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Mass. High Court Provides Guidance On Patent Malpractice

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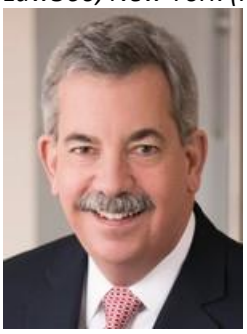
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In Chris E. Maling v. Finnegan Henderson Farabow Garrett & Dunner LLP,[1] the Massachusetts Supreme Court provided guidance on a topic of interest to every law firm with a significant patent prosecution practice, namely, the potential for subject matter conflicts when law firms prepare and prosecute patent applications, or provide patent counseling services, for multiple clients in the same industries. Maling is not the first case to address subject matter conflicts in the patent context,[2] but in Maling the court seized an opportunity to address straight-on the issue of subject matter conflicts, among other things, by taking the case sua sponte on direct appeal and by inviting amicus briefing.

On Dec. 23, 2015, the court in Maling affirmed a lower state court's dismissal of the plaintiff's legal malpractice suit against Finnegan for failure to state a plausible claim for relief. In dismissing the case, the court rejected plaintiff's theory that it is a per se violation of the state's professional conduct rules for a law firm to prosecute patents that disclose similar inventions for multiple clients.[3] However, the court also signaled that, depending on specific facts and circumstances, including the scope of representation agreed upon by a client and its law firm, conflicts of interest may arise out of simultaneously representing multiple clients in the same industry. Furthermore, the court highlighted the need for law firms to implement "robust processes that will detect potential conflicts."[4]

The case involved plaintiff Chris Maling's legal malpractice claim against Finnegan for prosecuting Maling's patent application for a new eyeglass hinge through lawyers in its Boston office at the same time that lawyers in the firm's Washington, D.C., office were prosecuting patent applications for Maling's competitor, Masunaga Optical.[5] Maling and Masunaga both received patents from the U.S. Patent and Trademark Office as a result of Finnegan's prosecution efforts, but the conflict came to light when Finnegan later refused to provide Maling with an opinion that evaluated whether the invention that Maling's patent covered was sufficiently different from the Masunaga patent to avoid exposure to infringement and invalidity claims.[6]

The Massachusetts state trial court initially dismissed Maling's case, holding that the parties were not adverse and that the complaint did not allege a material limitation on the law firm's ability to represent Maling. Maling appealed, and the case was taken up sua sponte by the Massachusetts Supreme Court, which in December 2014 sought amicus briefing on the limited issue of "Whether, under Mass. R. Prof. C. 1.7, an actionable conflict of interest arose when, according to the allegations in the complaint, attorneys in different offices of the same law firm simultaneously represented the plaintiffs and a competitor in prosecuting patents on similar inventions, without informing the plaintiffs or obtaining their consent to the simultaneous representation."[7]

Mass. R. Prof. C. 1.7, which is identical to the relevant professional conduct rule in most states, provides that a lawyer shall not represent a client if the representation is "directly adverse to another client," Mass. R. Prof. C. 1.7(a)(1), or where "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." Mass. R. Prof. C. 1.7(a)(2).[8]

The Massachusetts case garnered national attention because it was the first to consider whether simultaneously prosecuting patents for competing companies per se creates an actionable conflict of interest, even when the companies are seeking patents for different inventions. Eleven prominent law firms combined forces to file an amicus brief, arguing that there should be no conflict unless the claims of two patent applications are identical or merely obvious variants of each other.[9] Finnegan maintained in its defense that prosecuting patent applications for competing clients in similar technologies is not a conflict because similar patents may still be nonobvious and novel, as demonstrated by the USPTO's practice of frequently granting patents for slight improvements.[10] Finnegan further noted that competitors are not directly adverse during patent prosecution, and a lawyer's ability to prosecute a patent is not limited by prosecuting multiple patents.[11]

In siding with Finnegan, the Massachusetts Supreme Court concluded that a conflict based on direct adversity was not adequately alleged.[12] It also noted that Maling's complaint "provide[d] little more than speculation that Finnegan's judgment was impaired or that he obtained a less robust patent than if he had been represented by other, 'conflict-free' counsel."[13]

Regarding Finnegan's subsequent unwillingness to provide a legal opinion addressing the similarities between the Maling and Masunaga inventions, the court found that Maling's complaint did not contain any allegations about the law firm's scope of representation other than that Finnegan "agreed to file and prosecute a patent for Maling's inventions."[14] Nor did Maling adequately allege that the law firm should have reasonably anticipated that he would need a legal opinion that would create a conflict of interest.[15] "There are simply too few facts from which to infer that Finnegan reasonably should have foreseen the potential conflict in the first place."[16]

The Massachusetts Supreme Court concluded that "[b]ecause Maling's claims hinge on the existence of a conflict of interest, and because we conclude there was none adequately alleged in this case, he fails to state a claim on each of the counts in his complaint."[17] It added, "[o]n the facts alleged in Maling's complaint ... we find that no actionable conflict of interest existed. The dismissal of the complaint is affirmed."[18]

In Maling, the Massachusetts Supreme Court endorsed what has become the prevailing approach for most patent prosecutors and, indeed, what the amicus brief from 11 law firms argued — i.e., no conflict exists unless the law firm is prosecuting patents that have identical applications or are obvious variants

of each other. However, the court was careful to note that "there are various factual scenarios in the context of patent practice in which a subject matter conflict may give rise to an actionable violation of rule 1.7."[19] For example, if applications filed prior to March 16, 2013, are addressed to similar subject matter, the USPTO can institute an interference proceeding to determine which inventor would be awarded the claims contained in the patent applications.[20] If the USPTO had instituted an interference proceeding to resolve conflicting claims in the Maling and Masunaga patent applications, or if Finnegan believed such a proceeding was likely, the court stated that "the legal rights of the parties would have been in conflict, as only one inventor can prevail in an interference proceeding. In such a case, Rule 1.7 would have obliged Finnegan to disclose the conflict and obtain consent from both clients or withdraw from representation."[21]

Further, the Massachusetts Supreme Court warned that subject matter conflicts can give rise to conflicts of interest under Mass. R. Prof. C. 1.7 (a) (1) in non-litigation contexts. Indeed, Comment 7 to Mass. R. Prof. C. 1.7 explains that directly adverse conflicts may also arise in the course of transactional matters. For example, "a lawyer would be precluded ... from advising a client as to his rights under a contract with another client of the lawyer. ... Such conflict involves the legal rights and duties of the two clients vis-[a]-vis one another."[22] In Maling, however, there was no allegation that Finnegan had agreed to provide such advice in its engagement to prosecute Maling's patents. It can be inferred from the opinion that a law firm that is engaged to provide more general patent counseling services could have violated Mass. R. Prof. C. 1.7 (a) (1).

Subject matter conflicts are an important area of concern for law firms with significant patent practices. Law firms should be attentive to client expectations, including the agreed upon services and scope of representation, and law firms should consider processes and procedures beyond traditional conflicts checks to minimize the risks associated with subject matter conflicts.[23] As the Massachusetts Supreme Court warned, "[t]o ensure compliance with [the rules of professional conduct], firms must implement procedures to identify and remedy actual and potential conflicts of interest."[24] Clients also can help manage the risks of subject matter conflicts by maintaining robust communication with their outside law firms, so that law firms will be sensitive to their clients' areas of concern.

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[1] Maling v. Finnegan, Henderson, Farabow, Garrett & Dunner LLP, No. SJC-11800 Slip. Op. (Mass. Dec. 23. 2015).

[2] See, e.g., Axcess Int'l Inc. v. Baker Botts LLP, 05-14-01151-CV (Tex. App. 5th Dist.) (on appeal from CC-13-01301E, County Court at Law No. 5 Dallas County, Texas) (after a well-publicized trial in a case involving patent prosecution on behalf of competing companies in the RFID field, the law firm received a directed verdict in its favor on breach of fiduciary duty claims but was found liable for negligence in patent prosecution); Vaxxion Therapeutics, Inc. v. Foley & Lardner LLP, 593 F. Supp. 2d 1153 (S.D. Cal. 2008) (denying motions for summary judgment of breach of fiduciary claims, based on law firm's

prosecuting of patent applications for the same minicell technology for two separate companies).

[3] See generally Maling, No. SJC-11800 Slip. Op. (Mass. Dec. 23. 2015).

[4] Id. at 23.

[5] Id. at 3-4.

[6] Id. at 4-5.

[7] Maling, No. SJC-11800, Dkt. No. 4 (Mass. Dec. 26, 2014).

[8] Maling, No. SJC-11800, Slip. Op. at 7. (Mass. Dec. 23, 2015).

[9] No. SJC-11800, Dkt. No. 16 (Mass. Aug. 21, 2015).

[10] Maling, No. SJC-11800, Slip. Op. at 12. (Mass. Dec. 23, 2015).

[11] Id. at 10.

[12] Id. at 16.

[13] Id. at 18.

[14] Id. at 20.

[15] Maling, No. SJC-11800, Slip. Op. at 20 (Mass. Dec. 23, 2015).

[16] Id.

[17] Id. at 21.

[18] Id. at 24.

[19] Id. at 23.

[20] Id. at 12. Under the America Invents Act, inventorship of patents and patent applications that do not contain any claims entitled to a priority date before March 16, 2013 must be challenged through a derivation, rather than interference, proceeding. See 35 U.S.C. § 135 (2012).

[21] Id. at 13-14.

[22] American Bar Association Standing Committee on Ethics and Professional Responsibility, Formal Op. 05-434, at 140 (Dec. 8, 2004).

[23]For example, Mass. R. Prof. C. 1.10 prohibits lawyers associated in a firm from “knowingly represent[ing] a client when any one of them practicing alone would be prohibited from doing so by Rule[] 1.7.” Mass. R. Prof. C. 1.10 (a).

[24] Maling, No. SJC-11800, Slip. Op. at 22 (Mass. Dec. 23, 2015); see Mass. R. Prof. C. 5.1 comment 2 (requiring firms to make "reasonable efforts to establish internal policies . . . designed to detect and resolve conflicts of interest").