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The authors note the rise in malpractice lawsuits involving patent litigation, and they offer tips on how practitioners can avoid and defend against such charges.

A Primer on Legal Malpractice for Patent Lawyers



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Like most lawyers plying their trade, patent lawyers don't often think about being sued for legal malpractice. While patent lawyers should not go into most cases thinking they have a target on their backs, they should take heed that malpractice claims against patent lawyers are rising.

Such claims in the patent field raise issues unique to patent practice. In other respects they are like other legal malpractice cases. Patent lawyers can take steps to reduce the risk of malpractice claims being brought or successfully prosecuted.

Patent law malpractice claims can arise out of any stage in the patent process—prosecuting patent applications, licensing patents after issuance, maintaining patents, or asserting or defending infringement claims. Many of the legal services provided in connection with patents, such as licensing, are transaction-based and generate the same type of issues as other transaction-based malpractice claims. Malpractice claims growing out of infringement litigation generate many of the same issues as other litigation-based claims.

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The Elements of a Legal Malpractice Case in a Patent World

To understand steps that a patent lawyer can take to avoid claims, the elements of legal malpractice claims and the rules for holding a lawyer liable are important. Patent-based malpractice claims are generally governed by state law, even when tried in federal courts.

The exact formulation may vary from state to state, but the elements are essentially the same: did the lawyer act negligently within the scope of the lawyer's engagement; did the alleged negligence proximately cause injury to the client; can damages be proved; and if so, in what amount?

Litigating these elements is an exercise in déjà vu. The malpractice case relitigates the underlying patent case (called the "case within a case") or relives the underlying prosecution or transaction.

Negligence. The lawyer must have failed to meet the relevant standard of care. That is sometimes expressed by saying the lawyer was negligent, or the lawyer breached an implied contract to provide reasonably careful legal services.

Section 52 of the Restatement (Third) of the Law Governing Lawyers describes the lawyer's duty as

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"exercis[ing] the competence and diligence normally exercised by lawyers in similar circumstances." Most state-law formulations are similar.

Most states also require the standard of care to be established by expert lawyer testimony since judges and juries are assumed to lack knowledge of what a reasonable lawyer would do in the relevant circumstances. Thus, expert witnesses for each side are almost always part of legal malpractice litigation.

Because patent law is considered to be a specialty area, the patent lawyer will likely be held to the standard of care of patent law specialists. Therefore, in most cases the expert should be a practicing patent lawyer or an academic familiar with the practice of patent law, as opposed to a member of the bar without that knowledge. A legal ethics expert may also be appropriate in some cases, particularly if the claim is based on an alleged conflict of interest.

Scope of Engagement. Whether a lawyer's actions meet the standard of care is determined in the context of what the lawyer was asked to do. In many cases there is no dispute that the alleged mistake occurred on a task that the lawyer was engaged to handle. But in a surprising number of cases there is disagreement over the scope of the engagement.

The lawyer has an important tool to protect against this kind of dispute: the engagement letter. The engagement letter should spell out the tasks the lawyer has agreed to undertake and state that unless the scope of the engagement is altered by mutual agreement in writing, the lawyer is not responsible for other tasks.

This may not be a complete defense if the client credibly contends that the lawyer should have advised the client to expand the scope of the engagement, but failed to do so. The lawyer's duty to represent a client competently with regard to one task may require the lawyer to discuss with the client whether the lawyer should also undertake a task that is related, but outside the scope of the engagement. The engagement letter may not provide a defense if the lawyer actually took on tasks beyond the scope of the engagement, regardless of whether the letter was appropriately modified.

Nevertheless, an engagement letter that clearly outlines the scope of the lawyer's undertaking can be a valuable tool in defending the lawyer against claims that the lawyer failed to do something that fell outside that scope. The key point is that if an engagement letter provides for a formal method for documenting changes to the lawyer's engagement—and if the lawyer adheres to the agreed limitations on the scope of services—the lawyer is more likely to be protected against after-the-fact assertions that the lawyer was supposed to do something else.

There is another twist to the scope-of-the-engagement issue in patent litigation. Even if the task is one that the lawyer has agreed to undertake, how much the lawyer should have done may turn out to be disputed in a malpractice case.

Suppose the lawyer is defending a client against an infringement claim. The lawyer will examine the prosecution history of the patent in suit and look for any indication that the inventor did not fully disclose prior art or other relevant information to the examiner. The lawyer will also search for evidence to support an inequitable conduct defense.

If the lawyer fails to find prior art or other evidence that later turns out to be relevant, the client may complain that the lawyer breached the standard of care. Whether the lawyer did so may depend upon limitations the client placed on the search at the outset.

For example, a client may not be willing to pay to have the lawyer engage in a "scorched earth" search for prior art or for evidence of inequitable conduct. It can be both expensive and time-consuming. A decision to limit the search because of cost or time constraints may seem reasonable before the fact. But, if it later turns out that relevant prior art or other evidence was not discovered because of those limitations, the lawyer may be blamed for failing to turn over every stone.

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What can a lawyer do to protect against this risk? In patent litigation, like other litigation, the lawyer should discuss with the client the pros and cons of expending time and incurring significant fees on potentially useful but discretionary discovery or investigation.

That consultation—and the conclusion reached—should be documented in writing to the client. This protects the lawyer against later claims of not having done enough. It may also reveal misunderstandings between the client and the lawyer about what the client expects the lawyer to do that can then be addressed and rectified before a problem arises.

Another issue is when does the engagement end? Malpractice claims depend on whether the lawyer was still responsible for working on the matter when the alleged mistake or omission occurred.

Does the engagement end when the patent is obtained? When it is licensed? Does it extend to dealing with claims by third-parties? The engagement letter can provide clarity that avoids future disputes and claims.

Who Is the Client? This issue also generates a surprising amount of disagreement in malpractice litigation. The duty of care extends only to clients. (There are exceptions in some states for third-party beneficiaries of the lawyer-client relationship.)

The scenarios are almost endless where the identity of the client is less than clear. Consider a patent law example: When an inventor hires a lawyer, is the inventor acting for his or her own behalf, or for a corporation or other entity the inventor may own or work for, or for a group of individuals associated with the inventor in developing or exploiting the invention, or for the licensees who are relying on the validity of the patent?

The answer is likely to determine who is entitled to sue the lawyer for malpractice. The identity of the client (and, sometimes, specifying who is *not* the client) should be made clear in the engagement letter.

The identity of the client may also bear on the scope of the engagement. If the lawyer is hired by an individual inventor to prosecute a patent application, but the inventor does not tell the lawyer that someone assisted him in generating the invention, the lawyer is not likely to discuss with the inventor potential responsibilities to the third person, the possibility of obtaining the co-inventor's consent to concessions or limitations ac-

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cepted in the prosecution process, or other factors that might be discussed if the lawyer knew of the co-inventor.

If the undisclosed individual later sues the named inventor, the named inventor may assert that the lawyer failed to advise the inventor of the need to document control of the invention and the patent application process. Or the undisclosed individual may claim that the lawyer assisted the named inventor (the client) in defrauding the individual of rights with respect to the invention.

The engagement letter may provide protection for the lawyer by confirming that there are no co-inventors or others affiliated with the named client who might have an interest in the invention. Or if such individuals are disclosed, and the lawyer may properly do so, it may afford a basis to limit the scope of the representation.

If the lawyer is to represent multiple parties, possible conflicts among them need to be considered and rules laid down at the outset of the representation concerning what will happen if an actual conflict later arises. A well drafted letter may establish rules that can help avoid a later disqualification if differences arise among clients.

Loss Causation. In order to pursue a claim for malpractice, the lawyer's breach of the duty of care must have injured the client. Some jurisdictions state the causation standard more strictly than others. They require the client to prove that "but for" the lawyer's breach of the standard of care the client would not have been injured.

Other jurisdictions only require that the lawyer have "substantially contributed" to the client's loss. The difference can be important.

The "but-for" standard may be more favorable to the lawyer. It implements the policy that a lawyer is not an insurer of the client's legal project, and is only liable for a breach of the standard of care when *but for* the lawyer's breach the client would not have been harmed. If the harm would have occurred in any case, or if the client cannot prove that but for the lawyer's conduct it would not have, the lawyer is not liable.

In some cases the causation issue is more complex. Even if the client can prove that but for the lawyer's conduct he would not have done something that caused a loss, that loss may be due to a factor outside the lawyer's control. Usually there will be little that a patent lawyer can do in advance to shape the future application of the loss causation rule.

The Case-Within-a-Case. As noted, in most jurisdictions the loss causation rule leads to the need to litigate a case-within-a-case as part of malpractice lawsuits. If the alleged malpractice arose in a lawsuit that did not go well for the client (who becomes the malpractice plaintiff), the malpractice lawsuit essentially includes a retrial of the underlying lawsuit. The client/plaintiff must prove that it would have achieved a better result in the underlying lawsuit had the lawyer not breached the duty of care.

Most jurisdictions apply the same rule in transaction-based malpractice cases. The client must show that, but for the lawyer's breach, the transaction would have come out more favorably to the client.

In some instances, proving loss causation may be relatively easy. For example, if the lawyer fails to pay a patent maintenance fee on time and the inventor loses his patent rights and the licensing fees that he had been earning, loss causation may be fairly straightforward.

However, in other instances proving loss causation can be more complicated. If the patent for which the lawyer failed to pay the timely maintenance fee would have been subject to a strong invalidity defense, for example, loss causation could be absent.

Actual Damages. The plaintiff must prove that damages are non-speculative and provide a reasonable basis of calculation. Where the loss is something other than a monetary judgment paid by the plaintiff, the issue of what constitutes a loss is more complicated.

For example, where the client claims that the lawyer's negligence resulted in the failure to obtain a patent, the plaintiff-client must prove that the patent, if procured and valid, had real, non-speculative economic value. That may be difficult for a plaintiff to prove, but would present damages questions with which patent litigators are familiar.

It is not enough for a malpractice plaintiff to prove that he is exposed to a potential loss from malpractice. In many jurisdictions the plaintiff must prove actual losses. In those jurisdictions, even if the lawyer's negligence actually caused a judgment to be entered against a client in the underlying lawsuit, the client may not recover anything in the malpractice action if the client has not actually paid the judgment.

What if the judgment was paid by the client's insurer or by a third party on behalf of the client? Some jurisdictions do not apply the collateral source rule to legal malpractice claims. That means that if the client's insurer or a third party pays the judgment on behalf of the client, the client may not be able to prove that it incurred any actual damages, and thus may not be able to recover the amount of the judgment from the lawyer.

Other jurisdictions are more permissive and allow clients to recover the amount of an adverse judgment even though the client has not paid the judgment, or has not paid it in full.

Lawyers' Defenses. Several defenses regularly arise in legal malpractice cases. They included comparative fault or contribution claims by which the lawyer attempts to show that the negligence of the client, the client's agent, another lawyer or a third party caused or contributed to the client's loss. Or the lawyer may assert that the acts of one of these other parties are intervening causes that completely relieve even a negligent lawyer of responsibility for the client's loss.

Statute of limitations and statute of repose defenses are also a frequent part of legal malpractice litigation. These defenses often generate disputes over when the malpractice cause of action against the lawyer accrues.

In some jurisdictions, for example, the statute of limitations or statute of repose may begin to run even though the lawyer continues to represent the client. But, the limitations period may be tolled or the lawyer may be estopped from relying on a limitations defense if a court finds equitable grounds for doing so based on the facts of the case.

What Is Different About Patent Law Representations?

Although for many purposes patent matters are no different than other matters in terms of malpractice claims, there are features that warrant special note, even though their application is not limited exclusively to patent matters.

The Experts. In patent cases the lawyer will likely be dealing with complex scientific and technical issues

that are not common to most non-patent representations. The client in a patent representation may know more than the lawyer about the science at issue—and even may know more than the retained expert. Or, if the client is a defendant selling an accused product, it will likely know much more about its production processes and technology than the lawyer, even if the lawyer also has a background in science, math or engineering.

Unlike many non-patent litigation matters, the client may be better positioned than the lawyer to find the right expert and the right technical support. If the expert turns out to be ineffective, the client may blame the lawyer.

To protect against this risk the patent lawyer should involve the client in vetting possible experts and should select the expert in collaboration with the client. As is true of almost all significant decisions that the lawyer makes in any representation, the lawyer should confirm with the client their joint choice of the expert.

Conflicts. Lawyers representing malpractice plaintiffs routinely search for and seek to exploit any possible conflict between the plaintiff-client and the malpractice defendant-lawyer.

In the patent arena, such conflicts can arise in several ways. One is if the patent lawyer takes a financial interest in the patent, either as part of the lawyer's fee or as an investor. Such an engagement may raise issues under the state's version of ABA Model Rule of Professional Conduct 1.8. (Other fee arrangements, such as a full or partial contingent fee in the recovery from a patent infringement lawsuit, will usually be less problematic, and are governed by the general reasonableness standards of the relevant version of ABA Model Rule 1.5.)

If the lawyer's investment in the client's business is not handled appropriately (by procuring informed consent from the client to the transaction, with the client obtaining independent counsel regarding the transaction or the lawyer recommending that the client do so) and something later goes wrong, the now-former client might claim that the transaction was presumptively fraudulent and seek to link it to his later alleged harm.

Similarly, the malpractice plaintiff may accuse the lawyer of being conflicted if the lawyer jointly represented a corporation and its principals or joint inventors. Or, as noted earlier, conflicts can be alleged if it is unclear whether a representation had terminated such that a client had become a former rather than current client under governing conflict standards.

Prosecution Issues. Patent law is a complex and specialized field, often combining sophisticated science and technology with a myriad of technical legal requirements. The diversity and complexity of the practice breed issues for a disgruntled client to seize upon to try to shift blame to the lawyer.

The more complicated a matter is, the more likely it is to generate an actual or perceived error. This is particularly the case in the prosecution of patent applications.

Apart from simple cases of allegedly missing deadlines, lawyers have been sued for not asserting all of the claims that could have been made regarding the invention or committing an error that leads to a later litigation finding of invalidity. On the defense side, lawyers have been sued for negligently failing to advise a manufacturing client that its product will infringe a patent.

Jurisdiction for Patent Malpractice Cases. In 2007, the Federal Circuit held in two seminal decisions that the federal courts have exclusive jurisdiction over most patent-based legal malpractice actions. *See Air Measurement Technologies Inc., v. Akin Gump Strauss Hauer & Feld LLP*, 504 F.3d 1262, 1269, 84 USPQ2d 2002 (Fed. Cir. 2007); and *Immunocept LLC v. Fulbright & Jaworski LLP*, 504 F.3d 1281, 1285 85 USPQ2d 1085 (Fed. Cir. 2007) (75 PTCJ 17, 11/2/07). Prior to those decisions, almost all legal malpractice cases based on patent law issues were litigated in state courts absent a basis for diversity jurisdiction.

In *Air Measurement* and *Immunocept*, the Federal Circuit ruled that when a patent malpractice case requires the court to decide a substantial, contested issue of federal patent law, the federal courts have exclusive jurisdiction under 28 U.S.C. § 1338 (and the Federal Circuit has jurisdiction over any appeal). Although some state and federal courts have disagreed, the majority have adopted the *Air Measurement/Immunocept* ruling on jurisdiction.

In October 2012, the U.S. Supreme Court granted certiorari to review a Texas Supreme Court decision that, like the Federal Circuit, held that the federal courts have exclusive jurisdiction over patent-based malpractice claims. *See Minton v. Gunn*, 355 S.W.3d 634 (Tex. 2011), *cert. granted* (U.S. Oct. 5, 2012) (84 PTCJ 989, 10/12/12). Whether the federal courts will continue to have exclusive jurisdiction over patent-related malpractice claims should become clear after the Supreme Court rules.

One way to avoid jurisdictional uncertainty (or just to avoid the courts altogether) would be to include an arbitration clause in the engagement letter. The advantages of arbitration may be significant.

Although some judges may have patent experience, the extent and quality of that experience may vary from judge to judge (and even more so for state court judges who never hear patent infringement claims). Most jurors are unlikely to have any patent experience. In contrast, a lawyer could specify in the arbitration clause that the arbitration would be heard by three arbitrators, each of whom should have substantial (say 15 years or more) experience in patent matters and also in the particular scientific or technological area at issue.

Arbitration is also a private, confidential proceeding that avoids negative publicity. There may be disadvantages to arbitration, however. Arbitration awards are final and binding, with only limited rights to appeal to the courts for relief from an adverse award.

There continues to be a perception that arbitrators have a tendency to "split the baby" rather than making the difficult determinations and ruling on the merits of the claim. In any event, a law firm should not include an arbitration clause in a client engagement letter without confirming with its malpractice carrier that it would prefer arbitration to a lawsuit for that type of matter.

Conclusion

In many ways, legal malpractice claims in the patent world are no different from malpractice claims in other legal worlds. The elements are the same, and the steps a lawyer can take to reduce the possibility of being sued for malpractice are basically the same.

The key to success is to know who your client is, understand the underlying science and technology, and

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communicate regularly with the client, preferably in writing.