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Patent Prosecution Malpractice: Minimizing the Risk of Claims

Recognizing and Eliminating Problem Behavior, Identifying Client Conflicts, Court Treatment

TUESDAY, JULY 14, 2020

1pm Eastern | 12pm Central | 11am Mountain | 10am Pacific

Today's faculty features:

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Patent Prosecution Malpractice: Minimizing the Risk of Claims

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OUTLINE

- General Malpractice Ideas
  - Elements of a Malpractice Claim
  - Ethics rules v. Malpractice
- Litigation of a Malpractice Claim - Jurisdiction
- Preventing, Minimizing and Surviving the Malpractice Claim
  - Culture/Firm Process
  - Dealing with the Client/File Preservation
- Specific Case Studies

Elements of a Claim

In order to bring a malpractice claim a plaintiff must prove:

(1) the existence of an attorney-client relationship that creates a duty;

(2) breach of that duty by the attorney; and

(3) damages that were proximately caused by the attorney's breach of the duty.

See, e.g., Labgold v. Regenhardt, No. 116CV01469AJTIDD, 2017 WL 1395495, at *3 (E.D. Va. Apr. 14, 2017). *Bell v. Kaplan*, No. 3:14CV352, 2016 WL 815303, at *4 (W.D.N.C. Feb. 29, 2016)

Existence of Attorney Client Relationship

- The scope of relationship must encompass the matter in which the malpractice is alleged to have occurred.
- Implied contract can establish attorney-client relationship.
- Non-clients sometimes have standing to bring a legal malpractice claim.

Breach of Duty

- A plaintiff must show more than simply poor legal strategy.
- A plaintiff must show that the lawyer's acts resulted from errors that no reasonable attorney would make.
- Must generally be proven by expert testimony.
- A violation of a Rule of Professional Conduct alone is not sufficient to establish a breach of duty.

CAUSATION

- The plaintiff must prove that, in the absence of attorney's underlying negligence, the plaintiff/defendant would have "won" or had a better result in the underlying action in which the malpractice arose.
  - This damages standard is often called the "case within the case."
  - In a transactional setting, client must provide better deal if malpractice had never occurred.
- Like in traditional tort cases, proximate cause can be broken and contributory negligence is available as a defense.

Contract Action

- A malpractice action has elements of both a tort claim and a breach of contract action, but it is considered a breach of contract action.
- As a result, pleading alternative claims (e.g., legal malpractice, breach of fiduciary duty) do not add anything to the claim or the potential damages.
- The statute of limitations for malpractice claims in most jurisdictions the statute of limitations for a contract claim.

LITIGATION OF CLAIM - JURISDICTION

- A malpractice claim, because it is a breach of contract action, is a state law cause of action.
- An underlying federal issue (*e.g.*, patent infringement) does not suffice to establish federal question jurisdiction in federal court.
  - *Gunn v. Minton*, 133 S. Ct. 1059 (2013)

Litigation of a Claim - Jurisdiction

- If the parties have a retention agreement or similar contract the agreement could have a governing choice of law clause or arbitration provision.
  - If the contract is binding, the choice of law clause often is also.
  - The parties can stipulate to choice of law, mediation and arbitration, but they cannot stipulate to federal court jurisdiction.
  - Counsel should consider choice of law or arbitration and its requirements in their retention agreements.

Minimizing and Preventing Claims Insurance

- Attorneys should review the adequacy of their insurance coverage.
- The review should include a review for scope of the coverage and amount.
- The scope review should include a review of whether the insurance covers not only traditional malpractice, but also things like cybersecurity and ransomware.
- Some insurance companies limit the counsel you can use to defend your malpractice action.

Firm Culture

- Easier to fix issue earlier rather than later.
- A firm should identify (both in process and personnel) the best way to create this culture and make sure that any and all potential issues are handled in a way consistent with that culture.
- Common Issues

Preservation of Privilege

- Have a designated ethics partner or managing partner who is not working on the matter.
- Keep discussions about the issue confidential within the firm.
- Take extreme care not to involve third parties where there is the potential for waiver.
- Do not charge the client for the time spent discussing the matter. Create a separate billing matter if necessary.
- Email Discipline is key.

Dealing with the Client

- Lawyers have a duty to disclose mistakes and possible malpractice to the client promptly.
  - Rules 1.4 and 1.7
  - ABA Formal Opinion 481
- Waiver after client notification
  - After the lawyer notifies the client of a potential issue, the lawyer should then secure a waiver of a the potential conflict.
  - The client can otherwise claim that the lawyer is handling the matter with an eye towards the lawyer's own interests, not the client's.
  - Not a waiver of malpractice claim.

File Preservation

- Retain a copy of the file.
  - If the client wants copy of the file – provide what is required under Rule 1.16(e), but keep a copy.
- Outside counsel and other destruction obligations
  - Protective Orders
  - Outsider Counsel Guidelines

Trends in Malpractice Claims

- According to a recent ABA study, legal malpractice claims have increased by 20% since 2011.
- 6 major insurance companies reported 13% increase from 2018 to 2019.
- Historical trend of increases in claims after disasters.
- Patent/IP cases ranked 9 out of 26 practice areas included in the study.

Case Studies

Subject Matter Conflicts

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Conflicts When Representing Client In "Related" Technology

Maling v. Finnegan, Henderson, Farabow, Garrett & Dunner, LLP, 473 Mass. 336 (Dec. 23, 2015)

- Technology conflict alleged
- No misuse of confidences proven
- Plaintiff issued four patents
- What is "adversity" in prosecution practice?

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MALING V. FINNEGAN

Allegations:

- Firm represented competitors in eye glass hinge space;
- Client spent $100,000 in fees;
- Client invested millions in development, which he lost because of Masunaga patents.

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MALING V. FINNEGAN

- *Similar* inventions?
- Maling:
  - Frame for securely holding a lens w/o need for screws, pins or bolts
- Masunaga:
  - Eyeglasses having screwless hinges which can avoid deflection of temples in vertical directions
- Does substantially similar mean identical or only obvious differences in claimed invention?
- No interference and both claimed inventions were patentable over prior art and each other.

MALING V. FINNEGAN

- Dismissed for failure to state claim.
- No "direct adversity" under Rule 1.7(a)(1).
  - Maling and Masunaga not adversaries in traditional sense (i.e., not on opposite sides of lit. or transaction)
  - Both parties got patents!
  - No conflict if "only economically adverse"
- Analogy to *Curtis v. Radio Representatives* (D.D.C. 1998) – no conflict to represent 2 clients seeking broadcast radio licenses, unless objectionable electrical interference

Maling v. Finnegan: Conflict Check Warning

- Rule 1.10: Identifying conflicts of interest:
  - Firms must implement procedures to identify and remedy actual and potential conflicts
  - Firms need "robust processes that will detect potential conflicts"
  - Firms run "significant risks, financial and reputational, if they do not avail themselves of a robust conflict system adequate to the nature of their practice"
- OED follows Maling and expects IP firms to adopt "robust" conflict checking procedures.

Case Studies

Negligent Prosecution

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PROTOSTORM, LLC V. ANTONELLI

- 6/2000 – Provisional app. filed.
- 6/2001 – PCT app. filed.
- Firm designates 100+ countries for patent protection except:
  - Mongolia
  - Zaire
  - The United States of America

PROTOSTORM, LLC V. ANTONELLI

- 2006 – Client learns of possible infringement by Google. But no patent rights.
- 2014 – Jury awards $8 million.
- District court refuses to vacate based on *Alice* defense because Firm never timely raised this issue.
  - Malpractice w/i malpractice?
- 2nd Circuit affirms, holds *Alice* issue waived.
  - 673 Fed Appx. 107 (2d Cir. 12/21/2016)

Encyclopedia Britannica v. Dickstein Shapiro LLP

- 1993 – Defect in priority application unnoticed.
- 2006 – EB sues for infringement.
- 2009 - Patents invalid due to priority application defect from '93 application.

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Encyclopedia Britannica v. Dickstein

- 2010- EB sues for prosecution malpractice.
- Case languishes at district court for years.
- Then *Alice* decided in 2014.
- Firm argues no causation because patents would have been unpatentable under 35 U.S.C. 101 & *Alice*

Encyclopedia Britannica v. Dickstein

- District Court rules in favor of Firm.
- *Alice* did not "change" the law prevailing at time of alleged malpractice.
  - 35 U.S.C. 101 "has not changed."
  - *Alice* "merely clarified."
- D.C. Circuit affirms.
- No proximate cause because claims failed under 101/*Alice.*
  - 653 Fed. Appx. 764 (D.C. Cir. 2016)

Case Studies Limit Scope of Engagement

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PORTUS SINGAPORE V. KENYON & KENYON

- Portus developer of smart home systems, including IP video surveillance tech.
- 12/98 – Files patent app. in Australia.
- 12/99 – Portus files PCT application.
  - Claims priority to Australian App.
- 6/15/01 – Kenyon receives U.S. filing instructions from Australian associate.

PORTUS V. KENYON

- Foreign associate instructions:

"Please proceed to enter the National Phase in the United States on behalf of our client and in accordance with the details shown on the attached sheet. We request you file this application by 17 June 2001 . . . . In the absence of our specific instructions please keep this application in force.

PORTUS V. KENYON

- Two ways to file a U.S. application in connection with an international application under PCT:
  - National stage application pursuant to 35 U.S.C. § 371
  - Continuation bypass application pursuant to 35 U.S.C. § 111
- Kenyon timely files national stage application
- Kenyon reports filing national stage application
- Patent is finally issued in 2014

PORTUS V. KENYON

- Portus alleges Kenyon failed to file, in 2005, continuation of the PCT App.
  - Miscue allegedly cost 3 1/2 years of additional patent protection.
- 2014 – Kenyon files a petition in USPTO to claim benefit of PCT app. & extend patent term.
  - Petition denied.
  - 9-year delay to seek relief unreasonable.

PORTUS V. KENYON

- 2016: Portus sues Kenyon in SDNY.
- Complaint alleges prosecution malpractice by:
  - Failure to timely convert its patent filing;
  - A subject matter conflict with Bosch.
- Kenyon moves for judgment on pleadings.
- Portus drops its s.m. conflict claim.
- 3/27/20 – District Court grants summary judgment to Kenyon.

PORTUS V. KENYON

- Portus alleges Kenyon should have filed international application under 35 U.S.C. § 111
  - 3.5 years of extra patent term
- No formal retainer; court looks to the June 15, 2001 fax from foreign associate
- "National stage" not reasonably interpreted to mean file continuation bypass under 35 U.S.C. § 111

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PORTUS V. KENYON

- Limited scope engagement
  - enter national stage
  - keep application alive until you hear otherwise.
- Kenyon did exactly what it was hired to do
- Kenyon not required to advise Portus about "theoretical advantages of another application"

PORTUS V. KENYON

- An attorney "is not held to a standard of 'infallibility' and the 'perfect vision of hindsight' is an unreliable test for determining . . . legal malpractice."
  - *Portus v. Kenyon*, 1:16-cv-06865 (SDNY Mar. 27, 2020)

Case Studies

Litigation

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TELEBRANDS V. DAVID BOIES

- Telebrands makes "Bunch O Balloons"
  - Fills 40 balloons with water at once
- Competitor sues for patent infringement
- Telebrands hires Boies Schiller to defend IP litigation and redesign product to avoid infringement
- $30 million judgment

TELEBRANDS V. DAVID BOIES

- 5/2020: Telebrands sues Boies and firm for legal malpractice:
  - Failed to advise on risk of infringement or exposure;
  - Improper advice on invalidity;
  - Improper counsel on re-design
  - Litigated in "overly aggressive" manner, resulting in increased fees.

Thank You!

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