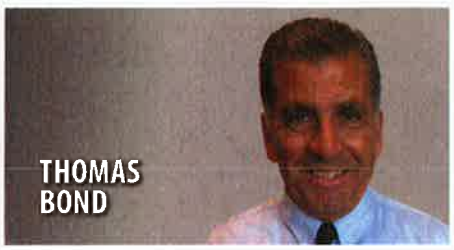
MASSACHUSETTS LAWYERS WEEKLY

Decision could create challenges for patent bar

SJC to rule in conflict-of-interest case

By: Eric T. Berkman August 27, 2015



A case to be decided by the Supreme Judicial Court could strengthen protections for inventors — at the expense of intellectual property law firms that represent multiple clients in the same industry.

The issue before the court in *Maling, et al. v. Finnegan, Henderson, Farabow, Garrett & Dunner, LLP, et al.*, is whether an actionable conflict of interest arose when attorneys in different offices of the same law firm simultaneously represented the plaintiff and a foreign competitor with "similar" inventions without informing the plaintiff or obtaining his consent to the dual representation.

The plaintiff invented what he believed was a new type of eyeglass frame and enlisted lawyers in the Boston office of a large IP firm to help patent them. But the plaintiff later learned that another company had obtained a patent on a similar invention with the help of attorneys in the firm's Washington, D.C., office.

The plaintiff claimed he lost out on a financing deal to market his invention when the firm — by this point apparently aware of a conflict — declined to issue a legal opinion that the two patents were different enough to insulate the plaintiff from potential infringement claims.

The plaintiff sued the firm for malpractice, arguing that, had the firm disclosed the existence of a conflict at the outset, he wouldn't have spent millions of dollars securing and seeking to market an ultimately worthless patent. A Superior Court judge dismissed the complaint, finding an insufficient showing of an actual conflict or resulting harm.

Plaintiff's counsel Hans R. Hailey of Boston said a successful appeal could potentially strengthen "the right of a consumer or client not to be led along a primrose path spending hundreds of thousands or even millions of dollars only at the end to be told their patent is worthless."

But Debra Squires-Lee, a professional liability litigator with Sherin & Lodgen in Boston, said that, should the SJC reverse the lower court judgment and find an actionable conflict of interest in circumstances like this, it would be a "big deal" for IP lawyers and firms.

"Most intellectual property firms specialize in a particular field [and] develop real expertise in that field," said Squires-Lee, who was not involved in the case. "Patents by definition expand upon and improve upon prior art. Thus, all patents in the same field are in many ways 'similar.' So, if a firm were conflicted out of working for competitors in the same field it would effectively mean firms would only be able to have a single client in any field."

Thomas M. Bond of the Kaplan/Bond Group in Boston, who will present the plaintiff's case to the SJC at oral arguments Sept. 8, said the case carries implications beyond the patent law area. Specifically, the court will decide for the first time whether a violation of a rule of professional conduct — in this case Rule 1.7(a), which bars lawyers from representing clients where doing so would be "directly adverse" to another client — constitutes an independent cause of action against an offending law firm, he said.

"The difference this could make would be in instructions given to a jury," said Bond. "They would be able to consider [a rule violation] to be negligence as opposed to evidence of negligence. That would be a stronger instruction."

Erin K. Higgins of Boston, who represents defendant law firm Finnegan, Henderson, Farabow, Garrett & Dunner, said that the trial court's ruling was consistent with the law and should be affirmed.

"The firm also believes that its prosecution of patent applications on [the plaintiff's] behalf met all ethical and professional standards," said Higgins, who practices with Conn, Kavanaugh, Rosenthal, Peisch & Ford.

Alleged conflict

Plaintiff Chris Maling invented what he believed to be a new type of eyeglass frame using snap-on parts that would obviate the need for tools and screws.

In April 2003, Maling hired attorneys in Finnegan's Boston office to perform legal work related to obtaining patents on his invention, including obtaining a prior art search.

When Maling retained Finnegan, lawyers in the firm's Washington office already were representing a Japanese company, Masunaga Optical Mfg. Co. Ltd., in its efforts to secure a patent for what the plaintiff describes as substantially similar technology. According to Maling, Finnegan did not disclose this fact to him, though he didn't allege that his lawyers were aware of the potential conflict at the time.

The plaintiff, who ultimately obtained four patents on his invention, claimed he invested millions of dollars developing his product before learning of the Masunaga inventions, which also received patents. Maling allegedly brought the Masunaga patent to Finnegan's attention in 2008 when, to satisfy pre-conditions of an investor who had offered $3.5 million in financing to market the product, he requested a legal opinion that his patents did not infringe Masunaga's.

Finnegan declined to render an opinion. Maling claims this caused his financing to fall through, leaving him unable to develop and market his invention.

Maling ultimately brought a legal malpractice claim against the firm in Superior Court alleging that, had his Boston lawyers advised him that the firm's Washington lawyers were working on a similar application, he would have realized his design wasn't novel and therefore would have abandoned any attempt to secure an unmarketable patent.

In dismissing the claim, Superior Court Judge Janet L. Sanders found insufficient evidence of a conflict of interest, emphasizing the point that the interests of two competitors seeking patents for "similar" devices aren't automatically "adverse" to one another, particularly where, like here, both companies secured patents.

Additionally, ruled Sanders, Maling didn't show that Finnegan's representation of Masunaga "materially limited" its representation of him in any way.

Finally, Sanders found that even if Finnegan had to disclose the existence of a conflict at the time it was retained, it didn't necessarily need to disclose the nature of the conflict, thus rendering "too speculative" Maling's assertion that such disclosure would have spared him the time and expense of patenting and trying to market his invention.

The SJC took up Maling's appeal from the Appeals Court on its own motion.

Conflict of interest?

In the plaintiff's brief to the SJC, Hailey argued that Sanders erred in finding insufficient facts to show a conflict of interest.

"Representing two clients seeking a patent for an extremely similar device with a very narrow market is rife with conflict and success for one client cannot be accomplished without adversely affecting the other client," Hailey wrote. "It would have been impossible for Finnegan to have adequately protected the interests of both ... Maling and Masunaga without adversely affecting one of them."

Hailey also took issue with Sanders' finding that malpractice was impossible in this case because Finnegan successfully secured patents for Maling, which was the reason the firm was hired.

"[T]his totally overlooks that attorneys owe a slew of duties to clients in addition to accomplishing the client's main goal," Hailey wrote in his brief. "Those duties have purposes. When they are violated, clients are harmed."

In the defendant's brief, Higgins asserted that Maling made no showing that he'd retained the firm to advise him on the actual marketability of his product.

"Maling retained Finnegan to obtain patents for his inventions, and that is exactly what Finnegan did," she said.

In a supplemental brief, Higgins challenged the notion that clients who seek to patent "similar" inventions are, by definition, "directly adverse" to each other for the purposes of Rule 1.7.

"Patents, Maling's included, often represent small but nevertheless patentable improvements over prior art," Higgins explained. "In the colloquial sense of the word, then, newly-issued patents frequently will be 'similar' to existing patents in the same technical field. Under patent law, however, these ostensibly small differences in structure or composition can make one invention novel and not obvious when compared to the prior art, and therefore a 'patentable' invention."

Potential ramifications

Boston attorney Richard M. Zielinski, who represents attorneys in legal malpractice cases, said Sanders "got it right" at the motion stage.

"The representation of two clients in connection with two allegedly similar inventions generally does not create a conflict of interest, any more than representing two clients seeking to open competing restaurants in the same town would," the Goulston & Storrs attorney said. "The only situation in which a conflict may arise is if the two clients seek to patent virtually identical inventions, which I understand is not the case here."

Meanwhile, said Zielinski, the rule advocated by the plaintiff in this case would, in essence, unfairly restrict patent firms to one client in each field of technology.

"That, in turn, would limit access to skilled patent lawyers by individual clients and small startup companies," he said.

IP litigator Lee T. Gesmer of Gesmer Updegrove in Boston said that if the SJC was to hold that it's an actionable conflict of interest for a law firm to simultaneously represent two companies seeking patents for "similar" inventions, it would have to devise a test for patent lawyers to apply in deciding whether or not they must disclose a conflict to a client or get informed consent.

"I haven't seen either side in these briefs propose what such a test would be," Gesmer said. "And there's no real case law addressed in these briefs to advise the SJC on what that test would be. So now we get into very treacherous territory, because the SJC can't just say 'patent lawyers must inform existing and new clients with respect to similar inventions.'"

Gesmer also questioned whether the SJC has the expertise to devise such a test.

"The Court of Appeals for the Federal Circuit has its own ethical rules and it should really be them who sets the rules for patent issues, not state supreme courts," he said.

Hailey, however, said he's not concerned about the ability of firms to handle patents for multiple clients in the same industry.

"There's a similarity among almost all patents applied for," he said. "So, the question is, how similar is it? There's a burden on patent law firms to be a little more careful before you soak a consumer for a patent that the firm's conscience knows will not have any value. You should take a look and either reject the client before he gets out of the gate or explain to the client that there is something similar out there that is in the works."

Issue: AUG. 31 2015 ISSUE

Boston, MA 02108

(800) 451-9998