the terms hereof or waiver of any subsequent breach.

23. Signatures. This License Agreement may be executed in any number of counterparts and by facsimile signature, each of which, when executed and delivered, shall be deemed to be an original, and all of which, when taken together, shall constitute one and the same License Agreement.

24. Notices to Parties. Any notices to the Parties shall be sent via facsimile and PRIORITY MAIL®, to the following addresses:

If to LICENSOR:	If to LICENSEE:
Lewis Roca RothgerberLLP	[ ]
Mr. Jeffrey H. Albright	[ ]
201 Third Street, NW, Suite 1950	[ ]
Albuquerque, NM 87102	[ ]
facsimile: (505) 764-5462	[ ]

and

[ ]
[ ]
[ ]

This License Agreement has been reviewed and approved by [ ] Board of Trustees.

Name: ______________________________ Date: ______________________________
[ ]
[ ] Board Chairman

By their execution below, the Parties have agreed to all of the terms and conditions of this License Agreement.

[ ]	**[ ]**
LICENSOR	**LICENSEE**
______________________________	______________________________
Dated: ______________________	Dated: ______________________

our scene

PROGRAMS, ENTERTAINMENT AND RESOURCES FOR UNCONVENTIONAL THINKERS

Albuquerque's entrepreneurial sector is not just a place for business but a destination for discovery. Community activities and educational programs align with residential lofts and office space, street art, microbreweries, cafes and nightlife venues to create a walkable, urban setting that embraces quirkiness and inspires ingenuity. The innovation district invites you to participate in the dynamic collision of ideas emerging within a one-mile radius of Central and Broadway.

resources

LeaderMatchABQ

An initiative focused on involving local leaders to engage, energize and empower our entrepreneurial and business community. Volunteers are strategically introduced to projects in which they are likely to have the most impact on helping startups, as well as new and existing companies.

CONNECT // innovationcentralabq.com/get-connected/make-a-connection

For more information on Albuquerque's rapidly growing start-up community and to get the latest on new activities and programs as they evolve, check out

abqic.com

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innovation CENTRAL

Albuquerque's burgeoning entrepreneurial ecosystem

INSPIRE ◦ *Learn* ◦ dream
Achieve ◦ EXCEL ◦ Discuss
Start ◦ fail ◦ RESTART ◦ Invest
Think ◦ *Create* ◦ SUCCEED

welcome

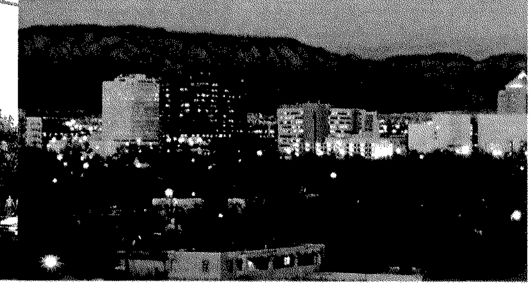
TO *INNOVATION CENTRAL*, ALBUQUERQUE'S BURGEONING ENTREPRENEURIAL ECOSYSTEM.

The Albuquerque metro area is celebrating a vibrant evolution in economic development – one of innovation created and perpetuated by entrepreneurs as its leaders.

Here you will find an environment that encourages and applauds diversity and empowers individuals with ideas at all levels of society, regardless of education, background or interest.

Here you can be a part of a collaborative and inclusive approach to economic development, supported by public-private partnerships, community organizations, investors, government and academia, and driven by you.

This community-based economy, where job seekers become job creators, will not only provide the foundation for long-term prosperity but also serve as a model for other vanguard cities.



the groundswell of connectivity includes:

Innovate ABQ

INNOVATION CENTRAL'S GEOGRAPHIC HEART.

Innovate ABQ is being developed as a premier Downtown innovation site for researchers, inventors and entrepreneurs. This new entrepreneurial hub will sit on seven acres and be anchored by a core research and business incubation site at Central and Broadway. Innovate ABQ is a collaboration among UNM, STC.UNM, the City of Albuquerque, the County of Bernalillo, Nusenda Credit Union, the business community, and other public and private partners.

CONNECT // innovateabq.com

Epicenter @ Innovate ABQ

The Epicenter, at 101 Broadway NE, is the launching point for business ideas and risk takers. It is also the first building to open at the Innovate ABQ site. The space is intended to augment the community's existing incubators, collaborative work environments, events and programs that assist entrepreneurs and small businesses. The Epicenter will provide office, meeting and activity space to encourage collaboration and to democratize entrepreneurism. It is made possible through an interim use lease between the City of Albuquerque and UNM.

1 Million Cups

Two local entrepreneurs present their startups to a diverse audience of mentors, advisors and other individuals during 60-minute gatherings. One of 50 cities in the country with this program, Albuquerque holds its 1 MC events from 9-10 a.m. Wednesdays at the FatPipe tech incubator, 200 Broadway NE, near the Innovate ABQ site. Albuquerque's 1M Cups event is the fastest-growing and one of the largest in the nation.

CONNECT // innovationcentralabq.com/get-connected/regularly-scheduled-stuff/1-million-cups/

FatPipe ABQ

Start building your business at this incubator and co-working space for entrepreneurs and investors. Located at 200 Broadway NE, FatPipe ABQ provides the initial resources needed for success.

CONNECT // fatpipeabq.com

ABQid

An accelerator that helps identify entrepreneurs and validate the existence of a market for their ideas, this New Mexico non-profit develops, implements and promotes a series of support activities to grow Albuquerque's entrepreneurial systems and businesses. Entrepreneurs can apply for a 90-day program with proven success in company development.

CONNECT // ABQid.com

Entrepreneurial Office Hours

Have a business or business idea? Go to the Verge Building, 317 Commercial St. NE, from 3-5 p.m. Wednesdays to meet in 15-minute increments with serial entrepreneurs and accountants, attorneys and other providers.

Verge

The Verge Building is a hub for technology startups and entrepreneurs. It serves as headquarters for venture capital group Verge Fund, ABQid and numerous startup tech companies. It also provides creative, dynamic work environments for early stage, high-tech entrepreneurs.

CONNECT // vergebuilding.com

CNM STEMulus Center

Operated by Central New Mexico Community College and located Downtown at 20 1st Plaza Center NW, the center provides accelerated educational opportunities and entrepreneurial support that benefits the region's economy. These include a nine-week Deep Dive Coding Bootcamp (40+ hours per week).

CONNECT // stemuluscenter.org

PNM Pop-Up Pavilion

Powered by CNM Ingenuity—This "living lab," composed of three shipping containers and a small stage, is powered 24/7 by an off-grid photovoltaic system and features cell phone charging stations, a gathering/event space, Wi-Fi and lighting.

Located at the First Plaza Galeria in Downtown, it serves CNM STEMulus Center programs and other entrepreneurial initiatives.

CONNECT // Call 720.1380, or visit stemuluscenter.org/products/pnm-pop-up-pavilion.

WESST Albuquerque

WESST Albuquerque is a small business development organization that provides critical business training, consulting, incubation and capital to start-ups and existing businesses. Its LEED-certified Downtown headquarters includes a best practice business incubation program and a state-of-the-art digital media studio.

CONNECT // wesst.org

KIIC

The Keshet Ideas and Innovation Center is an incubator and business resource center for arts entrepreneurs. Housed at 4121 Cutler Ave. NE, KIIC provides business development assistance to all types of artists through training workshops, one-on-one counseling and networking opportunities. It also offers access to office, rehearsal and performance space.

CONNECT // keshetdance.org/keshet-ideas-and-innovation-center-kiic

Entertainment District

The City of Albuquerque is creating a destination entertainment district on City-owned property adjacent to Innovate ABQ, at the northeast corner of 1st Street and Central Avenue. The vision includes dining, shops, high-end nightlife and special events.

Albuquerque Rapid Transit (ART)

The City of Albuquerque is on target to provide Bus Rapid Transit service along Central Avenue. It will increase transportation options along this vibrant east-west corridor and create easy access to areas not within walking distance of Innovate ABQ.

CONNECT // brtabq.com

Creative Startups

Creative Startups is the non-profit accelerator for the creative economy. Creative Startups brings startup businesses, mentors and investors from New Mexico and around the world to its annual Deep-Dive in Downtown Albuquerque in partnership with the Hyatt Regency.

CONNECT // creative-startups.org

Sandia National Labs Entrepreneurial Exploration & Training Program

Sandia National Laboratories has launched the Entrepreneurial Exploration & Training program to invigorate and inspire entrepreneurship at the Labs. It is aimed at Sandia principal investigators interested in learning about opportunities and resources available to entrepreneurs. EET is a program of the Center for Collaboration & Commercialization (C3).

CONNECT // sstp.org/C3

national spotlight

It is one thing for a city to hail itself as a leading locale for entrepreneurs. It is quite another to be singled out as a national model by preeminent experts in the industry. In 2014, Albuquerque was among a handful of major metropolitan cities named as having exemplary entrepreneurial vision by organizations whose mission is to champion job creation and economic mobility.

Albuquerque Living Cities Integration Initiative

The ABQ Living Cities Integration Initiative is a "grow our own" approach to economic development that involves generating collective impact to accelerate job creation and economic mobility. The goal is to create a climate of robust entrepreneurship and a spirit of willingness inclusive of multiple partners, including Mayor Richard Berry, the city of Albuquerque Economic Development and over 120 community partners. For more information, contact rbrule@cabq.gov.

CONNECT // livingcities.org

Global Entrepreneurship Week

Albuquerque was chosen in 2014 as one of only six metropolitan areas in the country to be profiled as a focus city for the international Global Entrepreneurship Week. More than 40 activities brought together aspiring entrepreneurs and innovators with investors and business and technology professionals to capitalize on Albuquerque's escalation of entrepreneurial innovation.

CONNECT // gewabq.com

Organizing the New Mexico Startup: Entity Formation, Initial Capitalization and Related Issues

A segment of the New Mexico State Bar CLE Program "Representing Technology Start-ups in New Mexico", November 6, 2015

Handout to accompany PowerPoint Presentation

Prepared by Zachary Lerner, Lerner Venture Law

I. **Definition of a "Startup"**
   a. "A temporary organization used to search for a repeatable and scalable business model" – Steve Blank
   b. Key expectations that impact structure:
      i. Will require financing to scale (likely multiple rounds)
      ii. Will want to grant equity incentives to service providers

II. **Choice of Entity**
   a. While there are many different types of legal entities, most practitioners forms startups as C corporations or limited liability companies
   b. S corporation is usually not suitable due to restrictions on stockholder and requirement for a single class of stock.
   c. Note: corporations are by default "C" corporations. Must make election to be taxed as an S corporation
   d. Why a C corporation?
      i. Simpler accounting and tax preparation
      ii. Institutional investors may require for various reasons
      iii. Easier to make equity incentive grants
   e. Why an LLC?
      i. By default, taxed as a partnership for income tax purposes
         1. No entity level income tax; net income or loss is reported by members on personal tax returns through Schedule K-1's.
         2. Potential for pass-through losses
         3. Potential payroll tax benefits: members are not employees but "partners" under tax law and compensation is generally "guaranteed payments"
      ii. Certain business may take many years to reach profitability
      iii. Early investors may find LLC structure acceptable
   f. Consider taxation of proceeds of a sale of the company in choosing entity type.

III. **Jurisdiction of Organization**
   a. For most New Mexico startups, there are usually only two states worth considering: New Mexico or Delaware.
   b. Why Delaware?
      i. Modern statute
      ii. Abundant case law and expert Court of Chancery
      iii. Statute allows flexibility and often favors management
      iv. Attorneys and other practitioners familiar with statute
      v. Investors may require
      vi. Sends a message that company is ready to grow
      vii. Secretary of State office easy to work with

c. Why New Mexico?
    i. Avoid Delaware registered agent fee and franchise tax
    ii. Avoid New Mexico filing fee for Certificate of Authority
d. What about Nevada?
    i. Common misbelief that Nevada makes sense due to lower income taxes
    ii. This would only apply to Nevada source income regardless of where corporation is organized.
    iii. Might as well go with Delaware.

IV. Typical Formation Documents for a Delaware corporation

a. Certificate of Incorporation
b. Action by incorporator
c. Bylaws
d. Organizational Board Consent
e. Restricted Stock Purchase Agreements
f. Confidential Information and IP Assignment Agreements
g. Director/Officer Indemnification Agreements (or rely on Bylaws)

V. How Many Shares to Authorize/Par Value

a. Typical:
    i. Authorize 10 to 15 million
    ii. Issue 60 to 80%
    iii. Reserve 10 to 20% for equity incentive grants
b. Pros:
    i. Sounds good to optionees/grantees
    ii. Leads to price per share in equity financings that investors may be expecting
c. Cons:
    i. NM Certificate of Authority filing fee based on authorized shares
    ii. Delaware franchise tax may be higher, even if using "Assumed Par Value Capital Method"
d. Par Value:
    i. Delaware: fraction of a cent (e.g., $0.0001) as opposed to no par so can use Assumed Par Value Capital Method
    ii. New Mexico: no par typical to minimize franchise tax.

VI. Action by Incorporator

a. Elects initial board of directors (can also be done in charter)
b. Adopts Bylaws (can also be done in organizational board consent)

VII. Organizational Board Consent

a. Ratify actions by incorporator
b. Appoint officers
c. Authorize initial stock sales
d. Adopt form of stock certificate
e. Use electronic stock certificates?
f. Adopt form of Confidential Information and IP Assignment Agreement
g. Other formation matters

i. Obtain federal and state tax ID numbers
ii. Establish fiscal year
iii. Select bank
iv. Select CPA
v. State foreign qualifications
vi. Elect to deduct organizational expenses under IRC § 248

VIII. Restricted Stock Purchase Agreements (Founder Stock)

a. Purchase price
  i. Can be cash and/or property
  ii. Implies a valuation of company
  iii. Should be same price per share for all founders
b. Purchase date
  i. Set as later of date of agreement or delivery in full of consideration
  ii. Starts 30-day clock for 83(b) election
c. Vesting
  i. Typically structured as repurchase option in favor of company at recipient's original purchase price in the event recipient's employment or services relationship with the company is terminated (whether voluntarily or involuntarily)
  ii. Typical schedule: 4 years monthly with 1-year cliff
  iii. Vesting start date can be in the past (e.g., the date work started on the project)
  iv. 83(b) election is usually appropriate. Deadline to file is 30 days after purchase date. No way to "fix" if deadline is missed.
d. Right of First Refusal in favor of Company
e. Lock-up Agreement
f. Investment Representations

IX. Allocated Equity Among Co-Founders

a. Rarely an easy discussion
b. Equal shares not necessarily fair
c. Various methods available online. Typically, take into account:
  i. Estimated time commitment
  ii. Role in company
  iii. What founder is contributing in terms of existing IP or cash
  iv. Experience and expertise
  v. Connections
d. Vesting arrangements are critical and can be another aspect of the deal

X. Confidential Information and Intellectual Property Assignment Agreements

a. Assign all work product to Company
b. May contain carve-out for prior IP
c. Trade secret protection
d. Non-compete/non-solicitation
e. No conflict with existing agreements (e.g., agreement with current or former employer)

XI. Forming a Startup as an LLC

a. Why to consider?
    i. Many clients have already filed Articles of Organization
    ii. Tax benefits: see above.
b. Potential drawbacks
    i. Capital account maintenance
    ii. Multiple classes of membership interest and equity incentive grants may present complications
    iii. Institutional investors often require C corporation
c. Typical documentation:
    i. Identify as manager-managed in Articles of Organization
    ii. Unit-based operating agreement
        1. Concept of units to describe membership interests makes it easier to issue additional interests in the future without amending
        2. Can create "board of managers" and can have officers.
        3. Caution: may create confusion as to tax-status
        4. Distribution and allocation provisions should be drafted carefully
    iii. Restricted Unit Purchase Agreements and 83(b) elections
    iv. Other standard documents
d. Typical plan: start as LLC with plan to convert to Delaware corporation later

XII. Equity Incentive Grants

a. C corporation
    i. Tax consequences better understood
    ii. Typical "omnibus" plan includes ability to grant options, restricted stock, stock appreciation rights, other forms of equity interests
    iii. Potential for "incentive stock options": best tax treatment for recipient
    iv. Under IRC § 409A, exercise price of non-statutory options must be equal to or greater than fair market value, as determined under tax regulations. Common practice is to engage an independent appraiser to perform a "409A valuation".
b. LLC
    i. Cannot obtain ISO treatment
    ii. Addition of members add many different dates may present complications
    iii. Capital interest vs. profits interest
    iv. Equity appreciation rights/phantom equity are an option

XIII. Contributing IP in Exchange for Shares

a. Important to accurately describe what is being assigned
b. Tax considerations:
    i. Inaccurate valuation
    ii. 351 Exchange
c. Be sure to make any appropriate filings to perfect the transfer
d. Should typically pay at least par value in cash (Delaware)

XIV. Founder Cash Infusions After Formation

a. Additional share purchase?
b. Additional paid-in capital on shares already owned?
c. Promissory note?

XV. Conversion of New Mexico LLC to Delaware Corporation

a. Form Delaware shell entity
b. State law merger
c. Plan of Merger sets forth what happens to outstanding membership interests, who directors and officers will be, etc.
d. NM certificate of authority
e. Other methods

XVI. Miscellaneous Common Legal Issues for Newly Formed Startups

a. Basic employment offer letters and independent contractor agreements
b. Nondisclosure agreements
c. Trademark
d. Terms and conditions and privacy policies for websites
e. Convertible notes/other seed financings

XVII. Common Reminders to Client

a. Obtain FEIN
b. Establish company bank account and avoid co-mingling
c. Obtain business license for all business locations
d. Liability insurance
e. NMGRT
    i. Obtain CRS number
    ii. File reports on time even if no receipts to report

NOTES

NOTES

LATER STAGE FINANCING
AND
PREPARING THE INVESTORS' EXIT

Perry Bendicksen
Rodey Law Firm

November 6, 2015

ALIGNMENT

Series A round: founders vs. investors

Later rounds: founders vs. non-founder employees vs. investors vs. investors . . .

DOWN ROUNDS

Example: $1 million Series A round: pre-money valuation = $3 million with 3 million shares outstanding on a fully-diluted basis, so Series A share price = $1 and post-money valuation = $4 million and 4 million shares outstanding on fully-diluted basis. $1 million Series B round: pre money valuation = $3 million with 4 million shares outstanding on a fully-diluted basis, so Series B share price = $0.75.

Effects on founders and earlier stage investors

Anti-dilution protections and waivers

Pre-emptive rights and waivers

Effects on options

LIQUIDATION WATERFALL

Section 2. Preference on Liquidation

(a) Amount, Priority, Etc. In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Corporation, the assets and funds of the Corporation available for distribution to its stockholders, whether from capital, surplus or earnings, shall be distributed as follows:

(i) First, the holders of Series E Preferred Stock then outstanding shall be entitled to receive, out of the assets of the Corporation available for distribution to its stockholders, before any payment shall be made in respect of the Corporation's other series of Preferred Stock or Common Stock, an amount equal to two-times the respective Original Purchase Price per share of Series E Preferred Stock (adjusted for any stock splits, stock dividends, recapitalizations and the like), such that, and to the extent allowable and subject to such adjustments, each share of Series E Preferred Stock shall be entitled to be paid \$2.50, plus all declared but unpaid dividends thereon to the date fixed for distribution. If, upon liquidation, dissolution or winding up of the Corporation, the assets of the Corporation available for distribution to its stockholders shall be insufficient to pay the holders of the Series E Preferred Stock the full amounts to which they shall be entitled as set forth above, the holders of the Series E Preferred Stock shall receive a proportionate percentage pro rata distribution of assets according to the preferential amounts which would be payable in respect of shares held by them upon such distribution if all preferential amounts payable on or with respect to such shares were paid in full.

(ii) Second, after the full preferential amounts due to the holders of Series E Preferred Stock pursuant to Section 2(a)(i) above have been paid or set aside, the holders of Series D Preferred Stock then outstanding shall be entitled to receive, out of the assets of the Corporation available for distribution to its stockholders, before any payment shall be made in respect of the Corporation's other series of Preferred Stock or Common Stock, an amount equal to the respective Original Purchase Price per share of Series D Preferred Stock (adjusted for any stock splits, stock dividends, recapitalizations and the like), such that, and to the extent allowable and subject to such adjustments, each share of Series D Preferred Stock shall be entitled to be paid \$1.25, plus all declared but unpaid dividends thereon to the date fixed for distribution. If, upon liquidation, dissolution or winding up of the Corporation, the assets of the Corporation available for distribution to its stockholders shall be insufficient to pay the holders of the Series D Preferred Stock the full amounts to which they shall be entitled as set forth above, the holders of the Series D Preferred Stock shall receive a proportionate percentage pro rata distribution of assets according to the preferential amounts which would be payable in respect of shares held by them upon such distribution if all preferential amounts payable on or with respect to such shares were paid in full.

(iii) Third, after the full preferential amounts due to the holders of Series E Preferred Stock and Series D Preferred Stock pursuant to Sections 2(a)(i) and 2(a)(ii) above have been paid or set aside, the holders of Series C Preferred Stock then outstanding shall be entitled to receive, out of the assets of the Corporation available for distribution to its stockholders, before any payment shall be made in respect of the Corporation's Series A Preferred Stock, Series B Preferred Stock or Common Stock, an amount equal to \$1.976170 per share (adjusted for any stock splits, stock dividends, recapitalizations and the like), plus all declared but unpaid dividends thereon to the date fixed for distribution. If, upon liquidation, dissolution or winding up of the Corporation, the assets of the Corporation available for distribution to its stockholders shall be insufficient to pay the holders of the Series C Preferred Stock the full amounts to which they shall be entitled as set forth above, the holders of the Series C Preferred Stock shall receive a proportionate percentage pro rata distribution of assets according to the preferential amounts which would be payable in respect of shares held by them upon such distribution if all preferential amounts payable on or with respect to such shares were paid in full.

(iv) Fourth, after the full preferential amounts due to the holders of Series E Preferred Stock, Series D Preferred Stock and Series C Preferred Stock pursuant to Sections 2(a)(i), 2(a)(ii) and 2(a)(iii) above have been paid or set aside, the holders of shares of the Series A Preferred Stock and Series B Preferred Stock then outstanding shall be entitled to be paid, pari passu (that is, in concurrent step with each other but in proportion to the respective Original Purchase Price of such Preferred Stock) and out of the assets of the Corporation available for distribution to its stockholders, before any payment shall be made in respect of the Corporation's Common Stock, an amount equal to $1.64016 per share for Series A Preferred Stock and $2.0502 per share for Series B Preferred Stock (adjusted for any stock splits, stock dividends, recapitalizations and the like), plus all declared but unpaid dividends thereon to the date fixed for distribution. If, upon liquidation, dissolution or winding up of the Corporation, the assets of the Corporation available for distribution to its stockholders shall be insufficient to pay the holders of the Series A Preferred Stock and Series B Preferred Stock the full amounts to which they shall be entitled as set forth above, the holders of the Series A Preferred Stock and Series B Preferred Stock shall receive a proportionate percentage pro rata distribution of assets according to the preferential amounts which would be payable in respect of shares held by them upon such distribution if all preferential amounts payable on or with respect to such shares were paid in full.

(v) After the full payment to the holders of the Preferred Stock of the preferential amounts so payable to them pursuant to Sections 2(a)(i) through 2(a)(iv) above, in the event of any voluntary or involuntary liquidation, dissolution or winding up of the Corporation, the holders of shares of Common Stock, together with the holders of Preferred Stock shall be entitled to be paid, *pari passu* and out of the assets of the Corporation available for distribution to its stockholders, an amount distributed ratably among the holders of Common Stock, Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock in proportion to the number of shares of Common Stock (A) then held, with respect to the Common Stock, and (B) into which shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock are then convertible.

BOARD COMPOSITION AND APPROVAL RIGHTS

Representation vs. board size

Approval rights for most senior class only vs. each preferred class

PAY TO PLAY

5A. Special Mandatory Conversion.

5A.1. Trigger Event. In the event that any holder of shares of Series A Preferred Stock does not participate in a Qualified Financing (as defined below) by purchasing in the aggregate, in such Qualified Financing and within the time period specified by the Corporation (provided that, the Corporation has sent to each holder of Series A Preferred Stock at least ten (10) days written notice of, and the opportunity to purchase its Pro Rata Amount (as defined below) of, the Qualified Financing), such holder's Pro Rata Amount, [then each share] [then the Applicable Portion (as defined below) of the shares] of Series A Preferred Stock held by such holder shall automatically, and without any further action on the part of such holder, be converted into shares of Common Stock at the Series A Conversion Price in effect immediately prior to the consummation of such Qualified Financing, effective upon, subject to, and concurrently with, the consummation of the Qualified Financing. For purposes of determining the number of shares of Series A Preferred Stock owned by a holder, and for determining the number of Offered Securities (as defined below) a holder of Series A Preferred Stock has purchased in a Qualified Financing, all shares of Series A Preferred Stock held by Affiliates (as defined below) of such holder shall be aggregated with such holder's shares and all Offered Securities purchased by Affiliates of such holder shall be aggregated with the Offered Securities purchased by such holder (provided that no shares or securities shall be attributed to more than one entity or person within any such group of affiliated entities or persons). Such conversion is referred to as a "**Special Mandatory Conversion.**"[1]

5A.2. Procedural Requirements. Upon a Special Mandatory Conversion, each holder of shares of Series A Preferred Stock converted pursuant to Subsection 5A.1 shall be sent written notice of such Special Mandatory Conversion and the place designated for mandatory conversion of all such shares of Series A Preferred Stock pursuant to this Section 5A. Upon receipt of such notice, each holder of such shares of Series A Preferred Stock in certificated form shall surrender his, her or its certificate or certificates for all such shares (or, if such holder alleges that any such certificate has been lost, stolen or destroyed, a lost certificate affidavit and agreement reasonably acceptable to the Corporation to indemnify the Corporation against any claim that may be made against the Corporation on account of the alleged loss, theft or destruction of such certificate) to the Corporation at the place designated in such notice. If so required by the Corporation, any certificates surrendered for conversion shall be endorsed or accompanied by written instrument or instruments of transfer, in form satisfactory to the Corporation, duly executed by the registered holder or by his, her or its attorney duly authorized in writing. All rights with respect to the Series A Preferred Stock converted

[1] Careful consideration must be given to whether shares of Series A Preferred Stock converted upon a Special Mandatory Conversion should lose the contractual rights provided under the various ancillary agreements typically involved in a Preferred Stock financing (*e.g.*, registration rights, pre-emptive rights, etc.).

pursuant to Subsection 5A.1, including the rights, if any, to receive notices and vote (other than as a holder of Common Stock), will terminate at the time of the Special Mandatory Conversion (notwithstanding the failure of the holder or holders thereof to surrender any certificates for such shares at or prior to such time), except only the rights of the holders thereof, upon surrender of any certificate or certificates of such holders therefor (or lost certificate affidavit and agreement), to receive the items provided for in the next sentence of this Subsection 5A.2. As soon as practicable after the Special Mandatory Conversion and, if applicable, the surrender of any certificate or certificates (or lost certificate affidavit and agreement) for Series A Preferred Stock so converted, the Corporation shall (a) [issue and deliver to such holder, or to his, her or its nominees, a certificate or certificates for the number of full shares of Common Stock issuable on such conversion in accordance with the provisions hereof][2] and (b) pay cash as provided in Subsection 4.2 in lieu of any fraction of a share of Common Stock otherwise issuable upon such conversion and the payment of any declared but unpaid dividends on the shares of Series A Preferred Stock converted [and (c) a new certificate for the number of shares, if any, of Series A Preferred Stock represented by such surrendered certificate and not converted pursuant to Subsection 5A.1].[3][4] Such converted Series A Preferred Stock shall be retired and cancelled and may not be reissued as shares of such series, and the Corporation may thereafter take such appropriate action (without the need for stockholder action) as may be necessary to reduce the authorized number of shares of Series A Preferred Stock accordingly.

5A.3. Definitions. For purposes of this Section 5A, the following definitions shall apply:

5A.3.1 "**Affiliate**" shall mean, with respect to any holder of shares of Series A Preferred Stock, any person, entity or firm which, directly or indirectly, controls, is controlled by or is under common control with such holder, including, without limitation, any entity of which the holder is a partner or member, any partner, officer, director, member or employee of such holder and any venture capital fund now or hereafter existing of which the holder is a partner or member which is controlled by or under common control with one or more general partners of such holder or shares the same management company with such holder.

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[2] For uncertificated shares of Common Stock, use the following for (a): "issue and deliver to such holder, or to his, her or its nominees, a notice of issuance of uncertificated shares and may, upon written request, issue and deliver a certificate for the number of full shares of Common Stock issuable upon such conversion in accordance with the provisions hereof"

[3] Applicable only if proportional conversion is provided for by the Certificate of Incorporation.

[4] For uncertificated shares of Common Stock, use the following for (c): "may, if applicable and upon written request, issue and deliver a new certificate for the number of shares, if any, of Series A Preferred Stock represented by such surrendered shares and not converted pursuant to Subsection 5A.1"

5A.3.2 ["**Applicable Portion**" shall mean, with respect to any holder of shares of Series A Preferred Stock, a number of shares of Series A Preferred Stock calculated by multiplying the aggregate number of shares of Series A Preferred Stock held by such holder immediately prior to a Qualified Financing by a fraction, the numerator of which is equal to the amount, if positive, by which such holder's Pro Rata Amount exceeds the number of Offered Securities actually purchased by such holder in such Qualified Financing, and the denominator of which is equal to such holder's Pro Rata Amount.][5]

5A.3.3 "**Offered Securities**" shall mean the equity securities of the Corporation set aside by the Board of Directors of the Corporation for purchase by holders of outstanding shares of Series A Preferred Stock in connection with a Qualified Financing, and offered to such holders.

5A.3.4 "**Pro Rata Amount**" shall mean, with respect to any holder of Series A Preferred Stock, the lesser of (a) a number of Offered Securities calculated by multiplying the aggregate number of Offered Securities by a fraction, the numerator of which is equal to [the number of shares of Series A Preferred Stock owned by such holder, and the denominator of which is equal to the aggregate number of outstanding shares of Series A Preferred Stock],[6] or (b) the maximum number of Offered Securities that such holder is permitted by the Corporation to purchase in such Qualified Financing, after giving effect to any cutbacks or limitations established by the Board of Directors and applied on a pro rata basis to all holders of Series A Preferred Stock.

5A.3.5 "**Qualified Financing**" shall mean any transaction involving the issuance or sale of Additional Shares of Common Stock after the Series A Original Issue Date [that would result in at least $_______ in gross proceeds to the Corporation [including by way of the conversion of any outstanding debt] [and the reduction of the Series A Conversion Price pursuant to the terms of the Certificate of Incorporation (without giving effect to the operation of Subsection 4.4.2)], unless the holders of at least [*specify percentage*] of the Series A Preferred Stock elect, by written notice sent to the Corporation at least [__] days prior to the consummation of the Qualified Financing, that such transaction not be treated as a Qualified Financing for purposes of this Section 5A.

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[5] Applicable only if proportional conversion is provided for by the Certificate of Incorporation.

[6] Alternative: "the number of shares of outstanding Common Stock owned by such holder, and the denominator of which is equal to the aggregate number of outstanding shares of Common Stock (for the purpose of this definition, treating all shares of Common Stock issuable upon exercise of Options outstanding immediately prior to such Qualified Financing or upon conversion of Convertible Securities outstanding (assuming exercise of any outstanding Options therefor) immediately prior to such Qualified Financing as outstanding)."

DRAG ALONG

3. Drag-Along Right.

3.1 Definitions. A "Sale of the Company" shall mean either: (a) a transac¬tion or series of related transactions in which a Person, or a group of related Persons, acquires from stockholders of the Company shares representing more than fifty percent (50%) of the out-standing voting power of the Company (a "Stock Sale"); or (b) a transaction that qualifies as a "Deemed Liquidation Event" as defined in the Restated Certificate.

3.2 Actions to be Taken. In the event that (i) the holders of at least [specify percentage] of the shares of Common Stock then issued or issuable upon conversion of the shares of Series A Preferred Stock (the "Selling Investors"); [(ii)the Board of Directors;] and [(iii) the holders of a majority of the then outstanding shares of Common Stock (other than those issued or issuable upon conversion of the shares of Series A Preferred Stock)] (collectively, the "Electing Holders") approve a Sale of the Company in writing, specifying that this Section 3 shall apply to such transaction, then each Stockholder and the Company hereby agree:

(a) if such transaction requires stockholder approval, with respect to all Shares that such Stockholder owns or over which such Stockholder otherwise exercises voting power, to vote (in person, by proxy or by action by written consent, as applicable) all Shares in favor of, and adopt, such Sale of the Company (together with any related amendment to the Restated Certificate required in order to implement such Sale of the Company) and to vote in opposition to any and all other proposals that could [reasonably be expected to] delay or impair the ability of the Company to consummate such Sale of the Company;

(b) if such transaction is a Stock Sale, to sell the same proportion of shares of capital stock of the Company beneficially held by such Stockholder as is being sold by the Selling Investors to the Person to whom the Selling Investors propose to sell their Shares, and, except as permitted in Subsection 3.3 below, on the same terms and conditions as the Selling Investors;

(c) to execute and deliver all related documentation and take such other action in support of the Sale of the Company as shall reasonably be requested by the Company or the Selling Investors in order to carry out the terms and provision of this Section 3, including, without limitation, executing and delivering instruments of conveyance and transfer, and any purchase agreement, merger agreement, indemnity agreement, escrow agreement, consent, waiver, governmental filing, share certificates duly endorsed for transfer (free and clear of impermissible liens, claims and encumbrances), and any similar or related documents;

(d) not to deposit, and to cause their Affiliates not to deposit, except as provided in this Agreement, any Shares of the Company owned by such party or Affiliate in a voting trust or subject any Shares to any arrangement or agreement with respect to the voting of such Shares, unless specifically requested to do so by the acquiror in connection with the Sale of the Company;

(e) to refrain from exercising any dissenters' rights or rights of appraisal under applicable law at any time with respect to such Sale of the Company;

(f) if the consideration to be paid in exchange for the Shares pursuant to this Section 3 includes any securities and due receipt thereof by any Stockholder would require under applicable law (x) the registration or qualification of such securities or of any person as a broker or dealer or agent with respect to such securities; or (y) the provision to any Stockholder of any information other than such information as a prudent issuer would generally furnish in an offering made solely to "accredited investors" as defined in Regulation D promulgated under the Securities Act, the Company may cause to be paid to any such Stockholder in lieu thereof, against surrender of the Shares which would have otherwise been sold by such Stockholder, an amount in cash equal to the fair value (as determined in good faith by the Company) of the securities which such Stockholder would otherwise receive as of the date of the issuance of such securities in exchange for the Shares; and

(g) in the event that the Selling Investors, in connection with such Sale of the Company, appoint a stockholder representative (the "Stockholder Representative") with respect to matters affecting the Stockholders under the applicable definitive transaction agreements following consummation of such Sale of the Company, (x) to consent to (i) the appointment of such Stockholder Representative, (ii) the establishment of any applicable escrow, expense or similar fund in connection with any indemnification or similar obligations, and (iii) the payment of such Stockholder's pro rata portion (from the applicable escrow or expense fund or otherwise) of any and all reasonable fees and expenses to such Stockholder Representative in connection with such Stockholder Representative's services and duties in connection with such Sale of the Company and its related service as the representative of the Stockholders, and (y) not to assert any claim or commence any suit against the Stockholder Representative or any other Stockholder with respect to any action or inaction taken or failed to be taken by the Stockholder Representative in connection with its service as the Stockholder Representative, absent fraud or willful misconduct.

3.3 Exceptions. Notwithstanding the foregoing, a Stockholder will not be required to comply with Subsection 3.2 above in connection with any proposed Sale of the Company (the "Proposed Sale"), unless:

(a) [any representations and warranties to be made by such Stockholder in connection with the Proposed Sale are limited to representations and warranties related to authority, ownership and the ability to convey title to such Shares, including, but not limited to, representations and warranties that (i) the Stockholder holds all right, title and interest in and to the Shares such Stockholder purports to hold, free and clear of all liens and encumbrances, (ii) the obli¬gations of the Stockholder in connection with the transaction have been duly authorized, if applicable, (iii) the documents to be entered into by the Stockholder have been duly executed by the Stockholder and delivered to the acquirer and are enforceable against the Stockholder in accordance with their respective terms; and (iv) neither the execution and delivery of documents to be entered into in connection with the transaction, nor the performance of the Stockholder's obligations thereunder, will cause a breach or violation of the terms of any agreement, law or judgment, order or decree of any court or governmental agency;

(b) the Stockholder shall not be liable for the inaccuracy of any representation or warranty made by any other Person in connection with the Proposed Sale, other than the Company (except to the extent that funds may be paid out of an escrow established to cover breach of representations, warranties and covenants of the Company as well as breach by any stockholder of any of identical representations, warranties and covenants provided by all stockholders);]

(c) the liability for indemnification, if any, of such Stockholder in the Proposed Sale and for the inaccuracy of any representations and warranties made by the Company or its Stockholders in connection with such Proposed Sale, is several and not joint with any other Person (except to the extent that funds may be paid out of an escrow established to cover breach of representations, warranties and covenants of the Company as well as breach by any stockholder of any of identical representations, warranties and covenants provided by all stockholders), and [subject to the provisions of the Restated Certificate related to the allocation of the escrow,] is pro rata in proportion to, and does not exceed, the amount of consideration paid to such Stockholder in connection with such Proposed Sale;

(d) [liability shall be limited to such Stockholder's applicable share (determined based on the respective proceeds payable to each Stockholder in connection with such Proposed Sale in accordance with the provisions of the Restated Certificate) of a negotiated aggregate indemnification amount that applies equally to all Stockholders but that in no event exceeds the amount of consideration otherwise payable to such Stockholder in connection with such Proposed Sale, except with respect to claims related to fraud by such Stockholder, the liability for which need not be limited as to such Stockholder;]

(e) upon the consummation of the Proposed Sale (i) each holder of each class or series of the Company's stock will receive the same form of consideration for their shares of such class or series as is received by other holders in respect of their shares of such same class or series of stock, (ii) each holder of a series of Preferred Stock will receive the same amount of consideration per share of such series of Preferred Stock as is received by other holders in respect of their shares of such same series, (iii) each holder of Common Stock will receive the same amount of consideration per share of Common Stock as is received by other holders in respect of their shares of Common Stock, and (iv) unless the holders of at least [specify percentage] of the [Series A Preferred Stock] elect to receive a lesser amount by written notice given to the Company at least [__] days prior to the effective date of any such Proposed Sale, the aggregate consideration receivable by all holders of the Preferred Stock and Common Stock shall be allocated among the holders of Preferred Stock and Common Stock on the basis of the relative liquidation preferences to which the holders of each respective series of Preferred Stock and the holders of Common Stock are entitled in a Deemed Liquidation Event (assuming for this purpose that the Proposed Sale is a Deemed Liquidation Event) in accordance with the Company's Certificate of Incorporation in effect immediately prior to the Proposed Sale; provided, however, that, notwithstanding the foregoing, if the consideration to be paid in exchange for the Key Holder Shares or Investor Shares, as applicable, pursuant to this Subsection 3.3(e) includes any securities and due receipt thereof by any Key Holder or Investor would require under applicable law (x) the registration or qualification of such securities or of any person as a broker or dealer or agent with respect to such securities; or (y) the provision to any Key Holder or Investor of any information other than such information as a prudent issuer would generally furnish in an offering made solely to "accredited investors" as defined in Regulation D promulgated under the Securities Act, the Company may cause to be paid to any such Key Holder or Investor in lieu thereof, against surrender of the Key Holder Shares or Investor Shares, as applicable, which would have otherwise been sold by such Key Holder or Investor, an amount in cash equal to the fair value (as determined in good faith by the Company) of the securities which such Key Holder or Investor would otherwise receive as of the date of the issuance of such securities in exchange for the Key Holder Shares or Investor Shares, as applicable; and

(f) [subject to clause (e) above, requiring the same form of consideration to be available to the holders of any single class or series of capital stock, if any holders of any capital stock of the Company are given an option as to the form and amount of consideration to be received as a result of the Proposed Sale, all holders of such capital stock will be given the same option; provided, however, that nothing in this Subsection 3.3(f) shall entitle any holder to receive any form of consideration that such holder would be ineligible to receive as a result of such holder's failure to satisfy any condition, requirement or limitation that is generally applicable to the Company's stockholders.

3.4 Restrictions on Sales of Control of the Company. No Stockholder shall be a party to any Stock Sale unless all holders of Preferred Stock are allowed to participate in such transaction and the consideration received pursuant to such transaction is allocated among the parties thereto in the manner specified in the Company's Certificate of Incorporation in effect immediately prior to the Stock Sale (as if such transaction were a Deemed Liquidation Event), unless the holders of at least [specify percentage] of the [Series A Preferred Stock] elect otherwise by written notice given to the Company at least [__] days prior to the effective date of any such transaction or series of related transactions.

EXIT APPROVALS AND DISCLOSURES

Non-unanimous consent vs. shareholder meeting (note differences between DE and NM and between LLC and corporation)

Disclosures required for non-accredited shareholders

Accreditation issues with stock consideration

HIDDEN VETOS

Contract assignment clauses (and change of control issues)

Founders who are to become employees of acquiror

Extinguishment of options

Dissenters' rights (note differences between DE and NM on sale of assets)

Conflicts of Interest and Avoiding Subject Matter Conflicts in Patent Prosecution

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OUTLINE

- Lawyers Preamble
- NM 16-107: COI- Current Clients
- NM 16-108: COI- Specific Rules
- NM 16-109: Duty to Former Clients
- Subject Matter Conflicts
- 37 C.F.R. 1.56(a)
- Recent Case Law
- How We Avoid Them?

LAWYER'S PREAMBLE (Rules of Professional Conduct)

- Conflicting responsibilities are encountered
- Self regulating
- Each lawyers responsibility

16-107: Conflicts of Interest; Current Clients

A. Representation involving concurrent conflict of Interest. Except as provided in Paragraph B of this rule, a lawyer shall not represent a client if the representation involves a concurrent conflict of interest. A concurrent conflict of interest exists if:

(1) The representation of one client will be directly adverse to another client; or

(2) There is a significant risk that the representation of one of more clients will be materially limited by the lawyers responsibilities to another client, a former client or a third person or by a personal interest of the lawyer

B. Permissible representation when concurrent conflict exists. Not withstanding the existence of a concurrent conflict of interest under Paragraph A of this rule, a lawyer may represent a client if:

(1) The lawyer reasonably believes that the lawyer will be able to provide competent and diligent representation to each affected client;

(2) The representation is not prohibited by law.

(3) The representation does not involve the assertion of a claim by one client against another client represented by the lawyer in the same litigation or other proceeding before a tribunal; and

(4) Each affected client gives informed consent, confirmed in writing

[As amended, effective November 2, 208]

16-108. Conflict of interest; current clients; specific rules.

A. **Business transactions with or adverse to client.** A lawyer shall not enter into a business transaction with a client knowingly or acquire an ownership, possessory, security or other pecuniary interest adverse to a client unless:

(1) The transaction and terms on which the lawyer acquires the interest are fair reasonable to the client and are fully disclosed and transmitted in writing in a manner that can be reasonably understood by the client;
(2) The client is advised in writing of the desirability of seeking and is given a reasonable opportunity to seek the advice of independent legal counsel on the transaction; and
(3) The client gives informed consent, in a writing signed by the client, to the essential terms of the transaction and the lawyer's role in the transaction, including whether the lawyer is representing the client in the transaction.

B. Use of information limited. A lawyer shall not use information relating to the representation of a client to the disadvantage of the client until the client gives informed consent, except as permitted or required by these rules.

16-108: Conflict of interest; current clients; specific rules continued;

C. Client gifts;

D. Literary or media rights;

E. Financial assistance;

F. Compensation from third party;

G. Representation of two or more clients; and,

H. Prospective malpractice liability limitation.

NM 16-109: Duties to Former Clients

A. **Subsequent representation.** A lawyer who has formerly represented a client in a matter shall not thereafter represent another person in the same or a substantially related matter in which that person's interests are materially adverse to their interests of the former client unless the former client give informed consent, confirmed in writing.

B. **Subsequent representation; former law firm.** A lawyer shall not knowingly represent a person in the same or a substantially related matter in which a firm with which the lawyer formerly was associated had previously represented a client:

(1) Whose interests are materially adverse to that person; and
(2) About whom the lawyer had acquired information protected by Rule 16-106 and Paragraph C of Rule 16-109 of the Rules of Professional Conduct that is material to the matter, unless the former client gives informed consent, confirmed in writing.

C. **Former representation.** A lawyer who has formally represented a client in a matter or whose present or former firm has formerly represented a client shall not thereafter:

(1) Use information relating to the representation to the disadvantage of the former client except as these rules would permit or require with respect to a client, or when the information has become generally known; or
(2) Reveal information relating to the representation except as those rules would permit or require with respect to a client.

[As amended, effective November 3, 2008]

Direct Client Conflicts

- Model Rule 1.7(a)(1): "A concurrent conflict of interest exists if: the representation of one client will be directly adverse to another client."
- **Readily resolved: Standard Conflicts Check**
- But subject to parties (and their attorneys) regularly updating current engagements as to new conflicts as well as that engagement's parents, subsidiaries, affiliates, friends, families, pets, etc.

Subject Matter Conflicts

- More difficult in the patent prosecution realm
  - What *is* the technology at issue?
  - How similar is similar?
  - Specification versus the claims
  - Now claimed versus later claimed
  - First to invent versus first to file

37 C.F.R. 1.56(a)

- "**Each individual** associated with the filing and prosecution of a patent application has a duty of candor and good faith in dealing with the Office, which includes **a duty to disclose** to the Office **all information known to that individual to be material to patentability** . . . . The duty to disclose information exists with respect to each pending claim until the claim is cancelled or withdrawn from consideration, or the application becomes abandoned."

Why Do We Care?

- We're ethical people . . . and generally look and smell good, too
- Can put a patent prosecutor in an irreconcilable ethical quandary
  - Disclose private information of another client (and violate confidentiality)
  - Disclose public information of another client (and create a client relationship issue)
  - Not disclose information relevant to patentability

Recent Rulings

- Malpractice Claims
  - *Vaxiion Therapeutics v. Foley & Lardner* (SDCAL)
    - Similar technologies required swearing behind
    - Settled confidentially
  - *Axcess International v. Baker Botts* (NDTX)
    - Interference Claim
    - $40M damages award overturned on statute of limitations argument

Recent Rulings, continued;

- Malpractice Claims
  - *Tethys Bioscience v. Mintz Levin* (NDCAL)
    - Stock language copied from one application to another
    - Settled confidentially
  - *Maling v. Finnegan et al.* (Commonwealth of MA)
    - Competing Claims on Similar Technology
    - Currently on Appeal

How We Avoid Them

- Always check with other attorneys before accepting (or pitching) a patent prosecution engagement
- Keyword searches are on the horizon

593 F.Supp.2d 1153
United States District Court,
S.D. California.

VAXIION THERAPEUTICS, INC., Plaintiff,
v.
FOLEY & **LARDNER** LLP and Does
1 through 20, inclusive, Defendants.

Case No. 07cv00280–IEG
(RBB). | Dec. 18, 2008.

Synopsis

Background: Biotechnology research company, as former client of law firm, brought negligence and breach of fiduciary duty claims against law firm after law firm untimely filed a Patent Cooperation Treaty (PCT) patent application. Client moved for summary adjudication of liability and law firm moved to strike evidence.

Holdings: The District Court, Irma E. Gonzalez, Chief Judge, held that:

[1] fact issue existed as to whether law firm breached its duty of care by untimely filing application;

[2] fact issue existed as to whether law firm's actions leading to missed deadline rose to the level of breach of duty;

[3] fact issue existed as to whether law firm breached its fiduciary duty by accepting representation of client's competitor; and

[4] fact issue existed as to whether law firm breached its fiduciary duty by antedating former client's prior reference on behalf of competitor and continuing to represent competitor.

Motions granted in part and denied in part.

West Headnotes (22)

[1] **Federal Civil Procedure**
Admissibility

A court has discretion to strike inadmissible evidence filed in support of a summary judgment motion.

1 Cases that cite this headnote

[2] **Evidence**
Matters involving scientific or other special knowledge in general

Evidence
Knowledge, experience, and skill in general

To qualify as an expert, a witness must have knowledge, skill, experience, training, or education relevant to such evidence or fact in issue, and expert testimony must address an issue beyond the common knowledge of the average layman. Fed.Rules Evid.Rule 702, 28 U.S.C.A.

Cases that cite this headnote

[3] **Evidence**
Determination of question of competency

The admissibility of expert testimony is within the sound discretion of the trial judge, who alone must decide the qualifications of the expert on a given subject and the extent to which his opinions may be required. Fed.Rules Evid.Rule 702, 28 U.S.C.A.

Cases that cite this headnote

[4] **Evidence**
Due care and proper conduct in general

Attorney's generalized training regarding ethics and avoidance of conflicts of interests, and familiarity with certain disciplinary rules were insufficient to qualify attorney as an expert witness in legal ethics and conflict of interest matters. Fed.Rules Evid.Rule 702, 28 U.S.C.A.

Cases that cite this headnote

[5] **Evidence**
Conduct of business, custom, or usage

Attorney's excess of 50 years experience in patent law qualified attorney to testify as an expert in matters relating to patent office procedures. Fed.Rules Evid.Rule 702, 28 U.S.C.A.

1 Cases that cite this headnote

[6] **Fraud**
Injury and causation

Negligence
Necessity of causation

Negligence
Necessity and Existence of Injury

Both causation and damages are necessary elements for a finding of malpractice liability as well as breach of fiduciary duty liability.

Cases that cite this headnote

[7] **Federal Civil Procedure**
Partial summary judgment

Only genuine issues on the amount of damages may be reserved for trial after an interlocutory summary judgment on liability. Fed.Rules Civ.Proc.Rule 56(d)(2), 28 U.S.C.A.

Cases that cite this headnote

[8] **Negligence**
Negligence as question of fact or law generally

Negligence
Standard of proof; evidentiary showing required

In a negligence action, breach of duty is usually a fact issue for the fact finder; if the circumstances permit a reasonable doubt whether the defendant's conduct violates the boundaries of ordinary care, the doubt must be resolved as an issue of fact by the fact finder rather than of law by the court.

1 Cases that cite this headnote

[9] **Attorney and Client**
Skill and care required

Breach of a duty of reasonable care in a professional malpractice situation is the failure of an attorney to use such skill, prudence, and diligence as other members of his profession commonly possess and exercise.

3 Cases that cite this headnote

[10] **Attorney and Client**
Pleading and evidence

In a legal malpractice action, expert testimony is required to establish the prevailing standard of skill and learning in the locality and the propriety of particular conduct by the practitioner in particular circumstances, as such standard and skill is not a matter of general knowledge.

1 Cases that cite this headnote

[11] **Federal Civil Procedure**
Tort cases in general

When a party in a professional malpractice claim moves for summary judgment and supports the motion with expert declarations as to whether a professional's conduct fell within the community standard of care, he is entitled to summary judgment unless the opposing party comes forward with conflicting expert evidence; expert evidence is not needed, however, when the type of conduct required by the particular circumstances is within the knowledge of laymen.

Cases that cite this headnote

[12] **Federal Civil Procedure**
Tort cases in general

Genuine issue of material fact existed as to whether law firm breached its duty of care to client by untimely filing client's Patent Cooperation Treaty (PCT) patent application, precluding summary judgment in client's legal malpractice action.

Cases that cite this headnote

[13] **Federal Civil Procedure**
Tort cases in general

Genuine issue of material fact existed as to whether law firm's actions leading to missed deadline for client's Patent Cooperation Treaty

(PCT) patent application rose to the level of breach of duty, precluding summary judgment in client's legal malpractice action.

Cases that cite this headnote

[14] **Fraud**
Nature and form of remedy
Under California law, breach of fiduciary duty is a species of tort distinct from a cause of action for professional negligence.

Cases that cite this headnote

[15] **Fraud**
Fiduciary or confidential relations
Under California law, the elements of a cause of action for breach of fiduciary duty are: (1) existence of a fiduciary duty; (2) breach of the fiduciary duty; and (3) damage proximately caused by the breach.

1 Cases that cite this headnote

[16] **Attorney and Client**
Acts and omissions of attorney in general
Under California law, an attorney's violation of the Rules of Professional Conduct, in itself, does not provide the basis for civil liability for breach of fiduciary duty.

Cases that cite this headnote

[17] **Attorney and Client**
Nature of attorney's duty
Under California law, an attorney's duties to his client are governed by the Rules of Professional Conduct, and those rules, together with statutes and general principles relating to other fiduciary relationships, help define the duty component of the fiduciary duty which an attorney owes to his client.

Cases that cite this headnote

[18] **Attorney and Client**
Trial and judgment
Under California law, a court may determine the scope of an attorney's fiduciary duty as a matter of law, but it is generally a question of fact whether the attorney has breached a fiduciary duty.

Cases that cite this headnote

[19] **Attorney and Client**
Pleading and evidence
Under California law, expert testimony is not required, but is admissible to establish duty and breach of duty in a claim for breach of fiduciary duty where the attorney conduct is a matter beyond common knowledge.

Cases that cite this headnote

[20] **Federal Civil Procedure**
Tort cases in general
Genuine issues of material fact existed as to whether law firm breached its duty to patent client by accepting representation of client's competitor that pursued patents using technology similar to client's technology, precluding summary judgment in client's breach of fiduciary duty action against law firm brought under California law.

Cases that cite this headnote

[21] **Federal Civil Procedure**
Tort cases in general
Genuine issues of material fact existed as to whether law firm breached its fiduciary duty to former client by antedating the former client's prior art reference in attempt to obtain a provisional patent application for another client, who was a competitor of former client, and continuing to represent competitor, precluding summary judgment in former client's breach of fiduciary duty action against law firm brought under California law.

Cases that cite this headnote

[22] **Patents**
In general; utility

US Patent 7,183,105. Cited.

Cases that cite this headnote

Attorneys and Law Firms

***1156** Karen R. Frostrom, Vincent J. Bartolotta, Jr., Thorsnes, Bartolotta and McGuire, San Diego, CA, for Plaintiff.

Robert Unikel, Howrey LLP, Chicago, IL, Scott B. Garner, Howrey LLP, Irvine, CA, for Defendants.

ORDER: (1) DENYING PLAINTIFF'S MOTION FOR SUMMARY ADJUDICATION OF LIABILITY [Doc. No. 94]; (2) GRANTING DEFENDANT'S MOTION TO STRIKE EVIDENCE CITED IN SUPPORT OF PLAINTIFF'S MOTION [Doc. No. 131]; (3) DENYING AS MOOT DEFENDANT'S MOTION TO STRIKE EVIDENCE OF SETTLEMENT MEETING CITED IN SUPPORT OF PLAINTIFF'S REPLY [Doc. No. 146]

IRMA E. GONZALEZ, Chief Judge.

Plaintiff **Vaxiion Therapeutics** ("**Vaxiion**") moves the Court for summary adjudication of liability on its Negligence and Breach of Fiduciary Duty Claims. Defendant **Foley** & **Lardner** ("**Foley**") has filed an opposition. Defendant has also filed a motion to strike evidence cited in support of plaintiff's motion for summary adjudication and a motion to strike evidence of a settlement meeting cited in support of plaintiff's reply in support of motion for summary adjudication.

The Court heard oral argument on the motions on November 10, 2008. After considering all the arguments of the parties, for the reasons explained herein, the Court DENIES plaintiff's motion for summary adjudication and GRANTS defendant's motion to strike evidence cited in support of plaintiff's motion. The Court also DENIES AS MOOT defendant's motion to strike evidence of settlement meeting, and overrules all of the parties' evidentiary objections except those the Court specifically addresses herein.

BACKGROUND

Vaxiion[1] is a startup biotechnology research company that first began performing minicell[2] research in August of 1999. [Transcript of February 20, 2008 Deposition of Roger Sabbadini ("Sabbadini Depo. G"), Ex. G to Garner Decl. ISO Opp. to Motion ("Garner Decl."), Doc. No. 116–13, p. 53:21.] Attorney Richard Warburg performed patent work for **Vaxiion** in the late 1990s when he worked at the firm of Lyon ***1157** & Lyon. (Motion at 2.) In 1999, Warburg went to Brobeck, Phelger & Harrison LLP and took **Vaxiion** with him as a client. [Transcript of February 20, 2008 Deposition of Roger Sabbadini ("Sabbadini Depo. A"), Ex. A to Motion, Doc. No. 94–2, pp. 173:1–24.] There, Warburg began working with an associate, Andrew Granston, on the drafting and prosecution of patent applications for **Vaxiion**. Both Granston and Warburg began practicing law at **Foley** and **Lardner** in early 2001 [Warburg Decl. ISO Opp. to Motion ("Warburg Decl."), Doc. No. 116–49, ¶ 1; Granston Decl. ISO Opp. to Motion ("Granston Decl."), Doc. No. 116–23, ¶ 1,] and **Vaxiion** continued to retain them as counsel in part to continue work on the minicell patent application. (Granston Decl. at ¶¶ 4–5.) Roger Sabbadini, **Vaxiion's** founder, felt comfortable with Warburg and Granston's qualifications and competence when he asked them to draft **Vaxiion's** first minicell application. (Granston Decl. at ¶¶ 3–5; Sabbadini Depo. G, pp. 181:21–182:23.)

On May 24, 2001, Warburg[3] and Granston filed a U.S. provisional patent application on behalf of **Vaxiion** entitled "Minicell Compositions and Methods" ("First Provisional Application"). (Complaint, ¶¶ 6–7; Granston Decl. at ¶ 6, Ex. B.) Both **Foley** and **Vaxiion** worked together to prepare the First Provisional Application. [Granston Decl. at ¶¶ 6, 10; Transcript of February 8, 2008 Deposition of Neil Berkley ("Berkley Depo."), Ex. K to Garner Decl., Doc. No. 116–18, pp. 50:6–51:5, 56:14–22, 63:12–20; Sabbadini Depo. G, pp. 185:19–25.] On February 25, 2002, **Foley** attorneys Warburg and Granston filed a second provisional application with the same title ("Second Provision Application"). (Complaint, ¶¶ 6–7; Granston Decl. at ¶ 9, Ex. E.) **Vaxiion** was fully satisfied with both the First and Second Provisional Applications. [Transcript of July 8, 2008 Deposition of Harry F. Manbeck, Jr. ("Manbeck Depo."), Ex. F. to Garner Decl., Doc. No. 116–12, pp. 225:20–23; Sabbadini Depo. G, pp. 186:19–21, 203:14–16; Granston Decl. at ¶¶ 6, 9, Exs. C, F.]

To claim priority *in the U.S.* to the First Provisional Application filed on May 24, 2001, **Vaxiion** had to file a non-provisional (or "utility") U.S. application within one year, or by May 24, 2002. In order to claim priority to the

First Provisional Application *outside the U.S.*, **Vaxiion** had to file a Patent Cooperation Treaty ("PCT") application by the same date. In July 2001, **Vaxiion** hired Mark Surber as its Chief Scientific Officer. Surber became the primary contact with **Foley** regarding the utility and PCT applications. [Granston Decl. at ¶ 16; Transcript of February 15, 2008 Deposition of Mark Surber, Ph.D. ("Surber Depo."), Ex. J. to Garner Decl., Doc. No. 116–17, pp. 55:21–56:1; 61:11–13; Sabbadini Depo. G., pp. 202:22–25, 223:5–225:16.]

Over the course of many months, **Foley** and **Vaxiion** prepared the patent applications. (Granston Decl. at ¶¶ 10–22, Exs. G, I–L, O–T; Warburg Decl. at ¶¶ 15–23, Ex. A; Surber Depo., pp. 69:3–71:5; Sabbadini Depo. G, pp. 224:4–223:7.) Warburg and Granston advised Sabbadini, Surber, and William Gerhart, **Vaxiion's** Chief Executive Officer, that it would be best to file separate United States Non–Provisional and PCT applications as opposed to a single PCT application (although in the end the two applications were not substantively different). As such, the **Foley** lawyers and their clients made the decision together to file the separate applications. ***1158** (Surber Depo., pp. 69:10–71:7; Sabbadini Depo. G, pp. 221:7–223:3; Granston Decl. at ¶¶ 11–15; Warburg Decl. at ¶¶ 15–20.)[4] Furthermore, as part of their filing strategy, the parties agreed to file twenty-three individual patent applications with discrete proposed sets of claims ("non-provisional divisional applications"), as opposed to one application including all 464 of **Vaxiion's** claims. (Surber Depo., pp. 69:10–71:7; Sabbadini Depo. G, pp. 221:7–223:3; Granston Decl. at ¶¶ 11–14; Warburg Decl. at ¶¶ 15–20.)

Vaxiion decided to rely on Granston rather than Warburg for the actual drafting of the minicell patent applications (because of Granston's lower billing rate), and communicated primarily with Granston throughout the process. (Sabbadini Depo. G, pp. 181:21–184:23, 200:25–201:11; Warburg Decl. at ¶¶ 8–11, 13, Exs. A–M; Granston Decl. at ¶ 8, 10, Exs. G–N.) **Vaxiion** was aware of the amount of time Granston spent preparing the United States First and Second Provisional Applications, the U.S. Non–Provisional Application and PCT Application, as compared to the time Warburg spent on the same. (Warburg Decl. at ¶¶ 8–10, Exs. A–F; Granston Decl. at 110, Exs. G–L; Sabbadini Depo. G, pp. 181:21–184:23, 200:25–201:11.)

In the month leading up to the filing deadline, the limited time left to file the multiple divisional applications concerned Surber because he felt Granston did not incorporate his suggestions into the applications quickly enough (Transcript of February 15, 2008 Deposition of Mark Surber, Ph.D., Ex. B to Reply, Doc. No. 140–3, pp. 96–97.) **Foley** claims that during the same time period Warburg continually warned **Vaxiion** how important it was for **Vaxiion** to get the information **Foley** needed to file the divisional applications by the deadline. (Warburg Decl. at ¶ 21–22.) Notwithstanding these concerns on both sides, Sabbadini reviewed the specification and claims Warburg and Granston assembled on May 23, 2002 at 6:06 p.m. (the evening before the deadline), proposed no changes to the claims, and believed the application was "excellent" and ready to be filed at that time. (Sabbadini Depo. G, pp. 238:24–239:89–12.)

The parties do not dispute **Foley** knew the PCT application had a May 24, 2002 filing deadline, [Sabbadini Depo. G, pp. 208:20–209:6; Surber Depo., pp. 61:14–24; Ex. H to Motion (November 20, 2002 Letter from Sandra A'Costa to Bill Gerhart [**Vaxiion's** CEO] reminding him of [the] May 24, 2002 deadline), Doc. No. 94–9; Ex. I to Motion (April 24, 2002 Letter from A'Costa to Gerhart reminding him of the May 24, 2002 deadline), Doc. No. 94–10] that the United States post office closed on 11:00 p.m. on the night of May 24, 2002, and that Granston explained to Surber that he had to deliver the applications to the post office by 11:00 p.m. to receive a May 24 postmark on the application. (Granston Decl. at ¶ 24.)

Surber nevertheless continued to provide Granston with changes, comments, and additions up until the evening hours before the filing deadline of 11:00 p.m. on May 24, 2002. [Granston Decl. at ¶¶ 22–28, Exs. V–X; Surber Depo., pp. 87:14–89:2, Ex. 99 (timeline of events of May 24, 2002 prepared by Surber).] Granston unilaterally abandoned the strategy of filing the multiple divisional applications in favor of filing one United States non-provisional application on May 24, 2002, as the filing ***1159** deadline "got closer and Surber still had not given his approval to file." (Opp. at 12, n. 13; *see also* Reply at 8.) The last of Surber's series of changes came at 9:50 p.m. on the night of the deadline when Surber instructed Granston by telephone to add several hundred pages of DNA sequences to the application. (Granston Decl. at ¶ 28, Ex. V; Decl. of Christine E. Whitten, M.D. ISO Opp. ("Whitten Decl."), at ¶¶ 5–6; Decl. of Michelle Sympson ISO Opp. ("Sympson Decl."), at ¶¶ 7–8.) Granston explained to Surber that the changes were unnecessary, they could be added later by amendment, and that if Granston tried to include them he could not guarantee the filing deadline could be met. (Granston Decl. at ¶ 28.) Surber insisted they be added anyway. (Id.)

Surber emailed the sequences to Granston at 10:01 p.m., and due to their size, Granston did not receive them all until 10:09 p.m. (Granston Decl. at ¶ 28, Ex. V; Surber Depo., pp. 87:14–89:2, Ex. 99.) At 10:20 p.m., Granston finalized the application, including the DNA sequences, emailed the U.S. Non–Provisional Application to his assistant Michelle Sympson to finalize, and emailed the PCT application to paralegal Sandra A'Costa to format to conform to the PCT formatting rules. (Granston Decl. at ¶ 29, Ex. V; Surber Depo, pp. 87:14–89:2, 184:2–9, 225:5–15; Sympson Decl. at ¶ 9–11.) Dr. Christine Whitten, Granston's girlfriend at the time (now his wife) was also at **Foley's** offices that night in order to drive with Granston to the post office but did not participate in the preparation or filing of any of **Vaxiion's** patent applications. (Granston Decl. at ¶ 30; Whitten Decl. at ¶¶ 2–3.) At approximately 10:40 p.m., Granston left for the post office with the completed Non–Provisional Application, and asked Whitten to stay behind until the PCT Application was completed, to drive it to the post office. (Whitten Decl. at ¶ 7.) At that time, Whitten states, A'Costa was having trouble formatting the PCT because her computer kept freezing. Once the computer was working, A'Costa formatted the application, but by the time she finished it was past 11:00 p.m., and the post office had closed. (Whitten Decl. at ¶ 8; Sympson Decl. at ¶ 13.)

Despite trying to reach contacts in Alaska and Hawaii who could still potentially obtain a May 24 postmark on the PCT Application because of the time zone difference, Granston was unable to file the application by the deadline. (Whitten Decl. at ¶ 10–11; Sympson Decl. at ¶ 15.) **Vaxiion** thus successfully filed a non-provisional U.S. patent application ("Non–Provisional Application") on May 24, 2002, claiming priority to the First and Second Provisional Applications, (Granston Decl. at ¶ 30, Ex. Y,) and filed the PCT application the next business day, May 28, 2002. (Warburg Decl. at¶ 25.) As a result of the missed PCT Application deadline, **Vaxiion** is not able to claim priority internationally to the May 24, 2001 First Provisional Application, but only to the February 25, 2002 Second Provisional Application.

After **Foley** filed the First Provisional Application on **Vaxiion's** behalf on May 24, 2001, but before **Foley** filed the Second Provisional Application on **Vaxiion's** behalf on February 25, 2002, an attorney in **Foley's** Washington D.C. office, Stephen Bent, filed a provisional application for an Australian company, EnGeneIC, also covering certain aspects of minicell technology. [Bent Decl. ISO Opp. ("Bent Decl."), Doc. No. 116–2 at ¶ 2.] On October 15, 2001, Bent filed on behalf of EnGeneIC a provisional application, titled "Intact Minicells as Vectors for DNA Transfer and Gene Therapy In Vitro and In Vivo." (*Id.*) EnGeneIC's PCT Application, which was filed one year later on October 15, 2002, claims priority to EnGeneIC's provisional ***1160** application, and as a result is considered senior to **Vaxiion's** PCT Application. (*Id.* at ¶ 4.)

Foley represented both **Vaxiion** and EnGeneIC from November 2001 until June 2002. Prior to the publication of EnGeneIC's PCT Application on April 24, 2003, neither Warburg nor Granston knew of EnGeneIC's provisional application or that **Foley** D.C. attorney Bent represented EnGeneIC. (Warburg Decl. at ¶ 27; Granston Decl. at ¶ 33.) In July 2002, (Warburg Decl. at ¶ 26,) **Vaxiion** terminated its relationship with **Foley** and instead retained the services of the law firm of Knobbe Martens Olson & Bear. Knobbe Martens continued its prosecution of **Vaxiion's** patent applications for minicell technology. On February 27, 2007, the USPTO issued to **Vaxiion** Patent No. 7,183,105 (the "105 Patent"), which claimed priority to the First and Second Provisional Applications. (Garner Decl. at ¶ 4, Ex. D.)

Vaxiion learned that **Foley** represented EnGeneIC no later than November 2004. (Sabbadini Depo. G, p. 251.) **Vaxiion** never, however, raised an issue regarding **Foley's** continued representation of EnGeneIC until late August 2007, when Plaintiff's counsel indicated **Vaxiion** would not produce certain laboratory notebooks in discovery because of **Foley's** continued representation of EnGeneIC. (Garner Decl. at ¶ 17.) **Foley** withdrew from its representation of EnGeneIC with respect to EnGeneIC's PCT Application and EnGeneIC's Non–Provisional U.S. Application, in late 2007 or early 2008. (Bent Decl. at ¶ 7.) **Foley** continues to represent EnGeneIC in some patent matters.

Before **Foley** withdrew from its representation of EnGeneIC, in 2006 and 2007, a PTO examiner rejected several claims in EnGeneIC's Non–Provisional U.S. Application partly in light of **Vaxiion's** Non–Provisional U.S. Application. (McCaslin Decl. at ¶¶ 2 and 4, Exs. A and C.) In response to the examiner's rejection, **Foley** on behalf of EnGeneIC submitted declarations attempting to antedate the **Vaxiion** prior art reference (i.e. demonstrate EnGeneIC reduced its invention to practice before **Vaxiion**). (McCaslin Decl. at ¶¶ 3 and 5.) On July 25, 2007, the PTO withdrew its rejection of EnGeneIC's Non–Provisional Application based upon

Vaxiion's Non-Provisional U.S. Application, and instead rejected EnGeneIC's application based upon **Vaxiion's** then-issued '105 Patent. (*Id.* at ¶ 6, Ex. E.)

DISCUSSION

A. Legal Standard

Summary judgment is proper where the pleadings and materials demonstrate "there is no genuine issue as to any material fact and ... the moving party is entitled to judgment as a matter of law." Fed.R.Civ.P. 56(c); *Celotex Corp. v. Catrett,* 477 U.S. 317, 322, 106 S.Ct. 2548, 91 L.Ed.2d 265 (1986). A material issue of fact is a question the trier of fact must answer to determine the rights of the parties under the applicable substantive law. *Anderson v. Liberty Lobby, Inc.,* 477 U.S. 242, 248, 106 S.Ct. 2505, 91 L.Ed.2d 202 (1986). A dispute is genuine "if the evidence is such that a reasonable jury could return a verdict for the nonmoving party." *Id.* at 248, 106 S.Ct. 2505.

The moving party bears "the initial responsibility of informing the district court of the basis for its motion." *Celotex,* 477 U.S. at 323, 106 S.Ct. 2548. To satisfy this burden, the moving party must demonstrate that no genuine issue of material fact exists for trial, *Id.* at 322, 106 S.Ct. 2548, and may do this by "pointing out to the district court that there is an absence of evidence to support the nonmoving party's case." ***1161** *Celotex,* 477 U.S. at 325, 106 S.Ct. 2548; *see Nissan Fire & Marine Ins. Co. v. Fritz Cos.,* 210 F.3d 1099, 1106 (9th Cir.2000). Additionally, to obtain a summary judgment, " 'the moving party must offer evidence sufficient to support a finding upon every element of his [or her] claim ..., except those elements admitted ...' by the adversary." *Watts v. United States,* 703 F.2d 346, 347 (9th Cir.1983) (citing *United States v. Dibble,* 429 F.2d 598, 601 (9th Cir.1970)). However, the moving party is not required to negate those portions of the non-moving party's claim on which the non-moving party bears the burden of proof. *Celotex,* 477 U.S. at 323, 106 S.Ct. 2548.

To withstand a motion for summary judgment, the non-movant must then show that there are genuine factual issues which can only be resolved by the trier of fact. *Reese v. Jefferson Sch. Dist. No. 14J,* 208 F.3d 736, 738 (9th Cir.2000) (citing Fed.R.Civ.P. 56; *Celotex,* 477 U.S. at 323, 106 S.Ct. 2548). The nonmoving party may not rely on the pleadings but must present specific facts creating a genuine issue of material fact. *Nissan Fire,* 210 F.3d at 1103. The inferences to be drawn from the facts must be viewed in a light most favorable to the party opposing the motion, but conclusory allegations as to ultimate facts are not adequate to defeat summary judgment. *Gibson v. County of Washoe, Nev.,* 290 F.3d 1175, 1180 (9th Cir.2002). The Court is not required "to scour the record in search of a genuine issue of triable fact," *Keenan v. Allan,* 91 F.3d 1275, 1279 (9th Cir.1996), but rather "may limit its review to the documents submitted for purposes of summary judgment and those parts of the record specifically referenced therein." *Carmen v. San Francisco Unified Sch. Dist.,* 237 F.3d 1026, 1030 (9th Cir.2001).

B. Motions to Strike and Evidentiary Objections

[1] Defendant has brought two motions to strike evidence which plaintiff cites in support of its Motion: (1) Motion to Strike Evidence Cited In Plaintiff's Motion for Summary Adjudication ("Motion to Strike MSA Evidence," Doc. No. 131); (2) Motion to Strike Evidence of Settlement Meeting Cited in Support of Plaintiff's Reply in Support of Motion for Summary Adjudication (Doc. No. 146.) Both parties also filed numerous evidentiary objections. As explained below, the Court GRANTS defendant's Motion to Strike MSA Evidence because plaintiff has not shown that its expert is qualified to give opinions with regard to legal ethics and conflicts of interest.[5] The Court finds defendant's second motion to strike and the parties' evidentiary objections beyond those discussed below do not impact the Court's substantive determination of the merits of plaintiff's motion for summary adjudication. The Court accordingly DENIES the motion and objections as moot.

Defendant objects to the following deposition testimony excerpts and opinions rendered in the expert reports[6] of plaintiff's expert Harry F. Manbeck:

> ***1162** 1. Transcript of July 8, 2008 Deposition of Harry F. Manbeck, Jr., page 65, line 20 through page 66, line 18, regarding a legal ethics rule at issue in this case, [("Manbeck Depo."), Doc. No. 131–44, Ex. A to Motion to Strike MSA Evidence, pp. 65:20–66:18] PTO Code Section 10.66. 37 C.F.R. § 10.66. (Memo. ISO Motion to Strike MSA Evidence at 2.) Plaintiff cites the testimony in its Motion and Separate Statement in Support of Motion for Summary Adjudication [("Separate Statement"), Doc. No. 94–47] to support its argument that **Foley** breached its fiduciary duty to **Vaxiion**.

2. Any paragraphs of Manbeck's expert reports discussing his opinions on ethics and conflicts of interest, "to the extent that plaintiff intends to rely upon them." (Memo. ISO Motion to Strike MSA Evidence at 3 n. 2.)

3. Paragraphs 41, 43, 44, and 48 of the Expert Report of Harry Manbeck cited in plaintiff's Separate Statement, paragraphs 7 and 22. [Defendant's Objections to Plaintiff's Evidence ISO Motion for Summary Adjudication ("Evid. Objections"), Doc. No. 117, at 2–6.] Plaintiff cites the report in support of its assertion **Foley** committed professional negligence in its untimely filing of the PCT application.

4. Paragraph 5 of the Rebuttal Expert Report of Harry Manbeck cited in plaintiff's Separate Statement, paragraph 9 (Evid. Objections at 6.) Plaintiff cites the rebuttal report in support of its assertion **Foley** committed professional negligence in its untimely filing of the PCT application.

5. Transcript of July 8, 2008 Deposition of Harry F. Manbeck, Jr., page 187, line 3 through line 23, and page 189, line 23 though page 190, line 23, cited in plaintiff's Separate Statement, paragraph 9. (Evid. Objections at 7, 9.) Plaintiff cites the testimony in support of its assertion **Foley** committed professional negligence in its untimely filing of the PCT application.

Defendant argues this evidence is inadmissible under Fed.R.Evid. 702 because Manbeck does not have the knowledge, skill, experience, training or education in the area of attorney ethics or attorney standards of care to enable him to render expert opinions in these areas, even though Manbeck may be qualified to opine on matters relating to patent procedures. *See, e.g.* Memo. ISO Motion to Strike MSA Evidence at 3. Essentially, defendant argues Manbeck is no more qualified than the average lawyer to testify about legal ethics or conflicts of interest.

[2] **[3]** Federal Rule of Evidence 702 provides, in relevant part:

> If scientific, technical, or other specialized knowledge will assist the trier of fact to understand the evidence or to determine a fact in issue, a witness qualified as an expert by knowledge, skill, experience, training, or education, may testify thereto in the form of an opinion or otherwise ....

Fed.R.Evid. 702 (2008). To qualify as an expert, a witness must have "knowledge, skill, experience, training, or education" relevant to such evidence or fact in issue, *Id.*, and "expert testimony must ... address an issue beyond the common knowledge of the average layman." ***1163** *United States v. Vallejo,* 237 F.3d 1008, 1019 (9th Cir.2001), *amended by* 246 F.3d 1150 (9th Cir.2001). The admissibility of expert testimony is within the sound discretion of the trial judge, "who alone must decide the qualifications of the expert on a given subject and the extent to which his opinions may be required." *United States v. Chang,* 207 F.3d 1169, 1172 (9th Cir.2000) (citation omitted).

[4] **[5]** Plaintiff designated Manbeck [7] as its sole expert not only on patent procedure matters, but also on legal ethics and conflict of interest matters. [Export Report of Harry F. Manbeck, Jr. ("Manbeck Report"), Doc. No. 94–31, Ex. "V" ISO Motion at ¶ 5.] Manbeck testified in his deposition that he has never held himself out as an expert on legal ethics, patent ethics, or conflicts of interest. [Transcript of July 8, 2008 Deposition of Harry Manbeck ("Manbeck Depo. A"), Ex. A to Garner Decl. ISO Motion to Strike MSA Evidence, Doc. No. 131–3, pp. 36:9–14.] Manbeck also testified he: (1) never received any training on ethics issues (*Id.*, p. 34, lines 11–15); (2) never represented a party in a legal malpractice case (*Id.*, p. 80, lines 18–22); (3) has only been designated an expert in (at most) two legal malpractice cases, neither having to do with conflicts of interest (*Id.*, p. 35, line 2–36, line 25); and (4) as USPTO Commissioner was not involved in disciplining lawyers and did not oversee the revisions of any ethics rules (*Id.*, pp. 25, line 20–26, line 21.)

Plaintiff argues Manbeck's excess of 50 years of experience in the field of patent law give him an adequate basis for opining as to the conduct a lawyer in his field should adopt, and though he has had no special training in ethics, he has had generalized training (i.e. Mandatory/Minimum Continuing Legal Education) regarding ethics and avoidance of conflicts of interest. (Opp. to Motion to Strike MSA Evidence at 4.) Plaintiff also attaches a declaration from Manbeck to its Opposition, stating that despite his lack of specialized ethics training he has "certainly been well aware of ethical standards to which attorneys are held and [has] consistently complied with them throughout [his] career." [Decl. of Harry

F. Manbeck ISO Opp. to Motion to Strike ("Manbeck Decl. ISO Opp."), Doc. No. 148–11, at ¶ 4.]

To be admissible, "expert testimony must ... address an issue beyond the common knowledge of the average layman." *United States v. Vallejo,* 237 F.3d 1008, 1019 (9th Cir.2001), *amended by* 246 F.3d 1150 (9th Cir.2001). Plaintiff concedes Manbeck has had no specific or special ethics training or professional experience in ethical matters, and Manbeck merely asserts he has been "aware of ethical standards." This "awareness" hardly constitutes "knowledge, skill, experience, training, or education" in ethics beyond that of an average lawyer. Plaintiff does not cite, and the Court has not found, any binding authority stating that length of tenure in a given profession on its own, or mere "awareness" and familiarity with a disciplinary rule such as Rule 10.66 qualifies a person as an expert in the ethical matters of that profession. The Court accordingly finds Fed.R.Evid. 702 precludes Manbeck from opining as an expert on matters of attorney ethics, attorney standards of care, or conflicts of interest. ***1164** However, Manbeck is qualified to opine as an expert in matters relating to patent office procedures.

C. Interlocutory Summary Judgment Rendered on Liability Alone

[6] Plaintiff moves for summary adjudication of liability of its negligence and breach of fiduciary duty claims pursuant to Federal Rule of Civil Procedure 56(a). (Motion at 6.) Rule 56 requires a party moving for summary judgment to offer evidence sufficient to support a finding upon every element of the claim. *Watts,* 703 F.2d at 347 (9th Cir.1983) (citation omitted). Both causation and damages are ***necessary elements*** for a finding of malpractice ***liability*** as well as breach of fiduciary duty ***liability. Osornio v. Weingarten,*** 124 Cal.App.4th 304, 319, 21 Cal.Rptr.3d 246 (Cal.Ct.App.2004) (laying out the elements of a professional negligence claim); *Stanley v. Richmond,* 35 Cal.App.4th 1070, 1077, 41 Cal.Rptr.2d 768 (Cal.Ct.App.1995) (laying out the elements for a breach of fiduciary duty claim). However, plaintiff does *not* offer evidence sufficient to support a finding upon every element of its claims, because the motion only cursorily addresses the elements of causation and damages. Plaintiff's Reply explains this strategy by citing to Federal Rule of Civil Procedure 56(d)(2) ("[a]n interlocutory summary judgment may be rendered on liability alone, even if there is a genuine issue on the amount of damages," Fed.R.Civ.P. 56(d)(2) (2008)), and by stating it seeks a court order "adjudicating liability, leaving the issues of causation and damages for trial." (Reply at 10.)

[7] As set forth in the discussion below, plaintiff has failed to make a sufficient showing with regard to the breach element of each claim. Accordingly, the Court need not reach the question of whether plaintiff may seek summary judgment on "liability" without addressing the causation and damages elements of both claims. [8]

D. Plaintiff's Motion for Summary Adjudication Re: "Negligence Liability/Missed Deadline"

1. Professional Malpractice by an Attorney: Legal Standard

Plaintiff first argues it is entitled to summary judgment on its negligence claim. Plaintiff has conceded that the negligence cause of action is essentially one of legal malpractice (Memo ISO of Motion to Remand, Doc. No. 3, at 3), and the Court has treated it as such (*see, e.g.* Order Denying Remand, Doc. No. 14, at 7.) In its summary adjudication argument on the negligence cause of action, plaintiff lays out the elements of traditional tort negligence ("duty, breach of duty, legal cause, and resultant damage") and then asserts that "legal malpractice claims are subject to the same legal standards as general negligence claims" (Motion at 6,) citing ***1165** *Osornio v. Weingarten,* 124 Cal.App.4th 304, 319, 21 Cal.Rptr.3d 246 (Cal.Ct.App.2004) (in which the court evaluated the scope of an attorney's duty to non-client beneficiaries of a will).

The *Osornio* court held there are four essential elements of a professional negligence claim: "(1) the duty of the professional to use such skill, prudence, and diligence as other members of his profession commonly possess and exercise; (2) a breach of that duty; (3) a proximate causal connection between the negligent conduct and the resulting injury; and (4) actual loss or damage resulting from the professional's negligence. [Citations.]" *Osornio v. Weingarten,* 124 Cal.App.4th 304, 319, 21 Cal.Rptr.3d 246 (Cal.Ct.App.2004). *See also Ambriz v. Kelegian,* 146 Cal.App.4th 1519, 1531, 53 Cal.Rptr.3d 700 (Cal.Ct.App.2007); *Coscia v. McKenna & Cuneo,* 25 Cal.4th 1194, 1199–1200, 108 Cal.Rptr.2d 471, 25 P.3d 670 (Cal.2001) (addressing attorney negligence in criminal cases) (Opp. at 10.) The Court now addresses plaintiff's evidence as to each element.

a) Element 1: Duty of Care

Foley concedes that it owed **Vaxiion** a duty of care. (Opp. at 10.) The Court accordingly finds that the existence of a duty of care is an issue not in dispute in this case.

b) Element 2: Breach of the Duty of Care

i) Legal Standard

[8] **[9]** **[10]** **[11]** In a negligence action, "[b]reach of duty is usually a fact issue for the [fact finder]; if the circumstances permit a reasonable doubt whether the defendant's conduct violates the boundaries of ordinary care, the doubt must be resolved as an issue of fact by the [fact finder] rather than of law by the court." *Ishmael v. Millington,* 241 Cal.App.2d 520, 525, 50 Cal.Rptr. 592 (Cal.Ct.App.1966). Breach of a duty of reasonable care in a professional malpractice situation is the failure of an attorney to use such skill, prudence, and diligence as other members of his profession commonly possess and exercise. *Osornio v. Weingarten,* 124 Cal.App.4th 304, 319, 21 Cal.Rptr.3d 246 (Cal.Ct.App.2004). In a legal malpractice action, expert testimony is required to establish the prevailing standard of skill and learning in the locality and the propriety of particular conduct by the practitioner in particular circumstances, as such standard and skill is not a matter of general knowledge. *Lipscomb v. Krause,* 87 Cal.App.3d 970, 975, 151 Cal.Rptr. 465 (Cal.Ct.App.1978). When a party in a professional malpractice claim moves for summary judgment and supports the motion with expert declarations as to whether a professional's conduct fell within the community standard of care, he is entitled to summary judgment unless the opposing party comes forward with conflicting expert evidence. *Hutchinson v. United States,* 838 F.2d 390, 392 (9th Cir.1988) (citing *Willard v. Hagemeister,* 121 Cal.App.3d 406, 412, 175 Cal.Rptr. 365, 369 (Cal.Ct.App.1981)). Expert evidence is not needed, however, when the type of conduct required by the particular circumstances is within the knowledge of laymen. *Id.* at 392 n. 1.

ii) Failure to File On Time

[12] Plaintiff contends first **Foley** breached its duty of due care to **Vaxiion** (Motion at 7,) explaining and supporting this contention by stating "**Foley** & **Lardner** represented **Vaxiion** when **Foley** prepared and untimely filed **Vaxiion's** PCT patent application on May 28, 2002." [Transcript of January 29, 2008 Deposition of Drew Granston, Ph.D. ("Granston Depo."), Doc. No. 94–4, Ex. C to Motion, pp. 210:11–14; 269:18–270:18.] Plaintiff solely relies on the deposition testimony and expert reports of Harry Manbeck and ***1166** the deposition testimony of David Hricik, defendant's expert witness, [9] to support this contention. (Motion at 8.)

Plaintiff's expert, Mr. Manbeck, asserts: "[t]he failure to file the PCT application on or before the May 24, 2002 deadline was malpractice." (Manbeck Report at ¶ 43.) Manbeck himself cites the PTO rules regarding general standards for competent legal representation (*Id.* at ¶ 40,) [10] and *Kairos Scientific Inc. v. Fish & Richardson,* 2006 WL 171921, 2006 Cal.App. Unpub. LEXIS 667 (Cal.Ct.App.2006), an unpublished California Court of Appeal case. In addition, plaintiff cites testimony of defendant's expert, David Hricik, that **Vaxiion** and **Foley** and **Lardner** "shared" responsibility for missing the filing deadline. [Transcript of July 18, 2008 Deposition of David Hricik ("Hricik Depo."), Doc. No. 94–44, Ex. II to Motion, p. 8.] Based upon these two experts' statements, **Vaxiion** argues it is entitled to judgment on the issue of liability on the negligence claim.

However, **Foley** asserts there are numerous disputed material facts regarding its alleged breach of duty owed to **Vaxiion**. In particular, **Foley** contends Mark Surber and in effect, **Vaxiion**, were the actual causes of the delay in finalizing the patent applications because of their unyielding requests for changes and modifications of the application until and including the final hour before the deadline. **Foley's** expert, David Hricik, opines strict liability does not apply to missed filing deadlines under these circumstances because **Foley's** ability to meet the deadline was hampered by **Vaxiion**. (Hricik Report at 27.) Hricik explains "a practitioner cannot file an application—or decide whether one application is better than more than one ... without client authorization. [citation omitted] [The application] process required input from the client, not unilateral action by the firm." (*Id.* at 27–28.) Defendant also references this point to rebut plaintiff's claim that Hricik admitted it was **Foley's** fault (because of "shared responsibility") that the deadline was missed.

The Court has already found, in Section "B" *supra,* that Manbeck is not an expert ***1167** qualified to render an expert opinion on attorney standards of care for purposes of this motion. Even if Manbeck's opinion is considered, a dispute of material fact exists because Manbeck's opinion that missing the deadline was a breach of duty regardless of the circumstances is in direct conflict with Hricik's opinion that no such breach could have occurred because the client was at fault for the missed deadline. This disputed issue precludes summary judgment.

iii) Practices Surrounding Failure to Timely File

[13] Plaintiff next contends that aside from missing the deadline, **Foley** breached its duty of care by its conduct leading to the missed deadline. Plaintiff supports these contentions by citing to Manbeck's reports and deposition. Manbeck's opinions are admissible insofar as he addresses patent office procedures, because the Court has found Manbeck is qualified to opine as an expert on such matters. *See* Section "B" *supra.*

First, Manbeck states **Foley** should have focused on filing the PCT application (and simply designated the United States as a selected country for protection) which would have secured protection domestically and abroad, as opposed to "negligently ch[oosing] only to file the United States application" when it became clear that both the United States and PCT applications could not be completed on time. [Motion at 4, 7–8; Manbeck Report at ¶¶ 44–47; Rebuttal Export Report of Harry F. Manbeck, Jr. ("Rebuttal Report"), Doc. No. 94–45, Ex. JJ to Motion at ¶¶ 5–7.] Alternatively, **Foley** could have added a "PCT Transmittal Letter" and a "PCT Request" to the improperly formatted request (i.e. the finished United States utility application) as opposed to attempting to reformat it at the last minute to PCT standards. According to Manbeck, under those circumstances the PTO office would have accepted the application, given it a filing date, and merely required **Foley** to resubmit the application on the proper paper. (Motion at 7–8; *see also* Manbeck Report at ¶¶ 44–47.) Manbeck asserts that a knowledgeable patent attorney would have known this procedural shortcut. (Manbeck Report at ¶ 46.) Plaintiff accordingly asserts "**Foley** & **Lardner** had all of the documentation needed to file the PCT application by 10:00 p.m. on May 24, 2002," and cites to Granston's deposition testimony to the effect that he "believe[d]" the noncompliant (i.e. unformatted) PCT document, if filed incorrectly, would have preserved the priority date." (Granston Depo., pp. 291:11–296:23.)

Second, Manbeck asserts there was a "lack of attorney and staff support" to accomplish the very complex PCT filing indicating "lapses in the professional representation," (Manbeck Report at ¶ 46–47.) Specifically, Manbeck notes senior attorney Warburg was out of town on the day the filing was due, leaving his associate Granston to "fend for himself" in a complex filing situation. Additionally he notes the fact that the computer malfunctioned during the formatting of the PCT application, and a paralegal, Sandra A'Costa, made the determination based on her knowledge that the PCT application would not be accepted if it were formatted incorrectly. Manbeck accordingly criticizes Granston's decision to "rely wholly on a paralegal to know the law related to PCT applications," [Motion at 8, paraphrasing July 8, 2008 Deposition of Harry F. Manbeck, Jr. ("Manbeck Depo."), Doc. No. 94–46, Ex. KK, pp. 187:3–23, 188:3–21, 189:2–11, "23–190:23"; *See also* Manbeck Report ¶¶ 44–47.]

Foley counters it did not breach the standard of care by filing separate U.S. patent and PCT applications as opposed to ***1168** one PCT Application because "practitioners routinely, and for good reasons, file both ways ..." (Opp. at 14) [citing Mercer [11] Decl. ISO Opp. ("Mercer Decl.") at ¶ 17.] **Foley** also points out **Vaxiion** took part in the decision to file separate applications (Granston Decl. at ¶ 15), so it could have not been a breach of the standard of care to continue to act consistently with that decision. (Opp. at 14.)

In response to plaintiff's assertions **Foley** should have merely converted its United States application to a PCT application at the last minute, **Foley** argues that even if it had taken such action, it would nevertheless have been submitting an improperly formatted application after the 11:00 p.m. deadline. (Opp. at 14–15.) [12] The timeline indicates that when Granston left at 10:40 p.m. to take the completed U.S. utility application to the post office, he arrived seconds before it closed (Granston Decl. at ¶ 30,) a fact plaintiff does not dispute. Manbeck asserts it would only have taken Granston five minutes to attach a "PCT Transmittal Letter" and a "PCT Request" to the finished U.S. utility application to submit it as a PCT Application. (Manbeck Depo., pp. 190:20.) If Granston had left for the post office at 10:45 however, it would have already closed (judging by the fact he only narrowly missed filing the utility application when he left at 10:40,) in which case neither the U.S. utility application nor the PCT application would have been timely filed. By this "timeline" argument, defendant demonstrates that because plaintiff took until 10:09 p.m. to provide the materials it wished to be included in the applications, there is nothing **Foley** could have done to get both the PCT and U.S. utility applications to the post office on time.

In response to plaintiff's arguments that **Foley** improperly relied on associate Granston as the primary drafter and contact person on the application, and on paralegal A'Costa for her knowledge about formatting rules for PCT applications, **Foley** submits: 1) Granston had extensive experience in patent filings (over 100 previous filings) (Granston Decl. at ¶¶ 1–4); 2) **Vaxiion** was aware of and agreed to the respective roles of Warburg and Granston (*Id.* at ¶¶ 8, 10, Exs. G–L; Warburg Decl. at ¶¶ 9, 10, Exs. A–F; Sabbadini Depo. G., pp. 181:21–184:23; 200:25–201:11); 3) Warburg was involved in all phases of the prosecution including client meetings and review of the claims in the divisional applications [Granston Decl. at ¶¶ 18–19, Exs. G–R; Warburg Decl. at ¶¶ 10, 13–23, 25, Exs. B–K; Transcript of April, 2008 Deposition of William Gerhart ("Gerhart Depo."), Doc. No. 116–30, Ex. I to Opp., p. 50:7–51:15)] Warburg was available by phone on the day of the filing and even talked to **Vaxiion's** CEO Gerhart on that ***1169** day (Warburg Decl. at ¶ 23, Ex. A; Gerhart Depo., pp. 62:9–64:1); and 5) A'Costa was a qualified patent paralegal with ample experience with PCT filings. (Granston Decl. at ¶ 29). Defendant's expert Hricik also notes that **Foley's** support personnel had "significant patent experience and training." (Hricik Report at 8.) [13]

Disputed issues of material fact exist as to plaintiff's argument that **Foley's** actions leading to the missed deadline rose to the level of breach of duty. Here, as described above, even if Granston had conducted himself with the skill, prudence, and diligence of other members of his profession, according to Manbeck (i.e. converting the United States application to a PCT application at the last minute,) *he still did not receive all of the materials plaintiff demanded be included in the applications until 10:09 p.m.* Consequently, there is a genuine issue of fact as to whether the PCT Application would have been filed on time. Defendant has also submitted sufficient evidence to create a dispute of material fact as to whether **Foley** improperly relied on associate Granston as the primary drafter and contact person on the application, and on paralegal A'Costa for her knowledge about formatting rules for PCT applications.

c) Elements 3 and 4: Causation and Damages

The Court finds there are disputed issues of material fact as to the breach of duty element of plaintiff's legal malpractice claim and accordingly does not need to address the causation and damages elements. Plaintiff's motion for summary adjudication with respect to liability for professional negligence is DENIED.

E. Plaintiff's Motion For Summary Adjudication of Liability Re: "Constructive Fraud a.k.a. Breach of Fiduciary Duty/Invalidation Attempts"

Plaintiff's second claim is for "Dual Representation of Adverse Interests," which this Court has treated as a claim of breach of fiduciary duty. (Order Denying Remand, Doc. No. 14, at 9.)

1. Breach Of Fiduciary Duty: Legal Standard

[14] **[15]** Under California law breach of fiduciary duty is a "species of tort distinct from a cause of action for professional negligence." *Stanley v. Richmond,* 35 Cal.App.4th 1070, 1077, 41 Cal.Rptr.2d 768 (Cal.Ct.App.1995). The elements of a cause of action for breach of fiduciary duty are: "(1) existence of a fiduciary duty; (2) breach of the fiduciary duty; and (3) damage proximately caused by the breach." *Id.*; *see also Benasra v. Mitchell Silberberg & Knupp LLP,* 123 Cal.App.4th 1179, 1183, 20 Cal.Rptr.3d 621 (Cal.Ct.App.2004).

The scope of an attorney's duty of care to a client is based upon the California Rules of Professional Conduct, (*Id.* at 1086, 41 Cal.Rptr.2d 768,) specifically Rule 3–310. The relevant portions of Rule 3–310 to this case are the following:

> **(B)(3)** "A member shall not accept or continue representation of a client without providing written disclosure to the client where [t]he member has or had a ***1170** legal, business, financial, professional, or personal relationship with another person or entity the member knows or reasonably should know would be affected substantially by resolution of the matter."
>
> **"(C)** A member shall not, without the informed written consent of each client: **(1)** Accept representation of more than one client in a matter in which the interests of the clients potentially conflict; or **(2)** Accept or continue representation of more than one client in a matter in which the interests of the clients actually conflict; or **(3)** Represent a client in a matter and at the same time in a separate matter accept as a client a person or entity whose interest in the first matter is adverse to the client in the first matter."
>
> **"(E)** A member shall not, without the informed written consent of the client or former client, accept employment adverse to the client or former client where, by reason

of the representation of the client or former client, the member has obtained confidential information material to the employment."

Cal. Rules of Prof l Conduct, Rule 3–310 (2008).

[16] [17] [18] [19] A violation of the Rules of Professional Conduct, in itself, does not provide the basis for civil liability. *BGJ Assoc., LLC v. Wilson,* 113 Cal.App.4th 1217, 1227, 7 Cal.Rptr.3d 140 (Cal.Ct.App.2003). However, "[i]t is well established that an attorney's duties to his client are governed by the Rules of Professional Conduct, and that those rules, together with statutes and general principles relating to other fiduciary relationships, 'help define the duty component of the fiduciary duty which an attorney owes to his client'." *American Airlines, Inc. v. Sheppard Mullin, Richter & Hampton,* 96 Cal.App.4th 1017, 1032, 117 Cal.Rptr.2d 685 (Cal.Ct.App.2002) (quoting *Mirabito v. Liccardo,* 4 Cal.App.4th 41, 45, 5 Cal.Rptr.2d 571 (Cal.Ct.App.1992)). The court may determine the scope of an attorney's fiduciary duty as a matter of law, but it is generally a question of fact whether the attorney has breached a fiduciary duty. *Stanley,* 35 Cal.App.4th at 1086–87, 41 Cal.Rptr.2d 768. Expert testimony is not required, but is admissible to establish duty and breach of duty in a claim for breach of fiduciary duty where the attorney conduct is a matter beyond common knowledge. *Id.* at 1087, 41 Cal.Rptr.2d 768.

a) Element 1: Existence of a Fiduciary Duty

Plaintiff and defendant agree defendant owed a fiduciary duty to plaintiff. (Opp. at 19.) The Court therefore finds that the existence of a fiduciary duty between **Foley** and **Vaxiion** is an issue not in dispute in this case.

b) Element 2: Breach of Fiduciary Duty

Plaintiff asserts **Foley** breached its fiduciary duty in three ways: (1) **Foley** simultaneously represented both **Vaxiion** and EnGeneIC on the "same subject matter" without disclosing such representation; (2) **Foley** filed "at least three patent applications on EnGeneIC's behalf that lay claim to the heart of the subject matter covered in **Vaxiion's** patent applications;" and (3) **Foley** attempted to invalidate **Vaxiion's** patent through the instant lawsuit. (Motion at 10.)

i) Simultaneous Representation

[20] Plaintiff first argues **Foley** breached its duty to **Vaxiion** when the **Foley** Washington D.C. office accepted representation of EnGeneIC because both companies pursued patents using similar technologies. The parties do not dispute that Patent and Trademark Office Code of Professional Responsibility Section 10.66 ***1171** (37 C.F.R. § 10.66 (2008) ("Section 10.66")) [14] provides the applicable standard for determining whether **Foley** breached its fiduciary duty to **Vaxiion** when it began representing EnGeneIC. (Hricik Report at 14–15, 21–23; Manbeck Depo. at 66:14–16.)

Plaintiff's arguments regarding **Foley's** breach of fiduciary duty by concurrent representation appear to fall into the following sub-issues: (1) lack of adequate conflict of interest check; (2) existence of differing (adverse) interests between **Vaxiion** and EnGeneIC when **Foley** accepted representation of EnGeneIC; and (3) whether the existence of "possible" differing interests as indicated by plaintiff's expert rises to the level of "likely" differing interests prohibited by Section 10.66. The Court finds there are disputes of material fact regarding each sub-issue, which precludes a finding of breach as a matter of law.

Sub–Issue 1: Lack of Sufficient Conflict Check

Plaintiff asserts in October 2001 when **Foley** accepted EnGeneIC as a client, **Vaxiion** had already, in May 2001, "filed its first broad provisional patent application related to minicell technology," something that **Foley** should have discovered in a basic internal conflicts check. (Motion at 11.) Plaintiff asserts **Foley** never performed a conflict check, regardless of the existence of a firmwide policy for doing so. (Reply at 11.) In his report, plaintiff's expert Manbeck states based on his examination of **Foley's** intake forms that "a local Washington, D.C. member of **Foley** & **Lardner's** New Matter Committee approved the acceptance of Engenic (sic) as a client on the same date as Client Intake Forms were submitted. Thus, it seems unlikely the San Diego office had a chance to prevent the conflict from arising." (Manbeck Report at ¶ 18.)

By contrast, defendant's expert opines that **Foley's** conflict check system was more evolved than those of other patent firms at the time and "easily met the standard of care." Defendant's expert does not, however, address whether the conflicts check system was properly utilized in this case. (Hricik Report at 25.)

Section 10.66 does not allow an attorney continue or take on employment "if the ***1172** exercise of the practitioner's independent professional judgment in behalf of a client ... would be likely to involve the practitioner in representing differing interests." 37 C.F.R. § 10.66(a)-(b) (2008). The Court has already found Manbeck is not qualified to render an expert opinion on conflict of interest issues. Even if qualified, however, there is a dispute of material fact with regard to the conflict check procedures because neither expert can say for certain what measures **Foley** actually took when it accepted representation of EnGeneIC.

Sub–Issue 2: Existence of "Differing Interests"

Plaintiff asserts because **Foley** had already agreed to "pursue maximum protection of **Vaxiion's** minicell invention" it could not represent another company "pursuing the same minicell delivery technology protection." (Reply at 11.) In his deposition testimony, Manbeck opined a firm cannot prosecute two patents in the broad area of "minicells," just as it could not prosecute two patents in the area of "semiconductors." [Transcript of July 8, 2008 Deposition of Harry F. Manbeck, Jr. ("Manbeck Depo."), Doc. No. 116–12, Ex. "F" to Opp., pp. 142:24–144:5.] Similarly, although plaintiff's papers do not reference it, plaintiff's expert Roy Curtiss III states "[t]he EnGeneIC provisional application describes nucleic acid delivery mediated by minicells produced by anomalous separation occurring at the poles of bacterial cells. As such, EnGeneIC's technology is identical to that described previously by **Vaxiion** in its May 24, 2001 provisional." [Export Report of Roy Curtiss III ("Curtiss Report"), Doc. No. 94–38, Ex. CC ISO Motion at 13.]

Defendant argues, by contrast, that there is a "factual dispute about whether, at the time **Foley's** San Diego and D.C. attorneys represented **Vaxiion** and EnGeneIC, they had "differing interests," as contemplated by Section 10.66 (Opp. At 19.) Defendant's expert Hricik states **Vaxiion** and EnGeneIC were pursuing very different *applications* for the minicell technology, making them sufficiently non-adverse for **Foley** to represent both of them. (Hricik Report at 22–23, 36.) Hricik further argues, that many different types of patents can utilize minicell technology, explaining a search he ran on the term "minicell" and "minicells" on the U.S. Patent Office Database yielded over 300 hits and data reaching back to 1976. Accordingly, he states "just using the broad term "minicells" to determine whether a conflict exists is not effective as it will result in too many completely unrelated patent applications." (Hricik Decl. ISO Opp. at ¶ 3.)

In its Reply, plaintiff states "the Australian patent prosecution process has already proven the overlap between these inventions" (Reply at 10–11) without any additional explanation, and cites generally to an exhibit to its motion that documents **Vaxiion's** patent prosecution in Australia. (Ex. F ISO Reply.) That exhibit indicates a patent application with a priority date of May 28, 2002 that was rejected by the Australian patent office on two separate occasions (Exs. "F3" and "F5" ISO Reply,) before it was ultimately accepted (Ex. "F7" ISO Reply.) Plaintiff makes no effort to tie the Australian patent process to any overlap with EnGeneIC's technology, other than making broad assertions about the existence of an overlap. Plaintiffs reference to the Australian patent prosecution is too generalized to lend much to the determination of whether **Vaxiion** and EnGeneIC had differing interests at the time **Foley** *began* its concurrent representation of both companies.

Ultimately, plaintiff has failed to demonstrate that defendant violated Section 10.66 as a matter of law. It is disputed ***1173** whether EnGeneIC and **Vaxiion** had differing interests at the outset of **Foley's** representation of EnGeneIC. The parties' conflicting arguments indicate the following material disputed facts: (1) differing expert opinions regarding the potential for conflict of interest between two companies both pursuing patents involving minicell technology, given the disputed size of the field; (2) differing expert opinions as to whether the technologies of **Vaxiion** and EnGeneIC overlap; and (3) lack of a clear, detailed, and exact indication of which specific patent claims in Australia barred by EnGeneIC's technology, and a thorough explanation of why those claims were barred. Accordingly, the Court declines to find there was a breach of duty as a matter of law based on the existence of "differing interests" as contemplated by Section 10.66.

Sub–Issue 3: The Existence of "Likely Differing Interests"

Assuming, *arguendo,* EnGeneIC and **Vaxiion** did not have differing interests when **Foley** accepted EnGeneIC as a client, there remains a separate issue as to whether, at the time **Foley** began representing EnGeneIC, the two companies were *likely to develop* differing interests while **Foley** represented them both. As indicated above, the text of Section 10.66 prohibits a practitioner from accepting employment if the exercise of her professional judgment on a client's behalf is *likely to* involve the practitioner in representing different interests.

Defendant's expert Hricik opines at the time **Foley** accepted EnGeneIC as a client it was not "likely" to be involved in representing differing interests given its existing representation of **Vaxiion** (Hricik Report at 22–23.) Manbeck, plaintiff's expert, states **Foley's** concurrent representation of the two companies would put the firm in a position of "possibly having to contend with **Vaxiion** to determine whose inventor should be awarded the patent coverage on the interfering subject matter." (Manbeck Depo., pp. 136:16–141:19.) Defendant's expert does not dispute that there could have been "possible" differing interests between the companies at some point in the future, but maintains "possible" is different than "likely," which is the stricter standard required by Rule 10.66. (Hricik Report at 22–23.)

Again, the Court has already found Manbeck is not qualified to testify as an expert on conflicts of interest. Even if qualified, his opinion directly conflicts with Hricik's, creating a dispute of material fact with regard to whether EnGeneIC and **Vaxiion** were likely to develop differing interests while **Foley** represented them both.

ii) Filing "Patents On EnGeneIC's Behalf" and Attempting to "Invalidate" Vaxiion's Patent

[21] Plaintiff next asserts **Foley** breached its duty to **Vaxiion** by attempting in 2006 and 2007 to antedate **Vaxiion's** prior art reference after the PTO's rejections of EnGeneIC's Non–Provisional U.S. Application. (Motion at 5.) Plaintiff also argues **Foley's** continued representation of EnGeneIC to date violates **Foley's** fiduciary duty to **Vaxiion**. (Plt.'s Supp. Brief at 5–7.)

Rule 10.66 contains no provisions regarding a law firm or practitioner's fiduciary duty to former clients, and the parties dispute the proper standard the Court should apply to this portion of plaintiff's claim. However, the Court concludes genuine issues of material fact preclude summary judgment regardless of the legal standard the Court applies.

The facts are undisputed that in 2006 and 2007 a PTO examiner rejected several ***1174** claims in EnGeneIC's Non–Provisional U.S. Application in part as a result of **Vaxiion's** Non–Provisional U.S. Application. [Declaration of R. Brian McCaslin in Support of Defendant **Foley & Lardner's** Motion for Partial Summary Judgment on Conflicts–Related Claims ("McCaslin Decl."), ¶¶ 2 and 4, Exs. A and C] In response to the examiner's rejection, **Foley** on behalf of EnGeneIC submitted declarations attempting to antedate the **Vaxiion** prior art reference (i.e. demonstrate EnGeneIC reduced its invention to practice before **Vaxiion**). [McCaslin Decl., ¶¶ 3 and 5.] On July 25, 2007, the PTO withdrew its rejection of EnGeneIC's Non–Provisional Application based upon **Vaxiion's** Non–Provisional U.S. Application, and instead rejected EnGeneIC's application based upon **Vaxiion's** then-issued ′105 Patent. [*Id.*, ¶ 6, Ex. E.]

Defendant responds it did not breach any duty to its former client **Vaxiion** by trying to antedate **Vaxiion's** prior art reference because "as a matter of law nothing EnGeneIC (or **Foley**) did in the EnGeneIC office action was adverse to **Vaxiion** or could have resulted in an invalidation of the ′105 patent." (Opp. at 21.) [15] Defendant explains the EnGeneIC office actions were *ex parte* procedures between the patent examiner and **Foley** on EnGeneIC's behalf pursuant to 37 C.F.R. § 1.131. That regulation provides recourse for an inventor when a patent or application is rejected, allowing the party to "submit an appropriate oath or declaration to establish invention of the subject matter of the rejected claim prior to the effective date of the reference or activity on which the rejection is based." 37 C.F.R. § 1.131 (2008).

Defendant argues simply antedating a reference "has no effect on the ***validity*** of the antedated patent, or for that matter on what possible date of actual reduction to practice the owner of that patent might later establish in, for example, litigation or an interference." (Opp. at 21, citing Hricik Report at 43–44.) In support of this argument, defendant cites to *Goutzoulis v. Athale,* a patent interference case in which Manbeck himself stated "in an ex parte proceeding, one may antedate a reference by a showing which is less than which would be required for a priority contest [and thus] [i]t is therefore unlikely that the showing in a Rule 131 affidavit will be of material benefit later in the interference proceeding." *Goutzoulis v. Athale,* 15 U.S.P.Q.2d 1461, 1464–65 (1990). Hricik also opines **Foley** did not act adversely to **Vaxiion** by responding to the patent examiner's attempt to antedate **Vaxiion's** technology. (Hricik Report at 42.)

Plaintiff states no factual or legal basis in support of its argument that a law firm's antedating a prior client's reference on behalf of a current client pursuant to 37 C.F.R. § 1.131 is a breach of fiduciary duty to the former client. Plaintiff makes only bald assertions that "[t]his was a course of conduct clearly designed to lead to a finding adverse to **Vaxiion**." (Reply at 12.) Plaintiff's unsupported statement is insufficient in the face of Hricik's opinion to the contrary, to establish that **Foley's** actions in attempting to antedate the **Vaxiion** patent in 2006 and 2007 was a breach of fiduciary duty.

***1175** Plaintiff also argues **Foley** continues to breach its duty to **Vaxiion** by prosecuting on EnGeneIC's behalf "four patent applications in the area of minicell delivery." (Plt.'s Supp. Brief at 5.) Plaintiff asserts the USPTO "has clearly identified the inventions encapsulated by those applications as duplicative of the **Vaxiion** inventions" and cites excerpts from the applications referencing teachings of Sabbadini (the ′105 patent) and a Surber application. *Id.* Defendant responds that the documents plaintiff refers to as "patent applications" are actually three USPTO office actions (Def.'s Reply to Plt.'s Supp. Brief at 6, referencing Plt.'s Supp. Brief, Exs. B–D) and an EnGeneIC response to a separate rejection issues by a patent examiner. (Def.'s Reply to Plt.'s Supp. Brief at 6, referencing Plt.'s Supp. Brief, Ex. E.) Defendant explains Exhibits B and C are "restriction requirements" requesting EnGeneIC to elect a "single inventive concept" as required by PCT rules, and asserts the fact that the examiner listed features of prior art "does not mean he rendered a decision (or even considered) whether they contain the same inventions as the claims sought by EnGeneIC." (Def.'s Reply to Plt.'s Supp. Brief at 7–8.) Defendant also argues Exhibit E is an EnGeneIC office action response in which it attempted to distinguish the ′105 patent from the specific claims EnGeneIC seeks, and that the response has no effect on **Vaxiion's** patent. (Def.'s Reply to Plt.'s Supp. Brief at 7–8.) Defendant does not comment on Exhibit D. However, plaintiff also fails to explain exactly how the patent office's mention of **Vaxiion's** ′105 patent equates to an adverse action against that patent. It is apparent material facts are in dispute, precluding a finding of summary judgment.

iii) Attempts to Invalidate Vaxiion's Patent Through Instant Lawsuit

Plaintiff also briefly states in its Motion that **Foley** breached its duty of loyalty to **Vaxiion** by seeking to invalidate the ′105 patent "in the instant lawsuit." (Motion at 10.) Plaintiff provides no further legal discussion of this issue. As a result, the Court finds plaintiff is not entitled to summary judgment on this portion of its breach of fiduciary duty claim. [16]

c) Element 3: Damages Proximately Caused by the Breach

The Court finds there are disputed issues of material fact as to the breach of fiduciary duty element of plaintiff's legal malpractice claim and accordingly needs not reach the issue of "damages proximately caused by the breach." Plaintiff's motion for summary adjudication with respect to breach of fiduciary duty is DENIED.

2. Waiver of Conflict of Interest

Vaxiion learned **Foley** represented EnGeneIC, at the very latest, in November of 2004. However **Vaxiion** never raised the issue of **Foley's** continued representation of EnGeneIC until almost a year after this case was filed. As a result, **Foley** argues the Court should find **Vaxiion** waived its claim for breach of fiduciary duty. (Opp. at 24–25.)

The Court rejected defendant's identical argument in its Order Granting in Part and Denying in Part Defendant's Motion for Summary Judgment on Conflicts–Related ***1176** Claims (Doc. No. 169) and need not consider it again here.

CONCLUSION

For the reasons set forth herein, the Court DENIES plaintiff's motion for summary adjudication of liability. (Doc. No. 94.) The Court GRANTS defendant's Motion to Strike Evidence Cited in Support of Plaintiff's Motion (Doc. No. 131,) and DENIES AS MOOT defendant's Motion to Strike Evidence of Settlement Meeting Cited in Support of Plaintiff's Motion. (Doc. No. 146.) The Court overrules all of the parties' evidentiary objections except those the Court specifically addresses above.

IT IS SO ORDERED.

All Citations

593 F.Supp.2d 1153

Footnotes

1 Roger Sabbadini, a San Diego State University professor initially founded **Vaxiion** as a company called Medlyte. [Transcript of February 20, 2008 Deposition of Roger Sabbadini ("Sabbadini Depo. G"), Ex. G to Garner Decl. ISO Opp. to Motion ("Garner Decl."), Doc. No. 116–13, pp. 9:10–13, 11:14–19, 12:4–17.] In July 2001, Sabbadini and other investors formed a new company called Mpex which purchased Medlyte's minicell technology. Mpex changed its name to **Vaxiion** in 2004. (*Id.* 64:18–22.) For the sake of simplicity, this Order will refer to the company simply as "**Vaxiion**."

2 A "minicell is a small achromosomal (i.e., without chromosomes) cell that is produced by abnormal and unequal division of a parent cell." (Opp. at 3, n. 4.)

3 **Vaxiion** disputes Warburg's level of involvement and oversight in the patent prosecution process, as is discussed further below.

4 Plaintiff states Warburg and Granston never told them about the option of filing only a single PCT application (Plaintiff's Reply to Defendant's Sep. Stmt. of Add'l Material Facts ISO Opp., Doc. No. 141, at 41,) but cites to nothing in the record to support this allegation.

5 Plaintiff argues defendant's motions to strike are disallowed by Fed.R.Civ.P. 12(f). This argument is misplaced because the Court has discretion to strike inadmissible evidence filed in support of a summary judgment motion. *Bliesner v. Commun. Workers of Am.,* 464 F.3d 910, 915 (9th Cir.2006) (holding a district court did not abuse its discretion when it struck part of an affidavit supporting a motion for summary judgment).

6 Defendant also objects to the expert reports of Manbeck and plaintiff's other experts, arguing they are improperly authenticated under Fed.R.Evid. 901 and Fed.R.Civ.P. 56(e). (Memo. ISO Motion to Strike MSA Evidence at 1.) However, plaintiff submitted declarations from its experts authenticating the contested expert reports with its Opposition to defendant's Motion to Strike MSA Evidence. (Opp. to Motion to Strike MSA Evidence, Doc. Nos. 148–3; 148–6; 148–9; 148–11.)

7 Harry F. Manbeck. Jr. is a former Assistant Secretary of Commerce and Commissioner of Patents and Trademarks of the United States, and was appointed by former President George H.W. Bush. He practiced patent law for approximately 35 years before becoming PTO Commissioner in 1990 (where he served until 1992). In his current practice he is "often asked to provide expert consulting or testimony about patent issues." (Manbeck Report at ¶¶ 1–2.)

8 The Court is not persuaded plaintiff can seek adjudication of "liability" under Rule 56(d)(2) without making a sufficient showing for a finding on each essential element of both claims because only "genuine issues on the amount of damages" may be reserved for trial after an interlocutory summary judgment on liability. Fed. R. Civ. Proc. 56(d)(2); *Van Curen v. Bank of the West (In re Hat),* 2007 WL 2580688, at *7–8, 2007 Bankr.LEXIS 3055, at *22 (Bankr.E.D.Cal.2007) (holding plaintiff trustee was not entitled to interlocutory summary judgment without addressing affirmative defenses directed at the issue of respondent bank's liability): *cf. Great Am. Ins. Co. v. N. Am. Specialty Ins. Co.,* 542 F.Supp.2d 1203, 1211 (D.Nev.2008) (finding the defendant business partner liable for legal defense expenses it should have contributed to a past lawsuit against the partnership, even though the plaintiff, another partner, did not present evidence showing what expenses [i.e. amount of damages] it was entitled to as a matter of law).

9 Professor David Hricik is a tenured Associate Professor of Law at Mercer University School of Law, where he has taught since 2002. He teaches both ethics and patent law, among other courses. He has been the Chair of the Professionalism & Ethics Committee of the American Intellectual Property Law Association and the Chair of the Ethics & Professionalism Committee of the Intellectual Property Law Section of the American Bar Association. He previously taught ethics at the University of Texas School of Law as well as the University of Houston Law School. Since the early 1990s he has represented clients "in legal malpractice cases, and in matters concerning disqualification and legal ethics generally, in both patent and non-patent cases and in a general advisory role." [Export Report of Professor David Hricik ("Hricik Report"), Ex. W ISO Motion at 1–2.] Hricik has also represented clients in patent lawsuits and appeals from 1989–2002 and has "consulted with practitioners, lawyers, and law firms across the country on patent-ethics matters ... and [has] frequently acted as a confidential ethics advisor to practitioners, lawyers, patent agent, and law firms concerning matters involving ethical issues before the United States Patent & Trademark Office ("PTO"), in patent litigation, in state court litigation, as well as in general practice." (*Id.* at 2–3.)

10 § 10.76 Canon 6[¶] A practitioner should represent a client competently. [¶] 10.77 Failing to act competently. [¶] A practitioner shall not: [¶] (a) Handle a legal matter which the practitioner knows or should know that the practitioner is not competent to handle, without associating with the practitioner another practitioner who is competent to handle it. [¶] (b) Handle a legal matter without preparation adequate in the circumstances. [¶] (c) Neglect a legal matter entrusted to the practitioner. [¶] 10.78 Limiting liability to a client. [¶] A practitioner shall not attempt to exonerate himself or herself from, or limit his or her liability to, a client for his or her personal malpractice. 37 C.F.R. § 10.76 (2008).

11 Defendant retained Chris Mercer as an expert. He is a patent attorney registered in the United Kingdom, and the majority of his work involves the prosecution of applications, oppositions and appeals before the European Patent Office, but has also prosecuted applications outside of Europe, including in the United States, Canada, and Australia. He has been awarded "a Certificate as a Patent Attorney Litigator due to [his] experience in UK and foreign litigation matters," and has also been a member of numerous patent and intellectual property professional associations. (Mercer Decl. at ¶¶ 1–15.)

12 Defendant additionally argues "[a]s an initial matter, whether [**Vaxiion**] could have filed an improperly formatted PCT application is a question of law. But in any event, **Vaxiion** still has been able to pursue and obtain foreign patent protection, notwithstanding the missed deadline." (Opp. to Plt.'s Sep. Stmt. of Fact # 6.) Although this may be the case, it does not mean that **Foley** did not breach a duty to **Vaxiion** by missing the deadline or by its actions the night the deadline was missed. As such, this particular defense might be relevant to the causation element rather than the breach of duty element.

13 **Foley** also disputes plaintiff's contention that on May 24, 2002, only A'Costa and no attorneys worked on the PCT application. (Based on a billing statement, Ex. J to Motion.) **Foley** responds Granston worked on the document that would become both the United States Non–Provisional Application and the PCT Application, and the only difference between the two was the formatting, which is was A'Costa's task. (Granston Decl. at ¶ 29; Manbeck Depo., pp. 188:3–191:16). Plaintiff does not dispute the substantive content of both applications was the same. (Plt.'s Reply to Def.'s Stmt. of Add'l Material Facts, "L".)

14 37 C.F.R. § 10.66 ("Refusing to accept or continue employment if the interests of another client may impair the independent professional judgment of the practitioner") provides:

(a) A practitioner shall decline proffered employment if the exercise of the practitioner's independent professional judgment in behalf of a client will be or is likely to be adversely affected by the acceptance of the proffered employment, or if it would be likely to involve the practitioner in representing differing interests, except to the extent permitted under paragraph (c) of this section.

(b) A practitioner shall not continue multiple employment if the exercise of the practitioner's independent professional judgment in behalf of a client will be or is likely to be adversely affected by the practitioner's representation of another client, or if it would be likely to involve the practitioner in representing differing interests, except to the extent permitted under paragraph (c) of this section.

(c) In the situations covered by paragraphs (a) and (b) of this section a practitioner may represent multiple clients if it is obvious that the practitioner can adequately represent the interest of each and if each consents to the representation after full disclosure of the possible effect of such representation on the exercise of the practitioner's independent professional judgment on behalf of each. 37 C.F.R. § 10.66(2008).

(d) If a practitioner is required to decline employment or to withdraw from employment under a Disciplinary Rule, no partner, or associate, or any other practitioner affiliated with the practitioner or the practitioner's firm, may accept or continue such employment unless otherwise ordered by the Director or Commissioner.

15 Defendant further argues even if the antedating could have had an effect on the '105 patent's validity, it in fact had no effect because the examiner ultimately rejected EnGeneIC's antedating argument. (McCaslin Decl. at ¶ 6.) This argument is immaterial to a breach analysis, because the fact that EnGeneIC's attempt to establish an earlier date of reduction to practice failed does not negate the possibility that **Foley** could have breached its fiduciary duty to **Vaxiion** when it effected the antedating attempts for EnGeneIC.

16 The Court does find compelling defendant's argument that any claim of breach of fiduciary duty arising from its defense in this case would be barred by the litigation privilege. Cal. Civ.Code § 47(b) (2008). However, **Foley** has not moved for summary judgment on this aspect of plaintiff's claim.

End of Document

2009 WL 4722679
United States District Court,
N.D. California.

TETHYS BIOSCIENCE, INC., Plaintiff,
v.
MINTZ, LEVIN, COHN, FERRIS, GLOVSKY AND POPEO, P.C. and Ivor R. Elrifi, Defendants.

No. C 09–5115 CW. | Docket No. 11. | Dec. 9, 2009.

West KeySummary

1 **Attorney and Client**
Acting for party adversely interested

Under California law, biotechnology corporation failed to state a conversion claim against law firm. The biotechnology corporation alleged that law firm, which prosecuted a patent application on its behalf for biological markers associated with diabetes, used its application for the benefit of another client who was also allegedly filing a patent application for an invention related to diabetes. However, biotechnology corporation failed to demonstrate that its patent application could be subject to conversion because its application was not yet a patent and ideas could not form the basis of a conversion claim. Moreover, biotechnology corporation's complaint did not contain an allegation that the alleged conversion caused it damage. Fed.Rules Civ.Proc.Rule 12(b)(6), 28 U.S.C.A.

Cases that cite this headnote

Attorneys and Law Firms

Allen Ruby, Law Offices of Allen Ruby, San Jose, CA, for Plaintiff.

Elliot Remsen Peters, Ozan Osman Varol, Steven Keeley Taylor, Keker & Van Nest, LLP, San Francisco, CA, for Defendant.

ORDER GRANTING DEFENDANTS' MOTION TO DISMISS AND DENYING DEFENDANTS' MOTION TO STRIKE

CLAUDIA WILKEN, District Judge.

*1 Defendants Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C. and Ivor R. Elrifi move to dismiss Plaintiff Tethys Bioscience, Inc.'s complaint in its entirety and to strike Plaintiff's request for punitive damages. Plaintiff opposes the motions. The motions were taken under submission on the papers. Having considered the papers submitted by the parties, the Court GRANTS Defendants' Motion to Dismiss and DENIES without prejudice Defendants' Motion to strike.

BACKGROUND

Plaintiff is a biotechnology corporation with its primary place of business in Emeryville, California. Plaintiff engaged Defendant Mintz Levin, a law firm with offices in California, to prosecute a patent application for a purported invention related to the identification of biological markers associated with diabetes. Plaintiff alleges that Mintz Levin disclosed its confidential information to American Type Culture Company, another Mintz Levin client. Mintz Levin is prosecuting a patent application on behalf of American Type for a purported invention related to diabetes. Mintz Levin did not disclose to Plaintiff its concurrent prosecution of American Type's application.

Plaintiff maintains that improper disclosure occurred because language from its confidential patent applications appears in American Type's patent applications. On Plaintiff's behalf, Mintz Levin filed a provisional patent application with the United States Patent and Trademark Office (PTO) in October, 2005. The patent application was not published or otherwise publicly disclosed when filed. In September, 2006, Mintz Levin filed a provisional patent application with the PTO on behalf of American Type. Plaintiff maintains that material portions of American Type's later-filed application are identical to its October, 2005 application.

Plaintiff also alleges that Mintz Levin improperly disclosed portions of its international patent application, filed pursuant to the Patent Cooperation Treaty (PCT). Plaintiff claims that American Type's PCT application contains language identical to its own PCT application. In particular, Plaintiff cites paragraphs in both applications that describe the field of the purported inventions. Plaintiff's PCT application provides:

> The present invention relates generally to the identification of biological markers associated with an increased risk of developing Diabetes, as well as methods of using such biological markers in diagnosis and prognosis of Diabetes.

Plaintiff's Request for Judicial Notice (RJN),[1] Ex. 1 at 1:22–24. American Type's PCT application provides:

> The present invention relates generally to the identification of biological markers associated with an increased risk of developing Diabetes, as well as methods of using such biological markers in diagnosis and prognosis of Diabetes. Furthermore, selected biological markers of the present invention present new targets for therapy and constitute new therapeutics for treatment or prevention of Diabetes.

*2 RJN, Ex. 2 at 1:5–9. Plaintiff alleges that there are additional instances of copying, but the "similarities are too voluminous to set forth on the face of this Complaint." Compl. ¶ 14. At the time American Type's PCT application was filed, Plaintiff's application had not yet been published. The PTO has not rendered a decision on Plaintiff's or American Type's patent applications.

Plaintiff's complaint seeks relief for "breach of duty by attorneys," breach of fiduciary duty and conversion. It claims that it has suffered damage "in an amount not yet ascertained." Compl. ¶¶ 24 and 29. With regard to its claim for conversion, Plaintiff asserts that the "Tethys Provisional Patent Application of October 11, 2005, and the PCT Application of October 11, 2006, were the sole property of Tethys." Compl. ¶ 32.

LEGAL STANDARD

A complaint must contain a "short and plain statement of the claim showing that the pleader is entitled to relief." Fed.R.Civ.P. 8(a). When considering a motion to dismiss under Rule 12(b)(6) for failure to state a claim, dismissal is appropriate only when the complaint does not give the defendant fair notice of a legally cognizable claim and the grounds on which it rests. *Bell Atl. Corp. v. Twombly,* 550 U.S. 544, 555, 127 S.Ct. 1955, 167 L.Ed.2d 929 (2007). In considering whether the complaint is sufficient to state a claim, the court will take all material allegations as true and construe them in the light most favorable to the plaintiff. *NL Indus., Inc. v. Kaplan,* 792 F.2d 896, 898 (9th Cir.1986). However, this principle is inapplicable to legal conclusions; "threadbare recitals of the elements of a cause of action, supported by mere conclusory statements," are not taken as true. *Ashcroft v. Iqbal,* — U.S. ——, 129 S.Ct. 1937, 1949–50, 173 L.Ed.2d 868 (2009) (citing *Twombly,* 550 U.S. at 555).

DISCUSSION

I. Motion to Dismiss

A. "Breach of Duty by Attorney"

Plaintiff asserts a claim for "breach of duty by attorney." It maintains that Defendants violated California Business & Professions Code § 6068(e)(1) and Rule 3–100(a) of the Rules of Professional Conduct of the State Bar of California, both of which address an attorney's duty to maintain a client's confidences. Plaintiff also asserts that this claim rests upon Defendants' alleged violation of the attorney-client privilege.

As Defendants correctly argue, neither Rule 3–100(a) nor § 6068(e)(1) gives rise to a freestanding cause of action. *See BGJ Assocs., LLC v. Wilson,* 113 Cal.App.4th 1217, 1227, 7 Cal.Rptr.3d 140 (2003) ("A violation of the Rules of Professional Conduct subjects an attorney to disciplinary proceedings, but does not in itself provide a basis for civil liability."). Instead, the rule and the statute "help define the duty component of the fiduciary duty which the attorney owes to his or her client." *Id.* As noted, Plaintiff also asserts a claim for breach of fiduciary duty, the viability of which is discussed below. Neither case cited by Plaintiff establishes that an attorney's alleged violation of the rule or the statute create an independent tort claim for "breach of duty by attorney." *See David Welch Co. v. Erskine & Tulley,* 203 Cal.App. 884, 890, 250 Cal.Rptr. 339 (1988) (evaluating breach of fiduciary duty claim); *Day v. Rosenthal,* 170 Cal.App.3d 1125, 1147, 217 Cal.Rptr. 89 (1985) (evaluating legal malpractice claim).

*3 Similarly, Plaintiff offers no authority to support its assertion that an alleged breach of the attorney-client privilege supports this cause of action. As Plaintiff acknowledges, the privilege relates to evidentiary issues, not a professional duty. *See* Opp'n at 6.

Accordingly, Plaintiff has not shown that there is a cognizable claim for "breach of duty by attorney" independent of its breach of fiduciary duty claim. This claim is dismissed with prejudice.

B. Breach of Fiduciary Duty

The "relation between attorney and client is a fiduciary relation of the very highest character." *Am. Airlines v. Sheppard, Mullin, Richter & Hampton,* 96 Cal.App.4th 1017, 1044, 117 Cal.Rptr.2d 685 (2002) (citation omitted). This fiduciary relationship includes an attorney's duty to protect a client's confidences and a duty of loyalty. *Id.* To maintain a claim for a breach of fiduciary duty, a plaintiff must allege: "(1) existence of a fiduciary duty; (2) breach of the fiduciary duty; and (3) damage proximately caused by the breach." *Stanley v. Richmond,* 35 Cal.App.4th 1070, 1086, 41 Cal.Rptr.2d 768 (1995).

Plaintiff has not sufficiently plead the damage element of this claim. The complaint contains a vague allegation that Plaintiff has suffered damage "in an amount not yet ascertained." Compl. ¶ 29. This represents nothing more than a threadbare recitation of the claim's elements, which is not sufficient. *See Iqbal,* 129 S.Ct. at 1949. Further, as Defendants note, the PTO has not yet adjudicated Plaintiff's patent application. This casts doubt on whether, at this point in time, Plaintiff has suffered damage attributable to Defendants' alleged breach.

Accordingly, Plaintiff's claim for breach of fiduciary duty is dismissed with leave to amend to allege facts to support its assertion that it has suffered damage.

C. Conversion

Under California law, a claim for conversion requires a plaintiff to allege (1) "ownership or right to possession of property;" (2) a defendant's wrongful act toward the property, causing interference with the plaintiff's possession; and (3) damage to the plaintiff. *PCO, Inc. v. Christensen, Miller, Fink, Jacobs, Glaser, Weil & Shapiro, LLP,* 150 Cal.App.4th 384, 394, 58 Cal.Rptr.3d 516 (2007). A plaintiff must allege the following to show that a property right exists: "First, there must be an interest capable of precise definition; second, it must be capable of exclusive possession or control; and third, the putative owner must have established a legitimate claim to exclusivity." *Kremen v. Cohen,* 337 F.3d 1024, 1030 (9th Cir.2003) (quoting *G.S. Rasmussen & Assocs., Inc. v. Kalitta Flying Serv., Inc.,* 958 F.2d 896, 906 (9th Cir.1992)).

Plaintiff alleges that Defendants used its patent applications for the benefit of another client, which constituted Defendants' wrongful dominion over its personal property. Although Plaintiff is correct that California law recognizes conversion of intangible personal property, *see Kremen,* 337 F.3d at 1030 (holding that a plaintiff had an intangible property right to an Internet domain name), Plaintiff does not provide authority to show that its patent applications can be subject to conversion. In contrast to *Kremen,* Plaintiff has not plead a legitimate claim to exclusivity. As mentioned above, Plaintiff's applications have not ripened into patents. And to the extent that Plaintiff's conversion claim rests on the use of ideas in its applications, it fails. "The tort of conversion doesn't to apply to ideas." *Melchior v. New Line Prods., Inc.,* 106 Cal.App.4th 779, 793, 131 Cal.Rptr.2d 347 (2003).

***4** Even if Plaintiff identified a form of property susceptible to conversion, its complaint does not contain any allegation that the purported conversion caused it damage. For this reason alone, Plaintiff's conversion claim must be dismissed.

Accordingly, Plaintiff's claim for conversion is dismissed with leave to amend to allege property susceptible to conversion and to allege damage.

II. Motion to Strike

Defendants move to strike Plaintiff's request for punitive damages. Because the Court dismisses Plaintiff's complaint with leave to amend, a decision on this motion is premature; Defendants' motion to strike is thus denied without prejudice.

Punitive damages are available for breach of fiduciary duty and conversion claims. *See, e.g., Am. Airlines, Inc.,* 96 Cal.App.4th at 1051, 117 Cal.Rptr.2d 685 (breach of fiduciary duty); *Lackner v. North,* 135 Cal.App.4th 1188, 1212, 37 Cal.Rptr.3d 863 (2006) (conversion). However, if Plaintiff seeks punitive damages in an amended complaint, it must plead adequate factual support. The current complaint states that Defendants' conduct was "malicious, fraudulent and oppressive." Compl. ¶¶ 30 and 33; *see* Cal. Civ.Code § 3294. This merely recites the characteristics of conduct warranting the award of punitive damages under California Civil Code § 3294. Moreover, to the extent that Plaintiff seeks punitive damages based on fraudulent conduct, it must satisfy the heightened pleading requirements of Federal Rule of Civil Procedure 9(b). Although Plaintiff correctly notes that state of mind may be averred generally, Rule 9(b) requires pleading the circumstances of the alleged fraud with particularity.

CONCLUSION

For the foregoing reasons, the Court GRANTS Defendants' Motion to Dismiss (Docket No. 11). Plaintiff's claim for "breach of duty by attorneys" is dismissed with prejudice because Plaintiff has not established the existence of such a claim. Plaintiff's breach of fiduciary duty and conversion claims are dismissed with leave to amend to cure the deficiencies noted above. The Court DENIES without prejudice Defendants' Motion to Strike Plaintiff's request for punitive damages. Defendants may renew their motion to strike if Plaintiff files an amended complaint.

Plaintiff may file an amended complaint within twenty-one days from the date of this order. If Plaintiff does so, Defendants may file a motion to dismiss three weeks thereafter, with Plaintiff's opposition due two weeks following and Defendants' reply due one week after that. Defendants' motion, if one is filed, shall be taken under submission on the papers. Unless the case has been dismissed, a case management conference shall be held on April 20, 2010 at 2:00 p.m.

IT IS SO ORDERED.

All Citations

Not Reported in F.Supp.2d, 2009 WL 4722679, 93 U.S.P.Q.2d 1248

Footnotes

1 The Court grants Plaintiff's Request for Judicial Notice. The documents for which Plaintiff seeks judicial notice contain facts that are not subject to reasonable dispute. Fed.R.Evid. 201.

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2013 WL 9905785 (Mass.Super.) (Trial Order)
Superior Court of Massachusetts.
Suffolk County

Chris E. MALING, et al.,
v.
FINNEGAN, HENDERSON, FARABOW, GARRETT AND DUNNER, LLP, et al.

No. SUCV2013-01528.
October 28, 2013.

Judgment on Motion to Dismiss (Mass.R.Civ.P.12b)

***1** This action came on for hearing before the Court, Janet L. Sanders, Justice upon the Defendant's, Finnegan, Henderson, Farabow, Garret & Dunner LLP, Lawrence R Robins, Eric P Raciti, Mathew R Van-Eman, motion to dismiss pursuant to Mass. R.Civ.P. 12(b), and upon consideration thereof,

It is **ORDERED** and **ADJUDGED:**

That the Complaint of the plaintiff(s), Chris E Maling, Formula LLC is hereby dismissed against the defendant(s), Finnegan Henderson Farabow Garret & Dunner LLP, Lawrence R Robins, Eric P Raciti, Mathew R Van-Eman, and the defendant(s) recovers its costs of action.

Dated at Boston, Massachusetts this 28th day of October, 2013.

By: <<signature>>

Assistant Clerk

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