FMG LAW

Freeman Mathis & Gary LLP

IP Malpractice Law

2021 Update

Professional Liability

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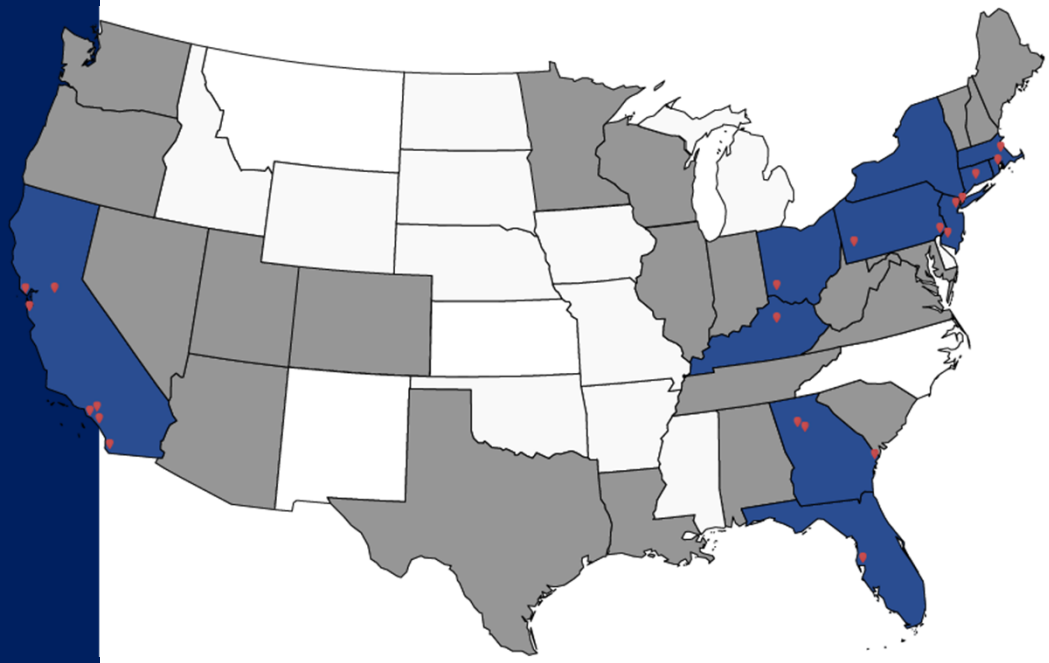

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INTRODUCTION

1. Current trends in intellectual property malpractice claims
2. Discussion of recent IP malpractice cases
3. Take-aways and Practical Guidance
4. Q&A

RECENT TRENDS IN IP LEGAL MALPRACTICE CLAIMS

- Based on a review of legal malpractice claims and incidents reported by Gemini's considerable list of IP boutique and General Practice Firm IP group clients, the following scenarios proved to be the most problematic:

  Patent Prosecution
  - Issues arising out of handling foreign filings or working with foreign associates
  - Poor or late communication with domestic based clients
  - Clerical or "scrivener's errors" with filings or docketing

  Litigation
  - Alleged failures during discovery; often times surrounding expert identification, reports, and depositions

All in all, the causes of litigation related claims were much more varied than with patent prosecution, but the number of PAID claims arising out of IP litigation absolutely dwarfs those arising out of patent prosecution, both in frequency and severity

RECENT TRENDS IN IP LEGAL MALPRACTICE CLAIMS

Why the discrepancy between the amounts paid with patent prosecution claims and those paid with IP litigation claims?

Our theory is simply that this is a numbers game; a small percentage of patents are commercially valuable enough to warrant protracted litigation against a law firm, and when they are in fact valuable or essential, they receive a great deal of attention from both the firms' lawyers and the clients' legal departments. Compare this to litigation, where the underlying subject is usually a patent(s) that has either been proven commercially valuable, or is thought to be valuable by the client, and is now the subject of a dispute

Yet we still see professional liability underwriters more nervous about mistakes or missed deadlines arising out of patent prosecution.

LEGAL MALPRACTICE: AN OVERVIEW

- Generally, a legal malpractice plaintiff must not only prove that the lawyer breached the standard of care, but also the "case within the case."
- This means the plaintiff must prove that but for the attorney's negligence s/he would have been successful in the underlying matter.
- For example, a plaintiff suing her IP lawyer for failure to obtain a patent, would not only have to show the lawyer was negligent, but also that she would have obtained the patent, but for the lawyer's negligence.

DUTY

BREACH

CAUSATION

+

DAMAGES

NEGLIGENCE

ETHICS RULES FOR IP ATTORNEYS

- Must be aware of state rules as well as USPTO Rules of Professional Conduct
- USPTO Rules generally mirror Model Rules of Professional Conduct, but with additional specific rules related to patent prosecution and litigation
- Ethics issues often arise during discovery process and can have severe consequences, e.g., *Qualcomm* decision, where magistrate ordered plaintiff to pay $8.5 million in attorneys' fees and referred eight attorneys for bar discipline. District Court did not enter the sanctions order after finding that the attorneys did not act in bad faith, but there are still many lessons to be learned

ETHICS RULES FOR IP ATTORNEYS: ABA MODEL RULE 1.7: CONFLICT OF INTEREST: CURRENT CLIENTS

a) Except as provided in paragraph (b), 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 or more clients will be materially limited by the lawyer's responsibilities to another client, a former client or a third person or by a personal interest of the lawyer.

b) Notwithstanding the existence of a concurrent conflict of interest under paragraph (a), 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.

See also USPTO Rules of Professional Conduct, 37 CFR § 11.107

ETHICS RULES FOR IP ATTORNEYS: ABA MODEL RULE 1.18: DUTIES TO PROSPECTIVE CLIENTS

a) A person who consults with a lawyer about the possibility of forming a client-lawyer relationship with respect to a matter is a prospective client.
b) Even when no client-lawyer relationship ensues, a lawyer who has learned information from a prospective client shall not use or reveal that information, except as Rule 1.9 would permit with respect to information of a former client.
c) A lawyer subject to paragraph (b) shall not represent a client with interests materially adverse to those of a prospective client in the same or a substantially related matter if the lawyer received information from the prospective client that could be significantly harmful to that person in the matter, except as provided in paragraph (d). If a lawyer is disqualified from representation under this paragraph, no lawyer in a firm with which that lawyer is associated may knowingly undertake or continue representation in such a matter, except as provided in paragraph (d).
d) When the lawyer has received disqualifying information as defined in paragraph (c), representation is permissible if:
    1) both the affected client and the prospective client have given informed consent, confirmed in writing; or:
    2) the lawyer who received the information took reasonable measures to avoid exposure to more disqualifying information than was reasonably necessary to determine whether to represent the prospective client; and
        i. the disqualified lawyer is timely screened from any participation in the matter and is apportioned no part of the fee therefrom; and
        ii. written notice is promptly given to the prospective client.

See also USPTO Rules of Professional Conduct, 37 CFR § 11.118

ETHICS RULES FOR IP ATTORNEYS: USPTO Rules of Professional Conduct, 37 CFR § 11.108: Conflict of interest; Current clients; Specific rules

(b) A practitioner shall not use information relating to representation of a client to the disadvantage of the client unless the client gives informed consent, except as permitted or required by the USPTO Rules of Professional Conduct….

(k) While practitioners are associated in a firm, a prohibition in paragraphs (a) through (i) of this section that applies to any one of them shall apply to all of them.

RECENT IP MALPRACTICE CASES: LITIGATION

- *Telebrands v. Bois Schiller* (New Jersey 2020)
- *Monco v. Zoltek Corp*. (U.S.D.C. N. Ill. 2021)

Telebrands Corp. v. Boies Schiller Flexner LLP, et al.: The Water Balloon Fights

- After law firm indicated their intent to pursue clients for unpaid legal fees, clients filed malpractice lawsuit against law firm arising from the firm's advice and representation in multiple trademark and patent infringement claims brought by water balloon competitor.
- Essence of claim is that law firm was overly confident in their defense of the former clients, who ultimately were found liable for $29.3 million judgment, which included enhanced damages and attorneys' fees.
- "Defendants elected to litigate the IP litigation in an overly aggressive manner, taking positions and filing excessive and untimely motions and appeals, which was a substantial factor in plaintiffs being assessed with sanctions and enhanced damages, as well as inflating the fees and expenses that defendants billed to plaintiffs."

V.

Monco v. Zoltek: Judicial Estoppel

- Attorneys represented client, a carbon fiber manufacturer, in patent litigation against the government, over a 20-year period beginning in 1996. Client fired attorney in 2016 and subsequently settled the litigation for $20 million.
- Attorneys sued to recover attorneys' fees and client counterclaimed for malpractice and breach of fiduciary duty, among other things.
- Client alleged that the attorneys committed malpractice when, five years into the case, they amended the complaint to add a theory of patent infringement for material used in the government's construction of F-22 fighter jets, which client claimed was meritless.
- Attorneys argued that client should be judicially estopped from pursuing that theory of malpractice where they pursued the theory (among others) in the mediation with the government that ended with the $20 million settlement.
- Court held that client's pursuit of the F-22 infringement theory during mediation was inconsistent with client's claim that the theory was meritless but declined to enter summary judgment because (1) it was unclear whether the government settled because of the F-22 infringement theory or because of the other claims in the case; and (2) the client should not be estopped from arguing a theory of malpractice just because it pursued that theory on the attorneys' advice.

Monco v. Zoltek: Statute of Limitations

- But what were client's damages? Client alleged that asserting the meritless claim caused them to incur unnecessary legal fees and prolonged the resolution of the case.
- Given that decision to pursue F-22 infringement theory occurred in 2001, attorneys argued that client's malpractice claim was barred by the statute of limitations.
- Client argued that for claims involving "mishandling of litigation", the statute of limitations does not run until the trial court enters final judgment.
- Court disagreed, holding that "as soon as [attorneys] began pursuing a claim based on the F-22, [client] incurred unnecessary legal expenses and proceedings were set in motion that prolonged the case with no upside," but did not enter summary judgment.
- Court held that there a reasonable factfinder could find in either party's favor on the timeliness of client's malpractice claim and therefore denied summary judgment.

RECENT IP MALPRACTICE CASES: CONFLICTS OF INTEREST

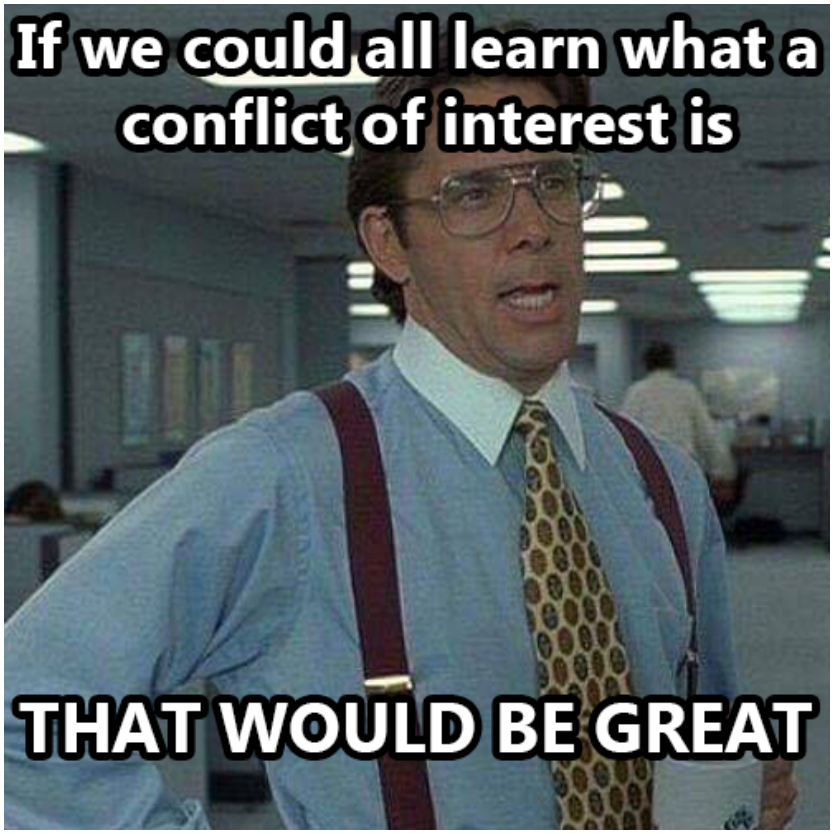
- *Maling v. Finnegan, Henderson, Farabow, Garret & Dunner, LLP*, 473 Mass. 336 (Mass 2015)
- *Altova GmBH v. Syncro Soft SRL*, 320 F. Supp. 3d 314 (D. Mass. 2018)
- *Dr. Falk Pharma GMBH v. Generico, LLC*, 916 F.3d 975 (Fed. Cir. 2019)
- *Keefe Commissary Network v. Beazley Ins. Co*., 2020 U.S. Dist. LEXIS 144706 (E.D. Mo. Aug. 12, 2020)
- *Trimble Inc. v. Perdiemco LLC*, 802 Fed. Appx. 556 (Fed. Cir. 2020)

RECENT IP MALPRACTICE CASES:
Maling v. Finnegan, Henderson, Farabow, Garret & Dunner, LLP (Subject Matter Conflicts)

- Attorneys in different offices of same firm simultaneously represented business competitors in prosecuting patents on similar inventions.
- Lawyers did not inform clients or obtain their consent.
- SJC held that the simultaneous representation of two clients prosecuting patents in the same technology area was not a per se violation of Mass. R. Prof. C. 1.7.
- But this opinion does not end the discussion.

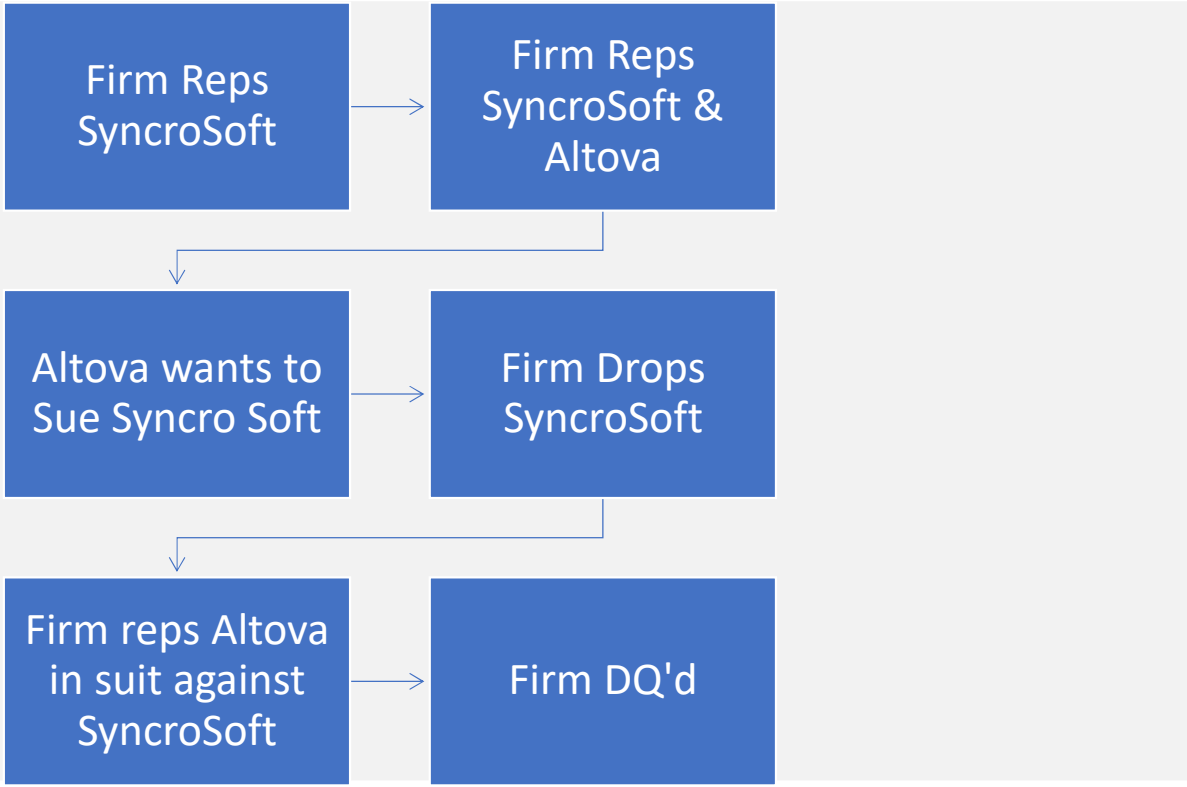
RECENT IP MALPRACTICE CASES:
Maling v. Finnegan, Henderson, Farabow, Garret & Dunner, LLP
(Subject Matter Conflicts)

[A]lthough subject matter conflicts in patent prosecutions often may present a number of potential legal, ethical, and practical problems for lawyers and their clients, they do not, standing alone, constitute an actionable conflict of interest that violates rule 1.7



RECENT IP MALPRACTICE CASES:

Altova GmBH v. Syncro Soft SRL (Rule 1.7 Conflict Between Current Clients



RECENT IP MALPRACTICE CASES:

Altova GmBH v. Syncro Soft SRL (Rule 1.7 Conflict Between Current Clients

Where circumstances arise such that a reasonable lawyer would believe that the actions required to provide competent representation of one client would render the client's interests adverse to those of another client of the lawyer, the proper course of action is to disclose the conflict and obtain the informed consent of both clients, or withdraw from representation.

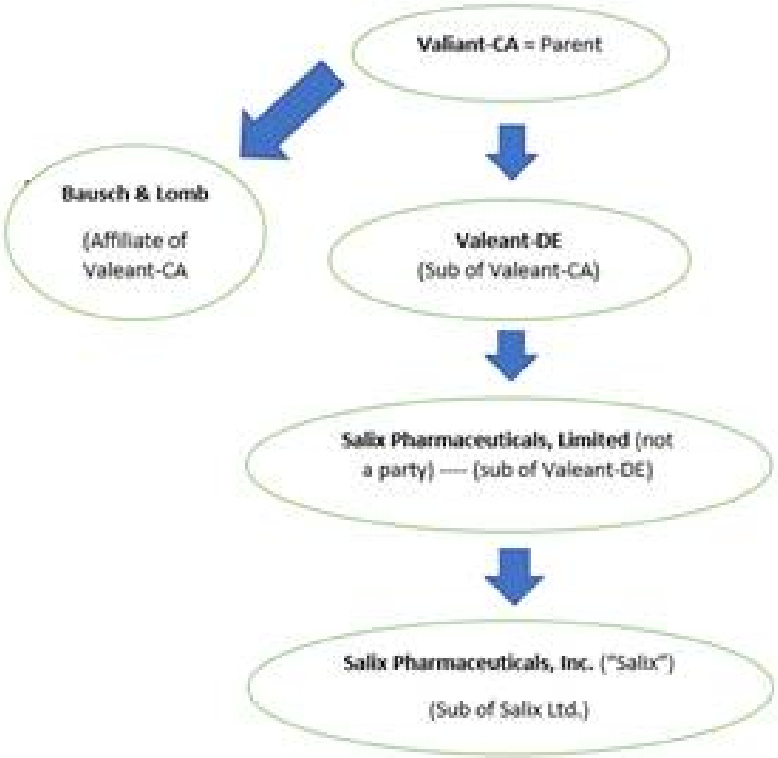
- *Altova GmBH,* 320 F. Supp. 3d 314 (D. Mass. 2018) (quoting *Bryan Corp. v. Abrano*, 474 Mass. 504 (Mass. 2016)

RECENT IP MALPRACTICE CASES:
Dr. Falk Pharma GMBH v. Generico (Corp. Affiliates Conflicts)

- Law firm signed engagement letter with Bausch & Lomb that broadly defined law firm's client as any Valeant entity.
- Law firm represented Bausch & Lomb with respect to trademark matter, but brought in lateral attorneys who represented an entity adverse to Bausch & Lomb's affiliates in three patent litigations.

RECENT IP MALPRACTICE CASES:

Dr. Falk Pharma GMBH v. Generico (Corp. Affiliates Conflicts)



RECENT IP MALPRACTICE CASES:
Dr. Falk Pharma GMBH v. Generico (Corp. Affiliates Conflicts)

Model Rule 1.7, Comment 34:

A lawyer who represents a corporation or other organization does not, by virtue of that representation, necessarily represent any constituent or affiliated organization, such as a parent or subsidiary. See Rule 1.13(a). ***Thus, the lawyer for an organization is not barred from accepting representation adverse to an affiliate in an unrelated matter, unless the circumstances are such that the affiliate should also be considered a client of the lawyer, there is an understanding between the lawyer and the organizational client that the lawyer will avoid representation adverse to the client's affiliates, or the lawyer's obligations to either the organizational client or the new client are likely to limit materially the lawyer's representation of the other client****.***

RECENT IP MALPRACTICE CASES:
Dr. Falk Pharma GMBH v. Generico (Corp. Affiliates Conflicts)

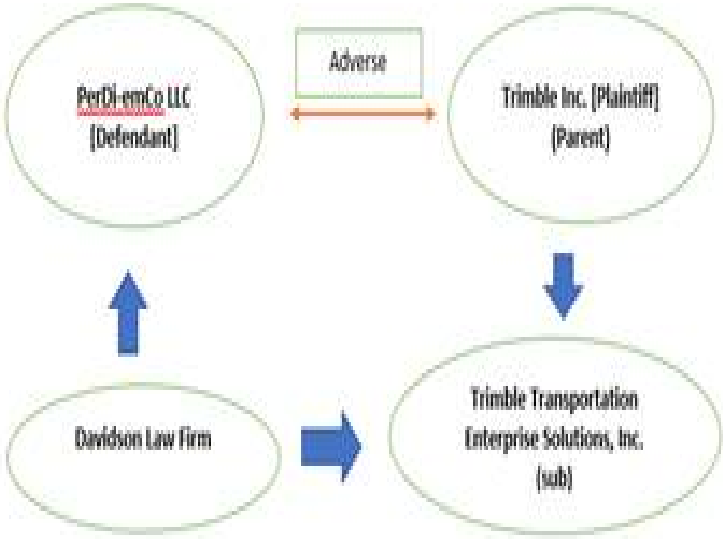
Factors relevant to corporate interrelatedness sufficient to create a corporate affiliate conflict:

(1) The degree of operational commonality between affiliated entities; and
    (a) To what extent do the entities rely on a common infrastructure, including shared or dependent control over legal and management issues?
(2) The extent to which one depends financially on the other
    (a) To what extent would an adverse outcome in the matter result in substantial and measurable loss to the client or its affiliate?

RECENT IP MALPRACTICE CASES:

Trimble Inc. v. Perdiemco LLC (Corp Affiliate Conflicts)

- Law firm was retained to represent PerDiem in appeal in which Trimble Inc. sought a declaration that it's products, and its subs' products, did not infringe PerDiem's patents.
- Law firm, however, had been performing IP legal work for the wholly owned subsidiary of Trimble, Inc. for several years.



RECENT IP MALPRACTICE CASES:

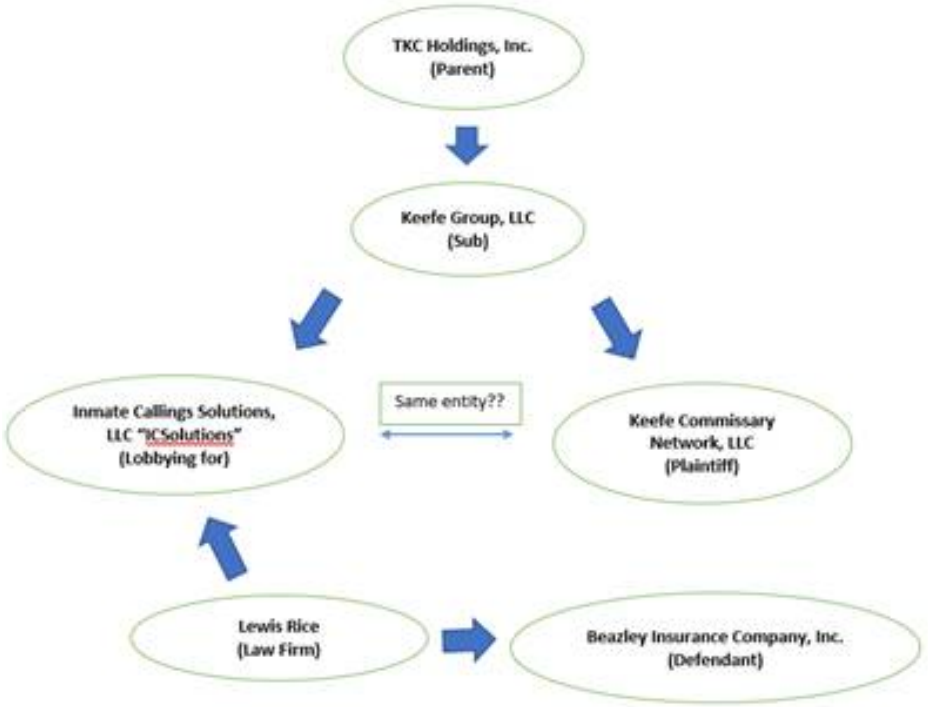
Trimble Inc. v. Perdiemco LLC (Corp Affiliate Conflicts)

"The concern in the concurrent representation context is not confidential information or other practical litigation advantage obtained against an affiliate, but the duty of undivided loyalty owed to the affiliate."

RECENT IP MALPRACTICE CASES:

Keefe Commissary Network v. Beazley Ins. Co. (Conflicts Determined by the Contract)

- Client alerted law firm to apparent conflict issue after law firm began to represent insurer in matter adverse to client's corporate affiliate.
- Law firm promptly dropped client "like a hot potato." Client moved to disqualify law firm.
- Client claimed conflict existed pursuant to corporate affiliate conflict doctrine.
- The Court held that it need not determine the application of the corporate affiliate conflict doctrine, because the parties' agreement included a representational disclaimer.



RECENT IP MALPRACTICE CASES:

Keefe Commissary Network v. Beazley Ins. Co. (Conflicts Determined by the Contract)

Model Rule 1.2: Client-Lawyer Relationship
Cmt 6:

The scope of services to be provided by a lawyer may be limited by agreement with the client or by the terms under which the lawyer's services are made available to the client….

Am. Bar Ass'n Comm. On Ethics & Prof'l Resp., Formal Opinion 95-390 (1995):

"The best solution to the problems that may arise by reason of clients' corporate affiliations is to have a clear understanding between lawyer and client, at the very start of the representation, as to which entity or entities in the corporate family are to be the lawyer's clients."

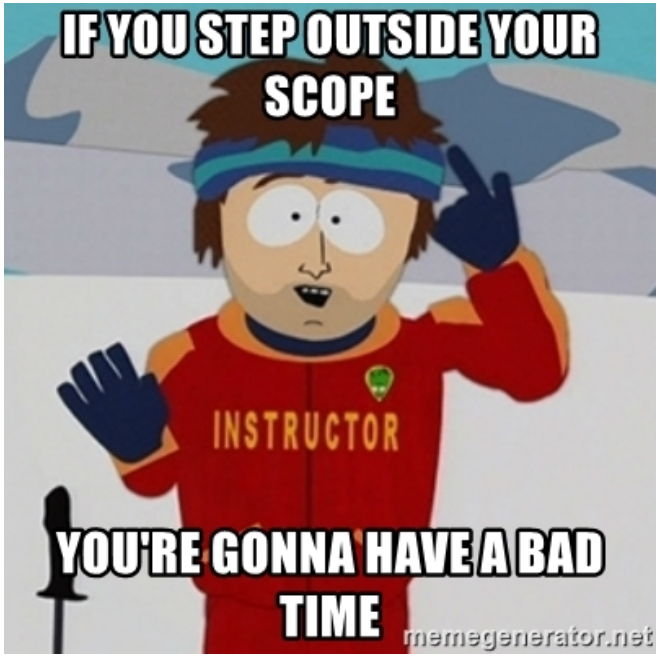
Representational Disclaimer in engagement letter:

"In this statement and in the engagement letter, the pronoun "you" means the person(s) or entity(ies) specifically identified in the engagement letter as our client(s) and does not include any other person or entity having any relationship or affiliation whatsoever with the person or entity identified as our client."

RECENT IP MALPRACTICE CASES: ENGAGEMENT OR SCOPE "CREEP"

- *Astral Brands v. Boyd*, 2011 U.S. Dist. LEXIS 114224 (N.D. Ga. Apr. 28, 2021)
- *Portus Sing. PTE Ltd. v. Kenyon & Kenyon LLP*, 449 F. Supp. 3d 402 (S.D.N.Y. 2020)

Astral Brands v. Boyd, 2011 U.S. Dist. LEXIS 114224 (N.D. Ga. Apr. 28, 2021)



- Client brought malpractice claim against attorney after attorney failed to advise client to put its insurer on notice of a trademark action.
- Attorney moved to dismiss on the grounds that insurance advice was outside the scope of her engagement by client.
- Court denied the motion to dismiss, holding that the engagement letter did not bar client's malpractice claim where attorney's law firm had represented client in other matters outside the scope of the engagement letter and where the client plead facts that an intellectual property attorney exercising reasonable care should have taken reasonable steps to investigate the availability of insurance coverage in connection with the defense of the trademark infringement claim.

Portus Sing. PTE Ltd. v. Kenyon & Kenyon LLP, 449 F. Supp. 3d 402 (S.D.N.Y. 2020)

- Client brought malpractice claims against law firm on the basis that law firm's negligence caused it to lose 3 ½ years of patent term for its '526 patent. Client alleged that had law firm advised it of other options prior to filing the application, it could have obtained a longer patent term.
- Law firm argued that at the initial engagement, the law firm did exactly what the client asked it to do: File the patent application within two days and to keep the application "in force" unless provided with other instructions from the client.
- Court held that law firm complied with the client's request and filed a timely application and prosecuted it for the next thirteen years, until the patent was finally allowed in 2013.
- Court also held that law firm could not be held negligent for failing to provide advise on other theoretical options for the client as any benefit of these other options were completely speculative at the time.

BEST PRACTICES AND TAKEAWAYS: CLAIM NOTICE AND REPORTING

- Every professional liability policy requires the policy-holding law fir to report any incident or event that *could reasonably give rise* to a claim at some point in the future
  - Mistakes/errors
  - Omissions
  - Client dissatisfaction or poor results coupled with blame
  - Bar discipline or grievances

- The validity of the client's dissatisfaction with the law firm's work c the law firm's culpability in the matter is irrelevant.

- When should you give notice?
  - As soon as you can, and beware of the days and hours surrounding the expiration and renewal of your insurance policy

BEST PRACTICES AND TAKEAWAYS: CLAIM NOTICE AND REPORTING

- If an Insurer sees that a law firm had reason to know of an error or fact that ultimately gave rise to the claim at issue, and the law firm had that knowledge during a prior year's insurance policy, then there is a high likelihood that the Insurer will deny the claim on the grounds that the law firm had *prior notice*

- Let your excess Insurers know about the claim or incident as well

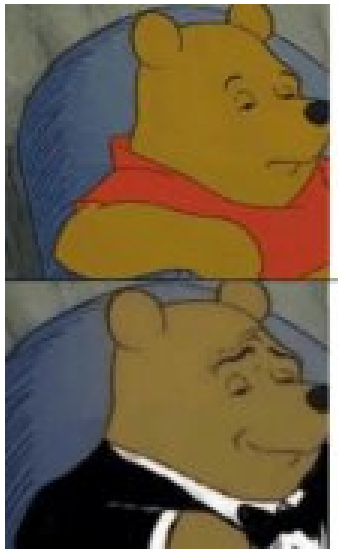
- Fee suits
  - Insurers hate them.
  - Even if they don't trigger an actual Claim, they can force you to report to your Insurer

BEST PRACTICES AND TAKEAWAYS: RECOGNIZING THE POTENTIAL FOR, AND RESOLVING, CONFLICTS

- Pre-Retention Best Practices
- Conflict Checks
- Client Communications
- What to do when Conflicts Arise

BEST PRACTICES AND TAKEAWAYS: WHEN TO CONSULT A LAWYER

- Don’t wait until it's too late.
  - (And don't try to "fix" it yourself)
- Use the Hotline
  - Hotline coverage provided by PL policies written by Princeton Excess and Surplus Lines Insurance Company
  - Coverage includes consultation with FMG malpractice attorneys. Can be used pre-suit and pre-claim



Attending IP Malpractice CLE to learn about trends and best practices

Obtaining Hotline coverage from the experts for total peace of mind

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