10 Mistakes That Patent Practitioners Make

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by

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Overview of IP Malpractice Issues

IP malpractice is a matter of continuing concern for patent attorneys and their insurance carriers.[2] Malpractice insurance premiums for patent attorneys have increased so dramatically in recent years that some patent firms have difficulty finding an insurance carrier.[3] Malpractice claims are less frequent in intellectual property cases than in most other areas of practice. When they do occur, however, they often result in abnormally high awards--so much so that malpractice insurers penalize intellectual property practitioners with higher premiums.

Until recently, intellectual property practice has not been a major source of malpractice claims. In recent years, however, an increased number of IP cases have caused significant incurred loss.[4] A majority of these cases have involved patents.[5] One factor contributing to this increase is simply the explosion in IP work, in general, and in foreign IP work in particular. The globalization of the economy is also likely to result in increasingly large damage studies, as malpractice plaintiffs will contend that loss of IP rights in one country impairs those rights elsewhere.[6]

A second factor causing concern is the recent trend of law firm consolidation, where large firms absorb IP boutiques.[7] In this situation, the potential for conflicts

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[2] Sean B. Seymore, *The Competency of State Courts to Adjudicate Patent-Based Malpractice Claims*, 34 AIPLA Q.J. 443, 444 (2006).

[3] Id.

[4] Mary Beth S. Robinson, *Legal Malpractice in the Intellectual Property Practice,* 710 PLI/Pat 485, 489 (2002).

[5] Id.

[6] Id.

[7] Id. at 490.

increases significantly. Since conflicts continue to be one of the most difficult lawyer liability problems, this consolidation trend contributes to an increase in claims.

Finally, the inherent nature of IP practice, particularly as it relates to patents, causes concern. Patent law malpractice claims frequently result in substantial damage claims, based on long-term lost profits claims.[8] This potential for high verdicts makes IP practice a particular area of concern for insurers and law firms alike.

Specific Areas of Concern

Law practice has increased substantially in speed, scope and volume of late, thanks in part to advances in technology, particularly with respect to communications between lawyers and clients and between lawyers and third parties. One unfortunate but undeniable impact of this trend is that, as lawyers become busier, they find increasing difficulty managing information and deadlines.

The majority of legal malpractice claims asserted are without merit. But even meritless claims often result in significant costs in the form of defense fees, claims administration expenses and the like. These costs are ultimately borne by insured law firms in the form of higher premiums. Accordingly, it is important not just to focus on malpractice avoidance but also on claims avoidance. Claims avoidance strategies may readily be seen through analyzing three areas where claims typically arise: client intake procedures; docket control issues; and client communication issues. Each of these three areas involves a number of potential pitfalls that could lead to a malpractice claim, which together are "10 Mistakes That Patent Practitioners Make." Such mistakes may not necessarily lead to law firm liability, but they certainly increase the likelihood of claims being asserted.

CLIENT INTAKE

Client intake refers to the first interaction a patent attorney has with a client or potential client on a given matter. It is at the inception of the attorney-client relationship where we see one of the most common sources of malpractice claims: conflicts of interest. Conflicts arise in a number of contexts. Of particular concern here are conflicts in representing parties with adverse interests, subject matter conflicts, and conflicts between the client's interests and the attorney's own interests.

1) Conflicts in representing parties with adverse interests

Overview

Having a system in place to screen for conflicts of interest in representing multiple parties is crucial for every attorney. Not only should the conflict check system be used, it must be updated and frequently evaluated to determine its usefulness and accuracy.

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[8] Id.

In addition to having the traditional computerized client/matter lists to help identify conflicts, a firm can circulate a representation memorandum for each new client and for each new matter identifying the basic and brief nature of the representation and list all related parties.[9] The use of this type of memorandum may be an important factor in convincing a court not to disqualify a firm even if it obtains information that requires an attorney to screened.[10]

Illustrative Cases

Berkeley Ltd. P'ship v. Arnold, White & Durkee, 118 F. Supp. 2d 668, 674 (D. Md. 2000) (limited partnership client brought malpractice claim against law firm alleging undisclosed conflict of interest; court found breach of fiduciary duty by patent firm due to conflict of interest entitled client to either compensatory damages or disgorgement of legal fees).

Plaintiff alleged that Berkeley LP hired the Texas law firm of Arnold, White & Durkee (AW & D) to represent it in connection with claims of patent infringement against the computer company, IBM. Berkeley LP contended that AW & D failed to disclose its representation of clients adverse to Berkeley LP. Plaintiff asserted that AW & D's simultaneous representation of Berkeley LP and two other computer manufacturers (the Intel Corporation and the NCR Corporation, both of which manufactured computer hardware for IBM compatible computers), which are alleged to have also infringed upon their patent, created a conflict of interest that AW & D never disclosed. Plaintiff brought suit alleging two claims of legal malpractice and one count of breach of fiduciary obligations.

AW & D began representing Plaintiff in 1984, and began representing Intel in late 1984. Plaintiff's claim against IBM was settled in 1988. In June 1996, Berkeley LP's general partner and one of its limited partners allegedly had a conversation in which the limited partner told the general partner that he thought they should have gotten more out of IBM as a result of their 1988 settlement. The limited partner expressed the opinion that had AW & D not represented Intel, more of Berkeley LP's claims would have remained in the complaint against IBM. The general partner allegedly got agitated because this was the first time he had heard that AW & D represented Intel. As a result of the conversation, Berkeley LP filed suit against AW & D in 1997.

It was undisputed by both parties that certain limited partners in Berkeley LP were told directly by AW & D of the potential conflict of interest between Berkeley LP and Intel. Neither limited partner told the general partner of Berkeley LP, because they both assumed that he was aware of this. This conversation occurred in 1987, 10 years before the malpractice lawsuit was filed. It was uncontroverted that both limited partners had knowledge of AW & D's representation of both Berkeley LP and Intel. The

[9] Ronald E. Mallen & Jeffrey M. Smith, *Legal Malpractice* § 2 6, at p. 82 (2006 ed.).
[10] Id.

law firm argued that the knowledge of a limited partner imputed that knowledge to the whole limited partnership.

> **KEY POINT:** Make certain that you communicate with persons authorized to act on behalf of corporate entities; document communications involving conflicts in writing and obtain written waivers from authorized persons.

The firm also argued that there were other instances when AW & D allegedly informed the general partner, personally, of their representation of Intel. These instances include an alleged trip to the Intel litigation "war room" and a conversation which allegedly took place in a rental car during a weekend strategy meeting concerning the IBM suit. Plaintiff submitted a significant amount of evidence to place these instances in dispute through deposition testimony and sworn declarations.

> **KEY POINT:** If a communication is not documented, it is more easily disputed after the fact; ensure proper documentation of important client communications, particularly those involving conflicts.

The firm told one of the limited partners in 1987 that certain claims could not be brought against IBM because they involved Intel and that would present AW & D with a conflict of Interest. While it was disputed whether Intel infringed upon Berkeley's patent, the court found that it was clear from the evidence that claims could have been brought against IBM. However, those claims were not brought, in part because AW & D represented Intel. AW & D's representation of Berkeley LP and Intel at the same time constituted a conflict of interest as a matter of law.

Ciocca v. Neff, 2005 WL 1473819 (S.D.N.Y. June 22, 2005).

Another noteworthy case, which is further discussed in connection with other issues presented herein, is Ciocca v. Neff. In the early 1990s, Ciocca was Chairman and CEO of Megatrend Telecommunications, Inc. In 1995, Megatrend filed for bankruptcy protection. Megatrend had retained attorney Neff to prosecute a patent application. After filing for bankruptcy, Megatrend was granted the Patent in 1997, and the rights to the Patent were subsequently assigned to Ciocca in exchange for releasing his creditor claims against Megatrend in connection with the bankruptcy proceedings.

Subsequently, a party was interested in purchasing Ciocca's rights to the Patent, and Plaintiff retained Neff to negotiate the sale. TracFone Wireless, Inc. purchased the Patent for $850,000 on June 29, 1999. TracFone later sued Ciocca for breach of contract with respect to assignment of the Patent. That action was dismissed pursuant to a stipulation of the parties.

At some time during or after Neff's representation of Ciocca, Neff began discussing representing TracFone in connection with the foreign patent rights for the Patent. The parties disputed the timing of Neff's decision. Plaintiff asserted that Neff failed initially to disclose any understandings, agreements and/or discussions among

Neff and TracFone, and further alleged that Neff told him about representing TracFone prior to the execution of the Patent sale and that Ciocca never consented to the TracFone representation. Neff averred that his work for Plaintiff ended with the closing of the Patent sale and that, when he properly informed Plaintiff of his subsequent representation of TracFone, Plaintiff had no objection.

Ciocca sued Neff for malpractice and alleged that Neff created a conflict of interest by agreeing to represent TracFone prior to the conclusion of his representation of Ciocca in the sale of the Patent. Plaintiff further alleged that Defendants breached their fiduciary duty to Ciocca by failing to seek a waiver from Ciocca with respect to such discussions, understandings or agreements.

> **KEY POINTS:** Disclosures concerning conflicts should be set forth in writing in connection with a written waiver from the client of the actual or potential conflict. Additionally, the duration of the representation of a client should be documented by both an engagement letter at the inception of representation and a disengagement letter at the conclusion of representation.

The court denied Neff's motion for summary judgment and held that there were genuine issues of material fact with respect to actual or potential conflict of interests, including whether Neff's representation of TracFone began before, during, or after his representation to Ciocca in the sale of the Patent and whether there was appropriate disclosure. Ciocca was settled on confidential terms, and the case was dismissed with prejudice in January 2007.

2) Subject matter conflicts: Subject of one representation may conflict with the subject of another client's representation

Overview

One of the trickiest aspects of "subject matter conflicts" is that they are not always discernable when an attorney agrees to representation.

Illustrative Case

G.D. Searle & Co. v. Pennie & Edmonds, LLP, 801 N.Y.S.2d 233 (Table) (N.Y.Sup. 2004).

G.D. Searle & Co. illustrates the potential conflict of interest problems faced by a patent firm when related technology is involved.[11] The law firm, Pennie & Edmonds, represented two clients in acquiring patent rights to allegedly the same technology--COX-2 inhibitors. The University of Rochester had retained the firm to handle its patent

[11] Samuel Oddi, *Patent Attorney Malpractice: An Oxymoron No More*, 2004 U. Ill. J.L. Tech & Pol'y 1, 54 (2004).

portfolio commencing in 1995, including filing and prosecuting applications relating to COX-2 inhibitors. At the time, the firm also represented Searle and Pfizer with respect to patents on a well-known COX-2 inhibitor, Celebrex. One of the many decisions entered in this matter references that circulated an internal "conflicts" memorandum in 1998 (some years after the representation had been ongoing) regarding the firm's retention by Searle in COX-2 patent matters, and that the two partners who represented the university failed to respond.

On April 11, 2000, the University's COX-2 inhibitor patent issued and immediately, on that same day, the University filed an infringement action against Searle and Pfizer for its marketing of the allegedly infringing Celebrex. The following day the firm then "retired" the University as a client, but continued its relationship with Searle and Pfizer. Shortly thereafter, Searle terminated the firm's representation in separate interference proceedings against Merck (pertaining to yet another COX-2 inhibitor, Vioxx), and none of the defendants in the University's infringement action retained the firm.

Both the University and Searle filed separate suits against the firm alleging breach of fiduciary duty. The two actions were then consolidated for discovery and joint trial. In a pre-trial ruling, the court found that the firm violated state disciplinary rules when it represented clients who later became adverse parties in patent litigation. "In keeping with the policy of prohibiting multiple conflicting representations without the the clients' consent, [Pennie & Edmonds] representation of both plaintiffs and [the University of Rochester] on related patent issues, without informing clients, without obtaining plaintiffs' waiver or consent, constitutes a breach of DR 5-105," Judge Charles Ramos wrote in *G.D. Searle v. Pennie & Edmonds*, 602374/00.

But the judge declined to grant summary judgment against the firm in a suit by one of the clients alleging breach of fiduciary duty. In declining to grant summary judgment, Judge Ramos noted that a number of factual issues remained in dispute. Pennie & Edmonds had claimed that it had not received discovery on several issues. The degree to which Pennie & Edmonds lawyers actively discussed litigation strategy with the University of Rochester also remained in dispute. Judge Ramos noted that most of Pennie & Edmonds' arguments took the position that the firm never represented the parties in a situation of "actual adversity," with partners claiming they only had "hypothetical" or "general" discussions about the possibility of litigation or negotiation with Pfizer based on the University of Rochester patent.[12]

> **KEY POINT:** Firms must be attuned to patent work performed by every partner to ensure no subject matter conflicts. Conflicts memoranda that are circulated must be done so in a timely manner and must be meaningfully reviewed. Clients need to be thoroughly vetted as to potential application of patents.

[12] Anthony Lin, *Pennie Found to Have Violated Ethics Rules,* Jan. 20, 2004, N.Y.L.J., p. 1, col. 3

Pennie & Edmonds closed its doors December 31, 2003 after about 100 lawyers opted to join the New York office of Jones Day.

3) Conflicts between the client's interests and the attorney's own interests

Overview

State ethical rules vary and can determine the standard of conduct. Knowing the ethical rules of your state and having a policy of disclosure with the client can help avoid these conflicts.

Illustrative Case

Buechel v. Bain, 713 N.Y.S. 2d 332 (2000), aff'd, 97 N.Y. 2d 295 (2001).

This case followed the decision in Rhodes v. Buechel, 258 A.D.2d 274, 685 N.Y.S.2d 65 (N.Y.A.D. 1999) in which attorneys representing two co-inventors of a prosthetic shoulder device prosecuted a patent for the device in return for a 1/3 interest in all monies earned from invention. Later, the clients and the attorneys incorporated a company to exploit the patent, and the three attorneys again took a 1/3 interest in the corporation. The corporate interests were then transferred to a trust. The attorneys failed to advise plaintiffs of the potential for conflicts of interest that could result from their business interest or that their 1/3 interest in the single invention did not necessarily entitle them to a 1/3 interest in a corporation that would exploit all future inventions. One of the three attorneys sued the trustees to recover millions of dollars which the client trustees had allegedly improperly paid themselves. The client counterclaimed against that attorney for malpractice and breach of fiduciary duty.

> **KEY POINT:** Suing a client for fees or other compensation is likely to result in a malpractice counterclaim.

The attorney's claim in Rhodes was denied because of his failure to address the conflict of interest properly. The fee agreement was voided *ab initio* and rescinded. In the subsequent case of Buechel v. Bain, the other two attorneys were collaterally estopped from contesting that judgment.

The fee agreement was held unethical because of failure to deal properly with conflict issue under New York state law. Notwithstanding the PTO regulation allowing attorneys to take interest in PTO patent in lieu of monetary fee (37 CFR § 10.64), the court noted that the PTO rule did not preempt state ethics rules.

4) Conflicts based on prior representation

Overview

Large firms are hiring laterals at a record pace. Laterals must be appropriately vetted, and information on previous representations should be inputted to the conflicts system.

Illustrative Case

Stratagene v. Parsons Behle & Latimer, 315 F.Supp.2d 765 (D.Md. 2004).

Plaintiff Stratagene was engaged in ongoing patent infringement litigation with Invitrogen Corporation. During the course of that litigation, Plaintiff discovered that Vanessa Pierce, one of the attorneys for then-counsel to Invitrogen, Defendant Parsons Behle & Latimer, previously had represented Plaintiff at her prior firm in patent matters. Plaintiff moved to disqualify both Pierce, and her firm from the case. The court granted Plaintiff's motion, finding that Pierce had worked at her prior firm on matters "substantially related" to those in the Invitrogen litigation and that "Parsons has not sheltered itself from imputed disqualification" by failing to screen Pierce from participation in the Invitrogen litigation.

Plaintiff filed a six-count complaint for legal malpractice and negligence against Parsons, Pierce, and two other firm attorneys. Plaintiff cited to Rule 1.9 of the Maryland Lawyers' Rules of Professional Conduct, which prohibits an attorney from representing a client with interests materially adverse from those of a former client absent waiver, as the basis for its legal malpractice claims. The Court granted the motion to dismiss the law firm and the two firm attorneys on the basis that the Plaintiff never retained them. Pierce was the only defendant who at any time served as legal counsel for the Plaintiff, and did not seek dismissal pursuant to Fed.R.Civ.P. 12(b)(6). Her motion to dismiss for improper venue was denied. It appears that this case may have settled, however, as the parties filed a stipulation of dismissal with prejudice in August 2004.

> **KEY POINT:** The attorney should have recognized the conflict of interest based on her prior representation at her former firm. As happened here, an attorney may be sued individually for malpractice for not properly checking conflicts of interest based on representations at former firms. The firm could possibly have discovered this conflict had it had a new matter opening memorandum circulated among attorneys as part of its conflicts system.

5) Fee agreement issues

Overview

Some insurers have reported that malpractice claims filed in response to fee actions compromise approximately 20% of all claims against attorneys.[13] Yet, possibly as much as 40% of all claims have some relationship to how the lawyer handled the fee arrangement or communication about the value of the services rendered.[14]

Illustrative Case

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[13] Ronald E. Mallen & Jeffrey M. Smith, *Legal Malpractice* §1.1, at p. 8 (2006 ed.).

[14] Id.

Ciocca v. Neff.

We return to Ciocca, which was addressed above in connection with conflicts. During discussions with Ciocca about representation for the sale of the Patent (after Ciocca had obtained the Patent from Megatrend in a bankruptcy settlement), Neff informed Ciocca that Neff had never been fully paid for the patent prosecution done on behalf of Megatrend, and that the outstanding debt was $60,000 ($42,000 in fees, $18,000 in interest). Ciocca and Neff agreed that the $60,000 would be paid from the proceeds of the Patent sale.

In the subsequent malpractice litigation referenced above in connection with the conflict of interest, Ciocca also asserted that Neff breached his fiduciary duty by demanding an interest in the Patent sale in the amount of $60,000, which Neff averred represented unpaid fees and interest owed to Neff for prosecuting the Patent application for Megatrend.

The court again held that there were genuine issues of material fact as to whether Neff created the impression that Megatrend's debt obligation to Neff, which was apparently discharged in Megatrend's bankruptcy proceeding, became Ciocca's debt obligation, and whether Neff's request for payment was a substantial factor in Ciocca's loss and therefore constituted a breach of fiduciary duty. Neff's motion for summary judgment on the breach of fiduciary duty claim was, therefore, denied.

> **KEY POINT:** Although it is not clear on the face of the decision how, if at all, this agreement was documented, the context suggests it was not. Particularly in light of the fact that the unpaid fees were owed by Megatrend rather than Ciocca, any understanding or agreement that they would be paid by Ciocca must be sufficiently documented such that it was clear Ciocca understood he was not obligated to pay the fees.

DOCKET CONTROL

Another common area where malpractice claims arise is docket control, which is used as an inclusive terms to reflect matter management issues, including keeping track of significant deadlines.

Approximately 26% of malpractice claims are administrative in nature, many of which involve calendaring errors.[15] Administrative and substantive errors relating to calendaring collectively account for 20% of claims. Of all calendaring errors:

11.3% are based on failure to calendar;
6.8% are based on failure to know deadlines;
3.5% are based on failure to react to calendar;
4.2% are based on failure to file; and

[15] Ronald E. Mallen & Jeffrey M. Smith, *Legal Malpractice* §1.7, at pp 35-36 (2006 ed.).

74.2% are categorized as other (not specified in source material).[16]

6) Filing deadlines

Overview

The pace of the practice of law has dramatically increased with technological innovation over the decade. The busier we become, the more important docket control is, yet the less time we spend on docket control. Use your electronic calendars efficiently and effectively. Also, have a back-up; use an assistant to ensure that deadlines are maintained by more than one person.

Illustrative Case

Kairos Scientific, Inc. v. Fish & Richardson P.C., 2003 WL 21960687 (Cal. Super. Ct. Jul. 29, 2003) (holding that defendant attorney's failure to timely file a foreign patent application was legal malpractice which caused plaintiff to lose the ability to license an invention; court entered judgment in 2004 for $29,868,004).

Kairos Scientific Inc. invented "KCAT," a technology used in developing improved enzymes for commercial use. Kairos retained an attorney to file patent applications for KCAT, and, on April 20, 1998, the attorney filed a provisional patent application for KCAT with the Patent and Trademark Office (PTO). Once a provisional application is filed, the applicant has one year to file for a utility application. The same one-year deadline applies to foreign patents. To obtain foreign patents, the applicant may file a single application under the Patent Cooperation Treaty (PCT). Kairos had until April 20, 1999 to file its PCT application.

On June 16, 1998, the attorney filed the utility application for KCAT with the PTO, and the patent issued a year later in June 1999. At that time, according to the opinion, the firm discovered that **"due to an error in its calendaring system,"** it had failed to file the foreign PCT application by the April 20, 1999 deadline. The opinion does not specify the exact nature of the error, though the firm did admit a breach of duty. As a result, Kairos did not have patent protection in any foreign country with the exception of Canada, where the attorney was able to secure a patent. The firm admitted a breach of its duty of care and only contested damages.

> **KEY POINT:** Calendaring systems are not foolproof. It is important to have multiple checks in place, such as multiple, independent calendars or schedules of important dates.

On October 9, 1998, Kairos entered into an 18-month non-exclusive KCAT license with a chemical company, Hercules. Once Hercules learned that Kairos had lost its foreign patent rights, however, Hercules was no longer interested in entering into a

[16] Id.

licensing agreement. Additionally, before Kairos learned that it did not have PCT protection, it had also been engaged in negotiations with another company, Dyadic, for a non-exclusive license to use KCAT. Once Dyadic realized that Kairos did not have foreign patent protection for KCAT, Dyadic broke off the negotiations.

Kairos sued the attorney for malpractice for failing to timely file the PCT application. The attorney admitted breach of duty, but contested causation and damages. The case was tried to the bench on these issues. The trial court found in favor of plaintiff and awarded almost $30 million in damages based on the amounts Kairos would have earned if it had entered into licensing agreements with Hercules and Dyadic.

7) Intermediate deadlines

Overview

Like avoiding missing filing deadlines, many problems that arise with intermediate deadlines can be avoided by maintaining internal calendars. It is also crucial to communicate with clients to ensure that all deadlines are known to both the attorney and the client.

Illustrative Case

New Tek Mfg., Inc. v. Beehner, 270 Neb. 264, 702 N.W.2d 336 (Neb. 2005).

Former client sued attorney and his law office for professional negligence in permitting client's patent to expire. The plaintiff, New Tek Manufacturing, Inc. sued its former attorney and his law office, alleging that attorney Beehner's negligence had caused the expiration of a patent issued to New Tek. New Tek alleged that its patent had been infringed and that because of Beehner's negligence, New Tek was unable to sue the alleged infringer.

New Tek acquired its interest in the patent in question from Sunco Systems, Inc. (Sunco). The original patent was issued in February 1987, but Sunco decided to broaden the patent by filing a reissue patent application in December 1987.

In 1988, while the reissue patent application was pending, Sunco's counsel retired from the practice of law and recommended that Sunco retain Beehner. In 1989, New Tek was formed to assemble farm equipment based on Sunco parts, and the rights for the original patent and the reissue patent application were assigned to New Tek.

Beehner was responsible for pursuing the reissue patent application and maintaining the original patent, in part by ensuring that the maintenance fees for the original patent were filed. However, Beehner did not diligently prosecute the reissue patent application, nor did he pay the maintenance fees for the original patent, which became due in August 1990. The decision did not address the reason for Beehner's lack of diligence or failure to pay maintenance fees.

Beehner revived the reissue patent application pursuant to a petition filed in December 1990, but did not take action with respect to the original maintenance fee before the end of the maintenance fee grace period, which expired on February 3, 1991. Although this resulted in the expiration of the original patent and rendered the reissue patent application defective, Beehner continued prosecution of the reissue patent application. Eventually, New Tek lost patience with Beehner's prosecution of the reissue patent application and retained new counsel.

The reissue patent application was eventually allowed, and reissue patent was issued on September in 1992. However, the reissue patent was defective because of the expiration of the original patent, of which New Tek was still unaware. In November 1994, New Tek's counsel submitted the maintenance fee for the reissue patent to the PTO but, on December 19, was informed that the maintenance fee would not be accepted because the reissue patent had expired due to the failure to timely pay the maintenance fee for the original patent.

Ultimately, the PTO accepted New Tek's petition for late payment of the original patent maintenance fee, and the original patent was revived. However, New Tek lost the benefit of the expanded scope of the reissue patent-specifically, claim 22 of the reissue patent, which was not contained in the original patent. Furthermore, the revival of the original patent did not afford New Tek protection from infringing uses that began between the expiration of the patent and the acceptance of the late maintenance fee.

CLIENT COMMUNICATIONS

Approximately 25% of legal malpractice claims occur because of negligence in the handling of the attorney-client relationship.[17] A client's impression of a "neglectful" attorney is often created by a failure in communication, not a deficiency in the quality of services.[18] Often the attorney fails to manage the client's expectations as to the difficulty and reality of the legal problem or to explain the quality of the effort, and the client sues for malpractice.[19]

8) Scope of representation

Overview

As an initial matter, a detailed letter of engagement must be sent to the client to ensure that all parties involved are aware of the scope of representation for the attorney. Failure to outline the duties for which an attorney is hired can cause a client to have inappropriate expectations.

[17] Ronald E. Mallen & Jeffrey M. Smith, *Legal Malpractice* §1.1, at p. 10 (2006 ed.)
[18] Id.
[19] Id.

Illustrative Case

Darby & Darby v. VSI International, Inc., 701 N.Y.S. 2d 50, aff'd, 95 N.Y.2d 308 (2000) (failure to advise client of potential insurance coverage availability for defense of patent infringement claim)

The client retained a law firm to defend a patent infringement case. After the law firm finished its work, the firm sued the client for unpaid fees. The client counterclaimed for malpractice on the ground that the law firm failed to advise the client that the infringement case might be covered by insurance.

> **KEY POINT:** Another illustration of how suing a client for fees almost always guarantees a counterclaim for legal malpractice.

The appellate court held that the law firm was not hired to address insurance coverage issues, and the firm had no duty to inquire about the client's insurance coverage.

In Darby, the client company retained the patent firm for litigation defense in a Florida case involving patent, trademark, and trade dress issues. The company fell behind in paying its legal fees to the firm. After repeated requests for payment, the firm moved to withdraw as counsel, a motion the court granted. Several years later the firm brought an action in New York to recover its unpaid legal fees, interest, and costs amounting to approximately $200,000. The company counterclaimed, alleging that the firm committed "legal malpractice and breach of fiduciary duty based on [the firm's] failure to advise them of possible coverage for their litigation expenses under their then-existing general liability insurance policy." Moreover, the company asserted that counsel who replaced the plaintiff firm advised it of the possibility that its policy might apply, and upon the company's inquiry, this proved to be correct, as the court recognized coverage under the "advertising liability" clause. The insurance company, however, declined to cover any litigation expenses prior to notification.

The trial judge held that the malpractice counterclaim presented a triable issue and denied the firm's motion for summary judgment. The approach taken by the trial judge to the duty issue was all-encompassing: "The plaintiff has failed to cite a single case supporting its contention that, as a matter of law, it did not owe the defendants a duty to inquire about their insurance coverage. The court has been unable to find any New York authority on this point." The court then cited a California Supreme Court case on the issue of whether the failure to investigate insurance coverage triggered the statute of limitations in a malpractice case. The court drew the inference that "[i]t was implicit in the decision that, under certain circumstances, the failure of a law firm to inquire about its client's insurance is actionable." The trial judge then concluded that he was "persuaded that the plaintiff's failure to investigate the defendants' insurance coverage or alert them to the potential availability of insurance to cover their litigation expenses may have constituted legal malpractice."

On appeal, the Appellate Division took a diametrically opposed view of the duty issue. Indeed, while the trial court expansively implied the scope of the attorney's duty, the Appellate Division limited the duty to a contractual meeting of the minds.

KEY POINT: Although the appellate court may have had the more reasoned approach, the firm could have prevented the issue from arising, or at least put itself in a better position for summary judgment, by issuing a well-crafted engagement letter at the beginning of the proceedings setting forth that the scope of representation was limited to a discrete task or series of tasks.

9) Confirmation of facts/understandings

Overview

Written communication with your client regarding the facts used in your legal analysis can help prevent a claim for malpractice.

Illustrative Case

Carabotta v. Mitchell, 2002 WL 42948 (Ohio App. Jan. 10, 2002).

In Carabotta, an attorney was sued for negligence in the way he conducted a patent search for any relevant art that would hinder his client's ability to patent a certain type of umbrella. The critical issue in Carabotta was whether the patent attorney satisfied the professional standard of care in performing the search. The client had been a distributor of a "Papillon" style of umbrella manufactured in France and also in Italy by an enterprise named Arquati, Inc. The client requested that the patent attorney advise whether it was possible to manufacture this style of umbrella in the United States. The client provided the attorney with diagrams of the umbrella and the address of Arquati. However, the information concerning the French developer was incomplete, as it neglected to provide either the name or address of the company. The patent attorney, forwarding the information provided by the client, then retained a Washington, D.C., patent firm to conduct a search. The firm discovered no relevant patent information, and the attorney notified the client as such. However, the attorney indicated further concern over copying the exact design of the umbrella, and advised that it was sound practice to make changes in design prior to marketing.

Subsequently, the client informed the patent attorney that it intended to manufacture identical copies of the Papillon umbrella. The attorney then decided to personally conduct a search of the prior art at the PTO in Washington, D.C. The patent attorney "testified that he performed both an [inventor] and assignee computer search." However, the attorney performed this search under the assumption that "Jean-Collet" was a company, rather than the name of the inventor. In fact, the inventor was named "Jean Collet" (without the hyphen). In addition, the names "Papillon" and "Arquati" did not disclose any assigned patents. Based on these search results, the patent attorney advised his client that he could not find a patent covering this design and concluded that the design was in the public domain.

> **KEY POINT:** The attorney here had two opportunities to prevent or cure his search based on the wrong name. The attorney could have confirmed his understanding of the facts to the client in writing, presenting the client with an opportunity to correct any erroneous assumptions. The attorney also could have detailed his exact search parameters after the fact, again giving the client the opportunity to correct any erroneous factual assumptions. Further, this second letter could have limited to scope of the attorney's opinion by stating that it was dependent upon the accuracy of certain facts provided by the client.

The client began manufacturing and selling the Papillon umbrella, which turned out to be commercially successful. However, within a few months Arquati filed a complaint alleging infringement of the patent granted to Jean Collet as inventor in August 1986, which the inventor assigned to Arquati in May 1997 (after the date the client began to market the umbrella). The client retained another patent law firm to defend the infringement suit against Arquati. This suit was eventually settled. The client then filed a malpractice suit against the original patent attorney who had conducted the search and had given patent clearance for the manufacture of the Papillon umbrella.

At trial, both the client and the patent attorney called expert witnesses to testify concerning the standard of care in conducting a search of this type. The client's expert witnesses opined that if due care had been exercised, the attorney would have noticed the inventor's name and the title of the patent in question.

Based on the patent attorney's expert's testimony that it was reasonable to focus on the drawings in the search because this was a subject-matter search concerning the structure of the invention and not a search with respect to the name of the inventor or the title of the invention, the jury unanimously found in favor of attorney. The trial court granted new trial, finding expert testifying for attorney had not provided sufficient evidence of attorney's compliance with standard of care to justify jury's verdict, but the appellate court reversed.

> **KEY POINT:** The attorney here was successful in defeating a claim, but failed in avoiding a claim. Both the attorney and the client were still harmed by a mistake that may have been avoidable.

10) Documentation of communications

Overview

Take the time to document your conversations and ensure that the attorney and the client have the same understanding of the information exchanged. It is also important to remember that ending an attorney-client relationship is as crucial as beginning one.

Illustrative Cases

Ciocca v. Neff

We again are instructed by the decision in Ciocca. Recall that Ciocca had retained Neff to negotiate the sale of the Patent. TracFone purchased the Patent for $850,000 on June 29, 1999. Ciocca alleged in his malpractice action that the Patent should have been appraised prior to the sale to TracFone. He contended that the Patent was undervalued at the time of sale. Ciocca further alleged that Neff, as his attorney, never suggested a valuation of the Patent, and that he would have agreed to have such a valuation performed. Neff contends that he suggested an "investigation of the market" to Ciocca, but that Ciocca never instructed him to pursue one.

> **KEY POINT:** Neff could and should have documented his communications with Ciocca concerning "investigation of the market," including what Neff meant by that phrase on Ciocca's position on such an investigation. Neff could have confirmed whether Ciocca wished to pursue the investigation.

Recall also, as discussed above, that Plaintiff alleged that Neff created a conflict of interest by agreeing to represent TracFone prior to the conclusion of his representation of Ciocca in the sale of the Patent. Neff avers that his work for Plaintiff ended with the closing of the Patent sale and that, when he properly informed Plaintiff of his subsequent representation of TracFone, Plaintiff had no objection. Plaintiff asserts that Neff failed initially to disclose any understandings, agreements and/or discussions among Neff and TracFone, and further alleges that Neff told him about representing TracFone prior to the execution of the Patent sale but that Ciocca never consented to the TracFone representation.

> **KEY POINTS:** Neff could and should have confirmed the end of his representation with a "disengagement letter." Neff should also have documented his discussions with Ciocca concerning representation of TracFone and, if possible, should have obtained Ciocca's written consent to that representation.

Valutron, N. v. Pennie & Edmonds, 800 N.Y.S.2d 358 (Table) (N.Y.Sup. 2004).

This was a legal malpractice action against a law firm, defendant Pennie & Edmunds (P&E), which represented plaintiffs in an unsuccessful patent infringement lawsuit which they brought against National Cash Register Co. The lawsuit was dismissed on the ground of laches. In this action, plaintiffs claim that P&E failed to warn or advise them of the potential laches problem and that in the absence of this advice, the infringement action was commenced later than it could and should have been, thereby resulting in the dismissal. P&E, however, argued that plaintiffs already knew about the potential laches problem because they had received advice and counsel on that issue from other attorneys prior to and after retaining P&E.

> **KEY POINT:** Attorneys should endeavor to document pertinent legal issues and confirm clients' understanding of those issues in writing.

The court here granted the law firm's motion seeking to compel production of notes and correspondence between plaintiffs and other counsel concerning the infringement action and the doctrine of laches.

CONCLUSION

Unfortunately, legal malpractice claims will continue to be asserted against attorneys, and the volume of claims on an absolute basis will almost certainly continue to increase. Yet attorneys have the ability to prevent a significant number of claims through implementation of administrative best practices governing the client relationship and case management. Vital to all phases of client representation is proper documentation, whether it be to the scope of representation, the explanation and possible waiver of conflicts, or an attorney's or client's understanding or assumptions concerning material facts.