



Intersection of Ethics and Professional Liability Issues in Intellectual Property Firms &/or IP Lawyers in Other Firms

Washington State Patent Law Association

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Mr. Greene is a Director at Herbert L. Jamison & Co., L.L.C., which has offices in New York, New Jersey, Illinois, Pennsylvania and Washington DC. Anthony is a graduate of New York Military Academy and holds a Bachelors Degree in Business Administration from St John's University School of Risk Management and Actuarial Science. Anthony maintains the following professional designations: "Certified Risk Manager" and "Certified Insurance Counselor"

Since joining Johnson & Higgins in 1977 has developed Risk Management & Insurance programs to address the exposures of; Directors and Officers of Corporations & Non-Profit Organizations, 1500 accounting firms and over 2500 Law Firms. (**including over 600 Intellectual Property firms**)

He is a member of the Professional Liability Underwriting Society and American Bar Association National Legal Malpractice Data Center. In addition Anthony currently sits on the Board of Directors of the Insurance Brokers Association of New York and Minority Corporate Counsel Association.

He previously served ; as President of the American Intellectual Property Law Education Foundation Inc , as Chairman of the Education Committee for the Association of Professionals in Risk Related Disciplines, on the Board of National Insurance Industry



Law Firms Referenced in Recent News Stories about IP Related Professional Liability Claims

JAMISON RISK SERVICES

MoFo Sued For Malpractice Over "Staggering"
\$5 Million Bill - April 13 2009

Insurors Sue Artz, Dickenson Over Malpractice
Spat- April 8 2009

Patent Malpractice Claims Hit Firms Higher
Damages Make Firms Skittish- December 2007
Greenberg Traurig, Fish & Richardson, Buchanan
Ingersoll & Rooney, Townsend & Townsend & Nixon Pruer

Patent Malpractice Suits a Growing Threat
November 14, 2007- Fulwider Patton Lee & Utecht,
Akin Gump Strauss Hauer & Feld LLP, Seyfarth Shaw
LLP, Burnett Burnett & Allen, Katten Muchin Rosenman
LLP, Thelen Reid Brown Raysman & Steiner LLP



Interplay of the Rules of Professional Conduct and Standard of Care in Malpractice Claims

- ◆ **Preamble to the ABA Model Rules of Professional Conduct makes it clear that a violation of a RPC is not presumptive proof that malpractice has occurred**
- ◆ **Plaintiff attorneys have attempted to use violations, perceived or actual, of RPC, as proof of malpractice**
- ◆ **Many courts have determined that pertinent ethical standards are admissible as evidence relevant to the standard of care in legal malpractice actions along with other facts and circumstances**



Ethics Rules to consider in Patent Licensing Representations

- ◆ **ABA Model Rule 1.1 – Competence**
- ◆ **ABA Model Rule 1.16 – Decline or Withdraw from representation that would result in violation of rules of professional conduct or law ABA Model Rule 1.2d – Prohibits counseling to engage or assist in fraudulent conduct**
- ◆ **ABA Model Rule 1.3 – Diligence**
- ◆ **ABA Model Rule – Communication**
- ◆ **ABA Model Rule 1.7 – Conflict of Interest -Current Client or Lawyers own interest**
- ◆ **ABA Model Rule 1.8 – Conflict of Interest – Prohibited Transactions (LPL)**
- ◆ **ABA Model Rule 1.9 – Conflict of Interest – Former Client**
- ◆ **ABA Model Rule 3.7 – Lawyer as Witness**
- ◆ **ABA Model Rule 4.1 -Truthfulness in Statements of Others**
- ◆ **ABA Model Rule 8.3 – Reporting Misconduct of Other Lawyers - – ABA Formal Opinion 06-439**
- ◆ **ABA Model Rule 8.4 – Reporting Misconduct in Negotiations**

ABA Standing Committee on Lawyers Professional Liability September 2006 IP Malpractice Mock Trial

- ◆ Client A develops a laminated security device that is laser imprinted with the owners iris and other identification and background information.
- ◆ Law firm works with Client A in connection Patent prosecution, Patent Licensing and “other” matters
- ◆ Law Firm also represent Client B who has “substantially related” camera technology that could facilitate use of Client A’s security device in airports and other border crossings around the world.
- ◆ Client B forms subsidiary to market Client A’s security device and in return for Exclusive License Client A receives seat on Client B’s Board, SVP Position and 100,000 shares of first allotment of Client B’s upcoming IPO
- ◆ Client A transfers 10,000 of shares in IPO to firm in lieu of cash fees for legal services
- ◆ The IPO was lava-hot and growing terrorism concerns drive stock price to from \$14 per share to \$168 per share
- ◆ Problems surface regarding Client B’s camera technology including “on going” patent infringement litigation that was not disclosed to Client A.
- ◆ Lawyer filed patent application for Client A’s security devise only in US & potential rights under PCT were lost.
- ◆ Client A sues firm alleging incompetence in patent prosecution, inadequate due diligence in connection with Client B’s intellectual property rights and conflicts of interests
- ◆ Jury felt Client A engaged in wrongful conduct, no significant evidence was presented to support damages Client A sustained- **\$25,000,000 Judgement**



ABA Standing Committee on Lawyers Professional Liability April 17 2008 Presentation

“High Stakes Liability Exposure in IP Based Claims“

Professor David Hricik – Mercer University School of Law - Former AIPLA Chair of Professionalism & Ethics & Ethics Committee “and” ABA Section of Intellectual Property Law Past Chair of Committee on Professional Responsibility and

Ester Kepplinger Director of Patent Operations Wilson Sonsini Goodrich & Rosaati - Former Deputy Commissioner of Patent Operations at PTO focused on Recent Patent Malpractice and Disqualification Cases involving :

- ◆ **Alleging blown PCT deadline favored another client of law firm**
- ◆ **Subject Matter Conflicts**
- ◆ **Failure to pay maintenance fee**
- ◆ **Disqualifying firm based on it’s hiring lateral attorney**
- ◆ **Disqualifying firm based on information shared in an interview**
- ◆ **Licensing Agreements**



SUBJECT MATTER CONFLICT”

- ◆ Law firm obtains a patent for Client A. Law firm represents Client B in “related” IP matters.
- ◆ Client A brings conflict suit against law firm and seeks to have firm disqualified from representing Company B
- ◆ Client A and Client B become opposing parties in a suit and Law firm discovers conflict between Client A and Client B
- ◆ Client B fires law firm and makes a claim against the firm.
- ◆ Law firm wrote to Client A advising it would have to withdraw from representation. But Client A points out chance that its rights will be prejudiced if the law firm withdraws
- ◆ Both Clients try to obtain info from firm while preserving their own privileged communications
- ◆ Questions arise regarding firm’s use of confidential information provided by one client to aid another client
- ◆ Clients appear to be using malpractice suit to supplement their discovery efforts in patent infringement suit.
- ◆ Clients are seeking to avoid payment firm’s past fees
- ◆ Legal fees “alone” in malpractice action are six figures per month!

“REPRESENTING MULTIPLE PARTIES”

- ◆ Law firm was patent counsel for Client A in connection with prosecution, IP counseling and litigation matters.
- ◆ The firm also did employment related work for Client A like advising on employee handbooks and employment contracts.
- ◆ One of the firm’s IP lawyers developed a relationship with one of Client A’s inventors.
- ◆ Client A abandoned a patent application after initial denial by the PTO. The IP lawyer helped the inventor file his own app. based in part on technology in the abandoned app.
- ◆ The inventor developed a separate invention and filed his own app. using forms he obtained from the IP lawyer.
- ◆ Client A found out about this app. fired & sued the inventor
- ◆ Client A represented by the firm claimed that the separate invention was property of the company based on employee handbook & contract
- ◆ Client A & inventor settled.
- ◆ Inventor sued the firm & Client A threatened to sue the firm
- ◆ Firm lost Client A & its insurer paid a seven figure settlement

“LAWYERS FOR THE DEAL”

- ◆ Law firm takes share in business setup for clients to manage & profit from the client's intellectual property.
- ◆ Client agrees that Law firm receive equity in client's Company in return for legal work.
- ◆ Legal work to include Patent , Trademark & Copyright work, working on licenses & providing “other assistance”
- ◆ The law firm sets up a corporate entity .
- ◆ 19 patents are assigned to the “corporate entity”
- ◆ A successful venture earns \$50 million in royalties
- ◆ Acrimonious break - up of law firm.
- ◆ Lawyer who left firm continues to work “diligently” on Intellectual Property matters.
- ◆ Dispute arises over \$
- ◆ Lawyer commences suit against client over legal fees
- ◆ Client counter claim seeks: fee forfeiture, damages for acts of malpractice, unethical activity and negligence in connection with legal work



Representing Patent Owner & Exclusive Licensee

- ▶ Lawyer represents Exclusive Licensee against third-party infringer
- ▶ Licensee asks lawyer to jointly represent Patent Owner. Lawyer sees no actual or potential conflict.
- ▶ Patentee must be joined when licensee has fewer than "all substantial rights" in patent
- ▶ Interest in enforcing patent appear aligned. Economic and tactical advantages of joint representation
- ▶ Potential conflicts between exclusi licensee and patentee are "landmines"
- ◆ Patent owner & licensee disagree on litigation strategy and give lawyer conflicting instructions
- ◆ Patent owner tells lawyer in confidence about potentially invalidating prior art not disclosed to PTO during prosecution
- ◆ Sublicensee institutes DJ action against Patent owner & Licensee to invalidate patent. Licensee sees opportunity to eliminate royalty obligations to Patent owner. Patent owner can't get Licensee to settle.
- ◆ **How does lawyers resolve conflict between Duty of Loyalty (Model Rule 1.7 cmt 33) to one client with Duty of Confidentiality (Model Rule 1.7 cmt 31) to other client? .**



Inventor & Company Diverging Interests in Patent Licensing Negotiations

- ◆ Inventor believes lawyer is his\her legal representative rather than or in addition to the CO. which engaged the lawyer
- ◆ Lawyer has more day to day contact with inventor employee c CO. then anyone else at CO.
- ◆ CO. and Inventor employees interest begin to diverge due to agreements between company and employees
- ◆ Client Representative and inventor employee are present during licensing negotiations.
- ◆ One form of license agreement will diminish inventors potential earnings
- ◆ Inventor is entitled to share of royalties, but it is decided to take an up-front sum that is far less than stream of royalties might be.
- ◆ What should lawyer do ?
- ◆ **Lawyer should let the Inventor know that Company is his or her sole client and that any legal advice communicated to inventor is done so in representation of Company Client due to Inventor's employment with Company .**



Representing Joint Inventors in Patent Licensing Negotiations

- ◆ Joint Inventors are partners in CO. that owns significant Patents
- ◆ One Inventor wants to take a deal that is currently on the table, while the other inventor does not .
- ◆ Inventor that doesn't want to take the deal asks for individual sidebar with attorney
- ◆ The attorneys duty to share relevant information with all clients may be compromised by the “ confidential “ sidebars
- ◆ This situation may develop into a request for lawyer to withdraw and \ or malpractice claim against the attorney

Missed Patent Deadline Costs \$30 Million

AUGUST 4, 2003 - By Tyler Cunningham Daily Journal

SAN FRANCISCO - In one of the largest legal malpractice awards ever in California , a San Mateo County judge has hit a prominent intellectual property firm with a \$30 million decision, finding that it negligently missed a deadline to apply for a patent for a client.

San Mateo Superior Court Judge Carl Holm found that the Law Firm and one of its partners cost Kairos Scientific, a San Diego company, about \$30 million in business.

The firm admitted its failure but maintained that its mistake cost the company nothing. It claimed that lack of a foreign patent did not affect the company's ability to market KCAT in the United States and argued that several other companies held foreign patents for substantially the same thing.

After presiding over a five-week, expert-intensive court trial, Judge Holm found otherwise. He issued an 85-page



LOSS OF FOREIGN PATENT RIGHTS & NEW FIRM SUCCESSOR COUNSEL LIABILITY

- ◆ Lawyer while in firm A represents client who makes medical devices .
- ◆ Client believes while at firm A lawyer is expected to obtain patents for a set of medical devices in United States, Western Europe, Canada, and Japan.
- ◆ Lawyer moves to firm B and takes Client with him to firm B.
- ◆ Client discovers that patent protection had not been obtained in Western Europe, Canada, and Japan.
- ◆ Client sues firm A alleging the firm missed some patent-filing deadlines.
- ◆ Firm A in its cross complaint accused attorney of failing to timely and properly manage his prosecution docket **“and”** claimed that firm B could have mitigated some of clients damages.
- ◆ Firm A claims that there was still time to fix some of damage done with Japanese patent when lawyer was servicing client at firm B.
- ◆ Firm B in tenuous position because the need to defend themselves can conflict with their role as counsel for client



THE “COST” OF PROFESSIONAL LIABILITY RELATED RISK

- ◆ LAWYERS , ADMINISTRATORS, OTHER MANAGERS & STAFF TIME AND \$ SPENT ON **DEVELOPMENT AND/OR UPDATING POLICIES AND PROCEDURES RELATED TO MANAGING PROFESSIONAL LIABILITY ASPECTS OF YOUR BUSINESS**
- ◆ COST OF LEGAL SERVICES PROVIDED BY LAW FIRMS, CONSULTANTS, BROKERS & OTHER VENDORS IN DEVELOPING & UPDATING THE ABOVE ITEMS
- ◆ COST OF PROFESSIONAL LIABILITY INSURANCE WHICH COVERS **“SOME”** OF THE LEGAL SERVICES PROVIDED BY LAW FIRMS IN HANDLING LITIGATION STEMMING FROM THESE ISSUES **“AND”** RETAINED COST



Situations with Ethics and Malpractice Implications

- ◆ Lawyer represents a band and band breaks up and there are disputes between current & past members.
- ◆ Lawyer and his\her artist client each contribute 50% of start-up capital of a record company or studio.
- ◆ Lawyer and his\her artist client becomes a partner with that client in a real estate venture
- ◆ Lawyer also acts as business manager, agent &\or financial manager
- ◆ Lawyer represents Artist and any company that has an agreement, relationship or contract with that Artist



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- **Management**
- **Training & Supervision**
- **Client & Matter Intake**
- **Conflict Avoidance & Docket Control**
- **Technology**



Impact of Slumping Economy on Trends in Lawyers Professional Liability Claims

- ◆ **Legal Malpractice claims increase when the economy slumps**
- ◆ **Clients in distress look to lawyers to share their pain**
- ◆ **Some law firms lower their client intake standards taking on “Impaired Clients”, mismanaging conflicts & dabbling.**
- ◆ **Less supervision\management\mentoring of young lawyers**
- ◆ **Increased fraudulent billing allegations made against lawyers**
- ◆ **Outsourcing without adequate due diligence**
- ◆ **Firms inadequate due diligence on Lateral Hires**
- ◆ **Firms not investing time and effort needed to integrate Lateral Hires into the firms culture**



LATERAL LAWYER MOVEMENT RELATED MALPRACTICE CLAIMS

- ◆ Lateral hire brings in new client & 10 boxes of files including records on numerous pending prosecution matters .

Records and Docketing Manager focused on U.S. files & failed to discover that there were problems with a Foreign Filing until it was too late to correct the error

- ◆ Practice of two lawyers is “being considered for merger “ into the insureds practice and act as Of Counsel. During the “ Engagement ” period the two ESQ’s were allowed to maintain a separate docketing system for all annuity payments .

Eight months later the insured filed an infringement action on behalf of one of the clients of the two ESQ’s.

During the litigation it was discovered that some of the patents had lapsed due to failure to pay fees .

“ LATERAL HIRES & NEW FIRM SUCCESSOR COUNSEL LIABILITY ”

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- ◆ Firm B in tenuous position because the need to defend themselves can conflict with their role as counsel for client

THE MOBILE CLIENT”

- ◆ Law firm represents Client A in connection with numerous matters
- ◆ Firm then represents former owner & relative of Client A after getting a “written conflict waiver”
- ◆ Client A brings suit against firm alleging representation of former Owner was “outside scope of conflict waiver”.
- ◆ Client A alleges breach of fiduciary duty and that firm helped former owner steal trade secrets & set up a competing Company
- ◆ Defense counsel characterized malpractice action as “a lawsuit in search of a theory of liability
- ◆ Plaintiff claims that attorney - client privilege prevents lawyer from testifying about issues relevant to firms defense.
- ◆ Plaintiff files amended complaint adding new party plaintiff .This company had a business relationship with Client A.
- ◆ During discovery testimony arises regarding law firm being aware of issues related to financing of the competing company former owner started .
- ◆ While other counsel is reviewing all work done by firm new malpractice allegations arise
- ◆ Case settles with \$700,000 of legal fees and \$275,000 “economic settlement” paid

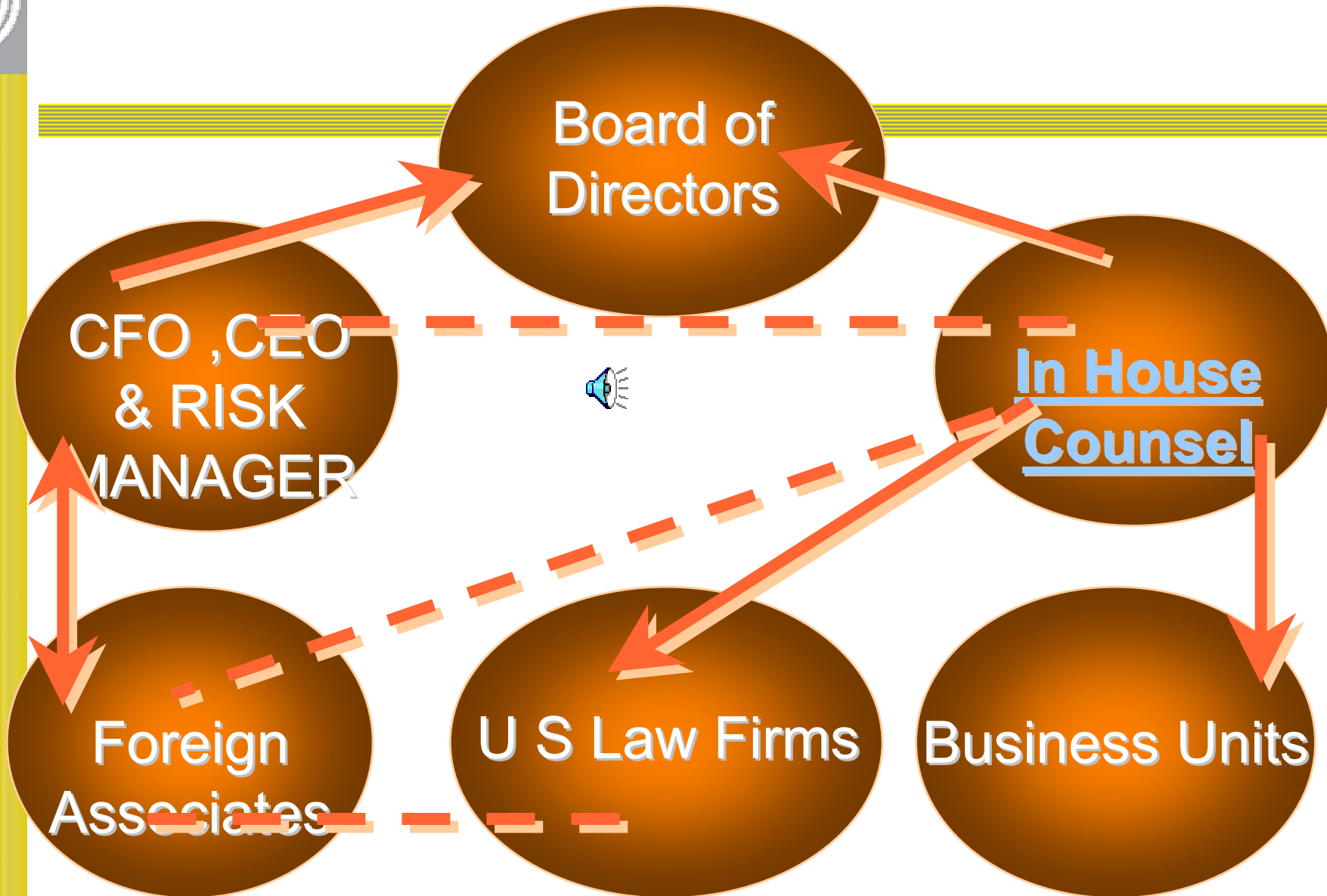
How Do Some Organizations Manage IP Risk ?

JAMISON RISK SERVICES



Some Companies Like This:

JAMISON RISK SERVICES





INDICATORS OF “PROBLEM CLIENTS

- ◆ **Ethically of Financially challenged client**
- ◆ **The engagement involves any kind of conflict of interest, actual or potential**
- ◆ **The matter was previously handled by other lawyers or rejected by other lawyers**
- ◆ **The client lacks means to pay fees likely to be incurred**
- ◆ **The client owes prior counsel, or other professional advisers significant amounts of fees**
- ◆ **The client is currently suing or has sued its lawyers or other professional advisers**
- ◆ **The matter’s urgency was avoidable**
- ◆ **The fees are likely to exceed the benefits of success**
- ◆ **The matter is outside the firm’s normal areas of practice or outside areas of expertise of lawyers available to handle the matter**

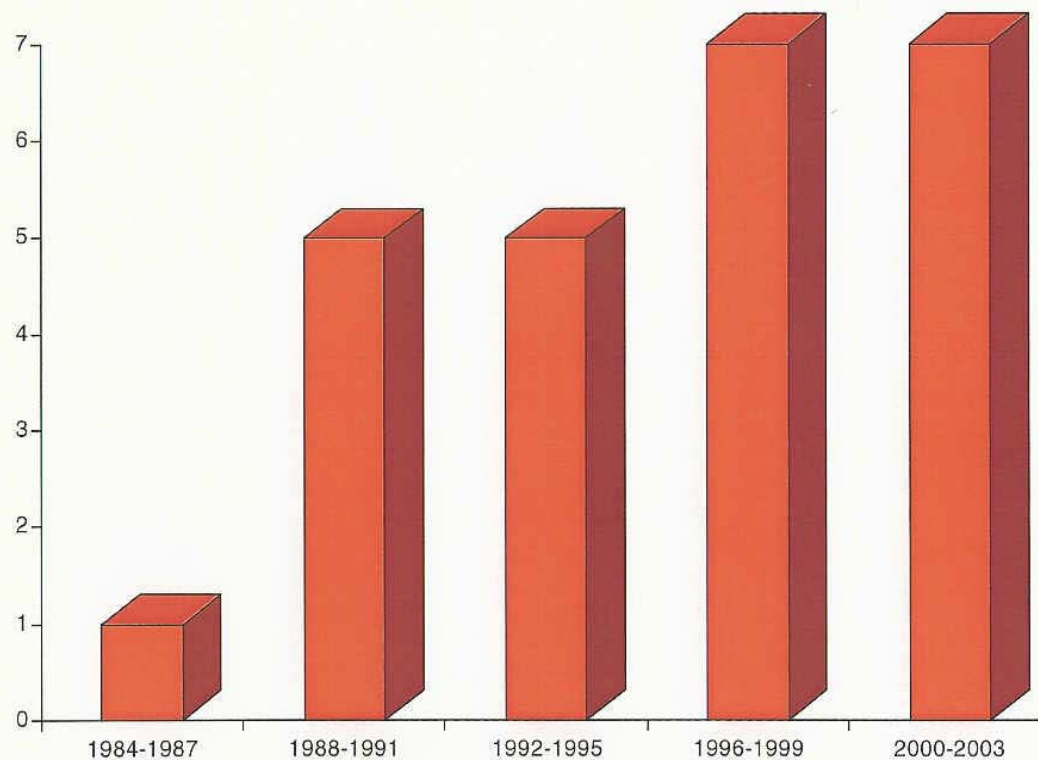


Class Action Research

- Searched for all cases based on: “class action” and “shareholder”, and “patent”, or “trademark” or “copyright” or “false advertising” or “trade secret”
- Identified 26 reported decisions; focused follow-up on 15 cases
- Industries included pharmaceuticals, medical devices, consumer electronics, industrial controls, toys, dental products, veterinary procedures, others

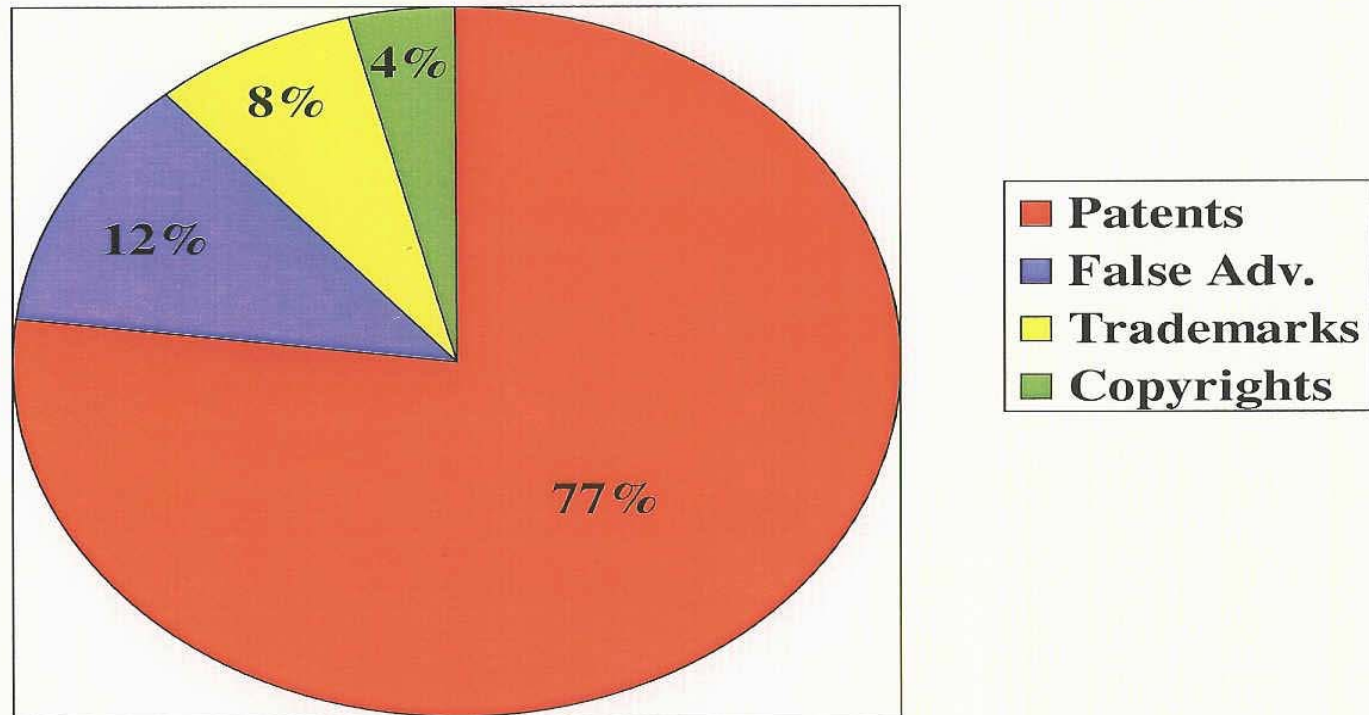


IP Class Action Case Filings





Cases by Type of IP





- False assertion of patent coverage
- Failure to disclose adverse facts regarding patent enforcement efforts
- Failure to disclose inadvertent lapse of key patent maintenance fees
- False claims regarding licensing agreements
- Promotion of technology known to be not technologically feasible
- False claims regarding exclusivity of company licenses



- Promotion of known invalid patents
- Wasting of corporate resources in patent infringement suit without merit
- False statements in stock prospectus regarding technological capabilities
- Payment of royalties to inventors after patent expiration
- Misleading claims in prospectus that company had new patents



AMERICAN BAR ASSOCIATION LAWYERS PROFESSIONAL LIABILITY STUDY

BREAKDOWN OF CLAIMS BY AREA OF LAW

JAMISON RISK SERVICES

<u>1985</u>	<u>1995</u>	<u>1999</u>	<u>2003</u>	<u>2007</u>	<u>Practice Area</u>
29,227	19,158	36,844	29,637	40,486	
<u>Claims</u>	<u>Claims</u>	<u>Claims</u>	<u>Claims</u>	<u>Claims</u>	
25%	21%	25%	19%	22%	Personal Injury-Plaintiff
23%	14%	17%	16%	20%	Real Estate
3%	3%	4%	10%	3%	Personal Injury - Defense
10%	8%	8%	8%		Collection and Bankruptcy
8%	9%	10%	10%	10%	Family Law
7%	8%	9%	9%	10%	Estate, Trust & Probate
3%	4%	4%	4%	5%	Criminal
5%	9%	9%	6%	5%	Corporate/Business Organization



AMERICAN BAR ASSOCIATION

LAWYERS PROFESSIONAL LIABILITY STUDY

BREAKDOWN OF CLAIMS BY AREA OF LAW

JAMISON RISK SERVICES

1985	1995	1999	2003	2007	
29,227	19,158	36,844	29,637	40,486	
<u>Claims</u>	<u>Claims</u>	<u>Claims</u>	<u>Claims</u>	<u>Claims</u>	<u>Practice Area</u>
3%	11%	4%	3%	5%	Business Transactions
.04%	1%	.02%	.04%	2%	International
2%	2%	1%	2%	1%	Securities (S.E.C.)
.50%	1%	1%	2%	2%	Patent Trademark & Copyright
1%	1%	2%	1%	1%	Labor Law
2%	2%	1%	1%	1%	Taxation
1%	1%	1%	2%	1%	Civil Rights Discrimination

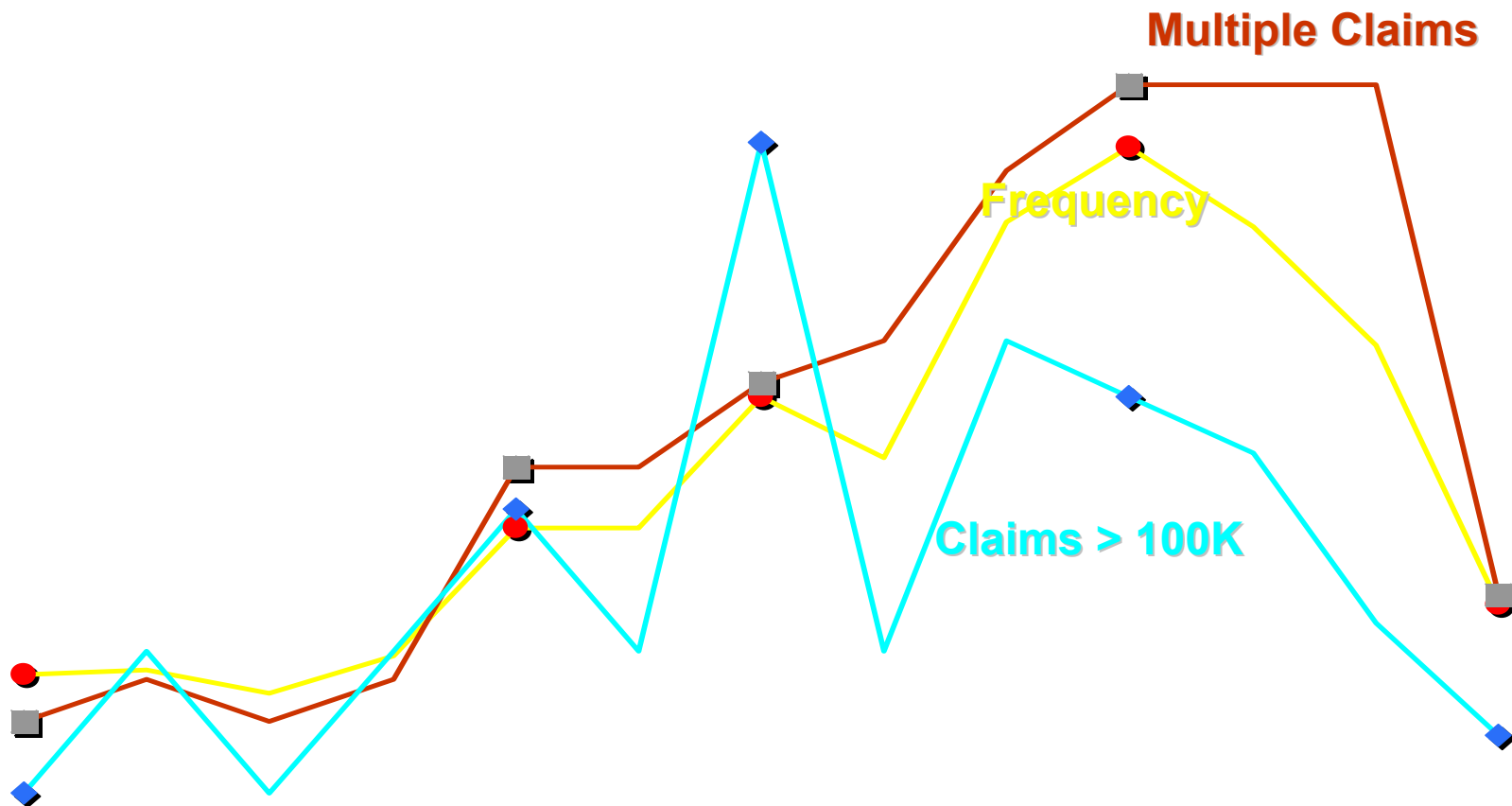
All other areas of practice represented less than 1% of Claims



Jamison \ AIG - IP Firms

Patent/Trademark/Copyright Claims

Combined Trends 1983 - 1995

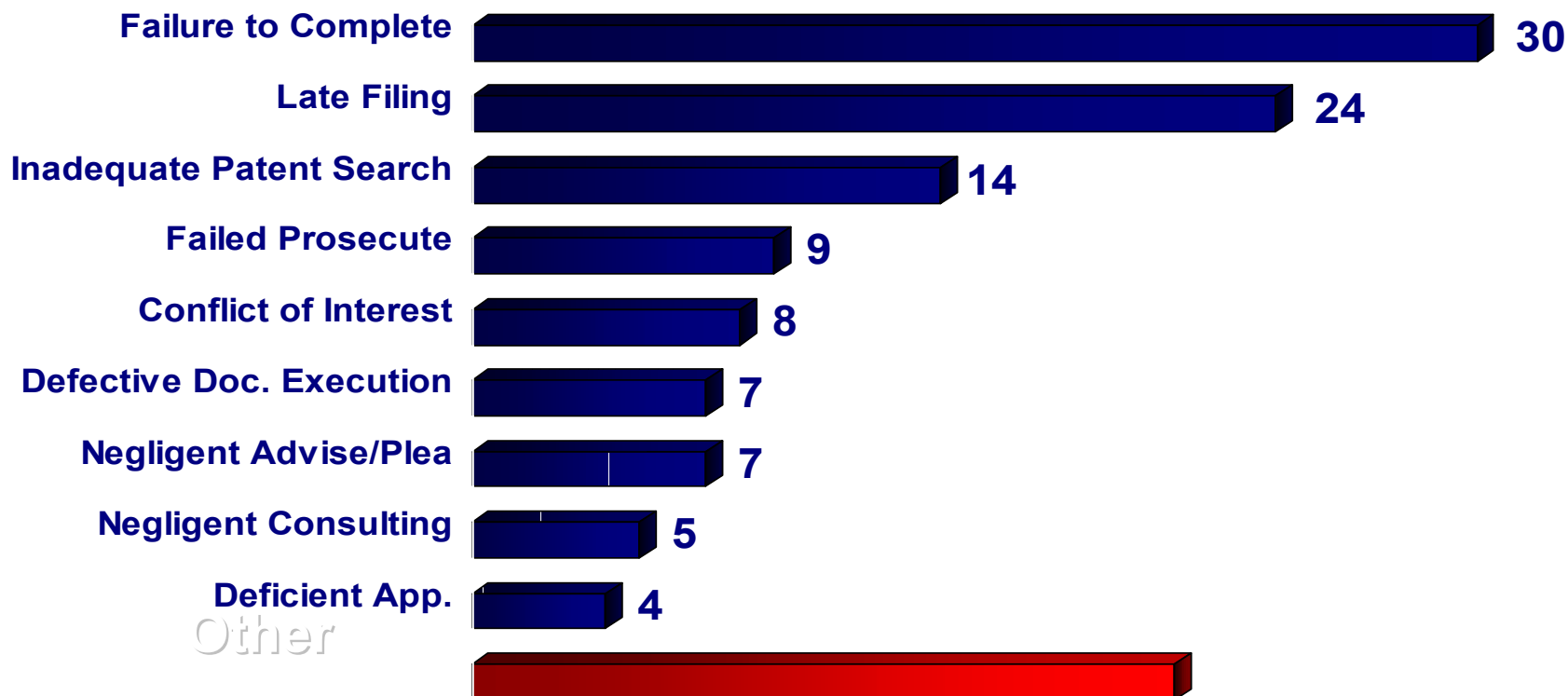




Jamison \ AIG - IP Firms

Patent/Trademark/Copyright Claims

Origin of Claims Over 18 Month Period

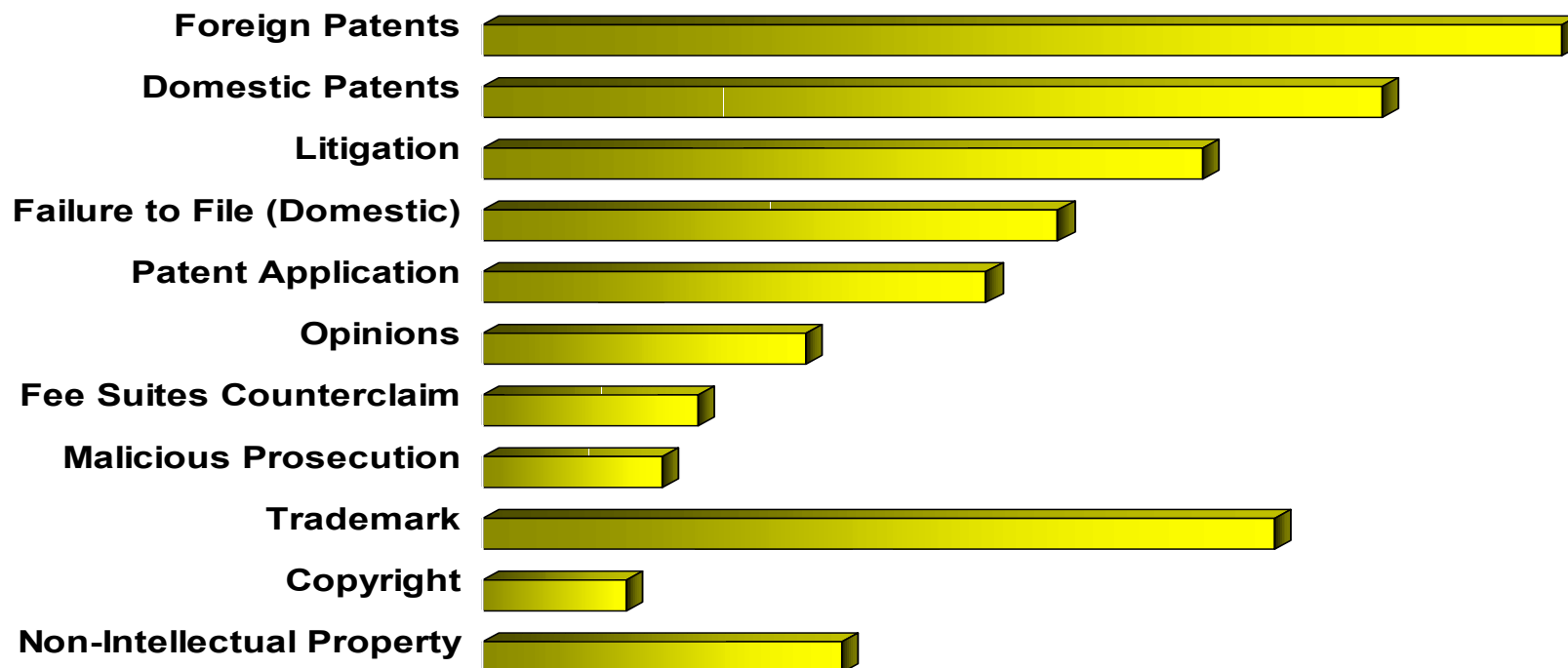




Jamison \ AIG - IP Firms

Patent/Trademark/Copyright Claims

Breakdown by Cause of Action/Area of Practice





Jamison IP Firms Patent\Trademark\Copyright Claims Frequency 1996 - 2005

AREAS OF PRACTICE CLAIMS CAME FROM

37.1% - Patent – Mechanical / Industrial

17.0% - Patent – Other

15.0% - Trademark

10.6% - Patent Electronics/Computers/Semiconductors

7.5% - Patent Pharmaceuticals / Biotech

2.9% - Copyright

2.6% - Non-Intellectual Property Matters (Corporate, Securities)



Jamison IP Firms

Patent\Trademark\Copyright Claims

Frequency 1996 - 2005

MOST COMMON TYPE OF ERROR ALLEGED

18.3% - Incomplete \ Inaccurate Info. In Application

10.6% - Missed Annuity|Maintenance Payment

10.0% - Missed Application Deadline

8.7% - Trial Tactical Error

8.0% - Failure to designate or file application in proper country

7.7% - Inequitable Conduct

6.9% - Failure to Locate Prior Art

5.1% - Fraud

4.6% - Conflict of Interest

4.0% - Failure to File Document

2.0% - Untimely Performance



ALAS STUDIES OF CLAIMS AGAINST FIRMS WITH 35 OR MORE ATTORNEYS FREQUENCY ANALYSIS

JAMISON RISK SERVICES

<u>Area of Practice</u>	<u>2001</u>	<u>2008</u>	<u>% Increase</u>
<u>Patent\Trademark\ Copyright</u>	147	282	91%
Estate & Trust	505	731	45%
Litigation	2,979	4,169	55%
Bankruptcy	219	306	40%
Corporate	2,503	3,222	29%
Securities	360	450	25%



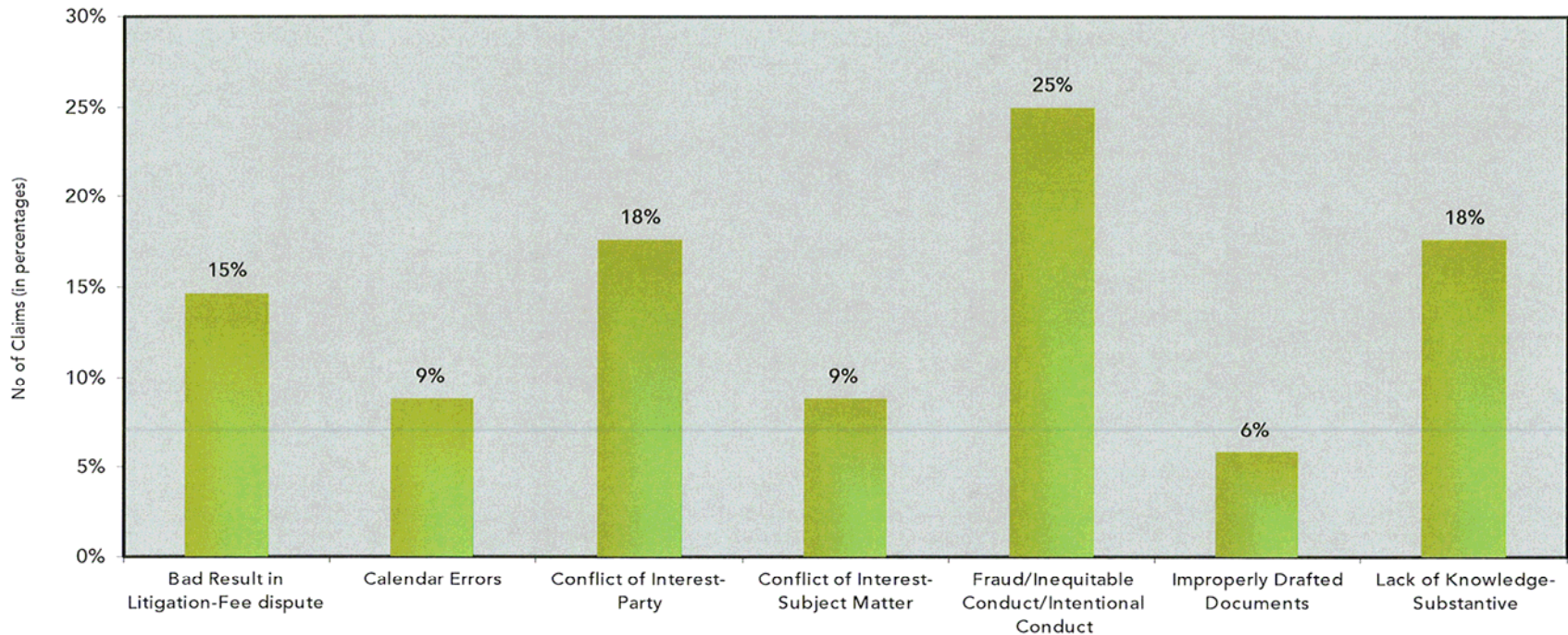
ALAS 2008 STUDY OF 11,203 CLAIMS AGAINST FIRMS WITH 35 OR MORE ATTORNEYS

JAMISON RISK SERVICES

<u>Area of Practice</u>	<u>Average Cost Per Claim</u>	<u>Number of Claims</u>	<u>Percent of Total Claims</u>	<u>Percent of All Loss Incurred</u>
Banking	\$ 1,436,400	228	2%	8%
Administrative Law	\$ 1,343,300	130	1%	4%
Securities	\$ 801,000	450	4%	9%
Patent\Trademark\	\$ 624,000	282	3%	4%
<u>Copyright</u>				
Corporate\Transactional	\$ 585,400	3,222	29%	45%
Bankruptcy	\$ 268,000	306	3%	2%
Real Estate	\$ 252,500	712	6%	4%
Estates\Trust\Probate	\$ 243,500	731	7%	4%
Tax \ ERISA	\$ 211,000	460	4%	5%
Labor\Employment	\$ 150,393	124	1%	Less than 1%
Divorce\Family Law	\$ 147,045	256	2%	Less than 1%
Litigation	\$ 140,900	4,169	37%	14%



Claims Arising out of Patent Litigation

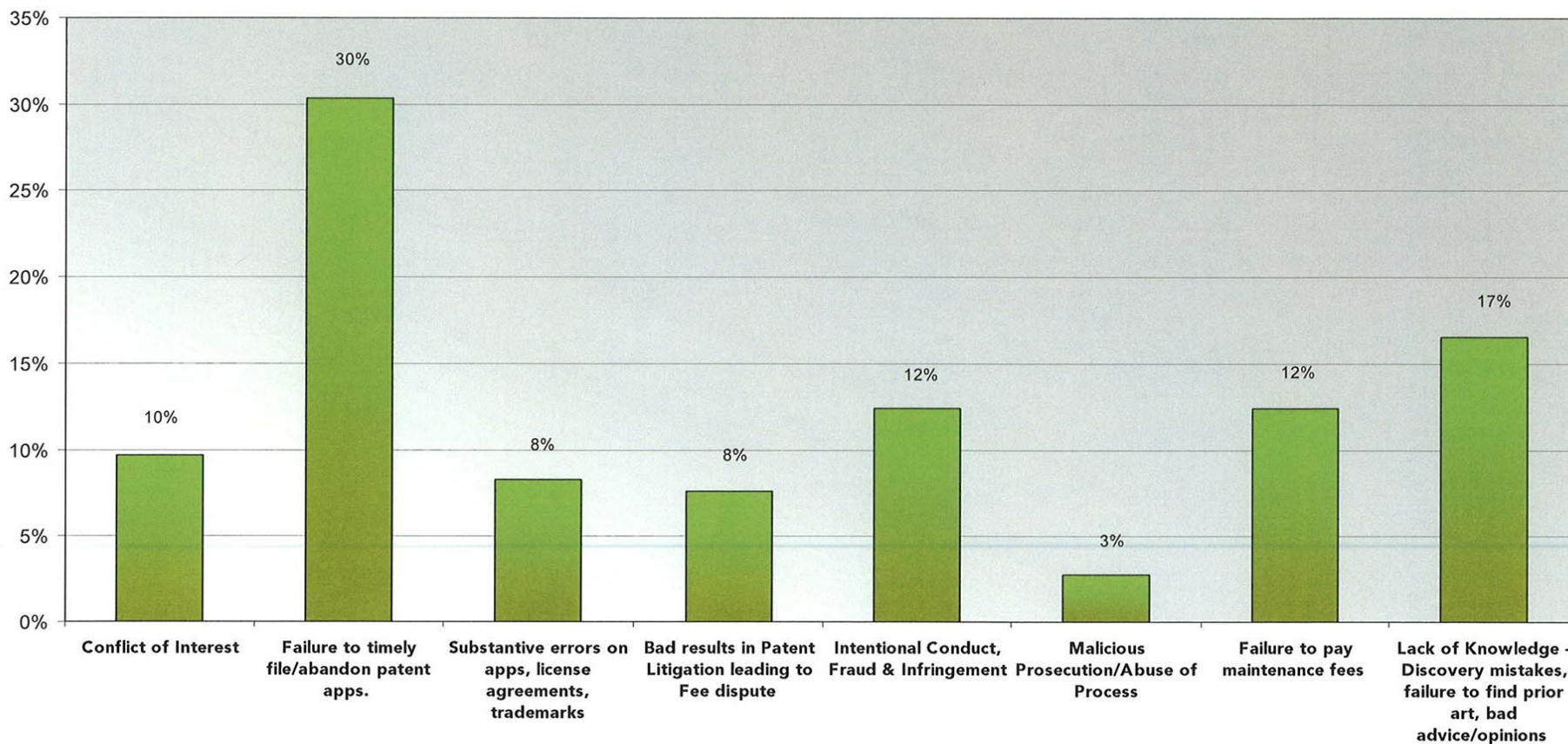


Source: CNA claim data, open claims as of 4/08

Lawyers Intellectual Property Claims



Large Lawyers Intellectual Property Claims



Source: CNA claim data, open claims as of 4/08





ALAS STUDIES OF CLAIMS AGAINST FIRMS WITH 35 OR MORE ATTORNEYS

AVERAGE PER CLAIM SEVERITY BY PRACTICE AREA

<u>Area of Practice</u>	<u>2001</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Banking (including S & L)	\$ 1,336,737	\$ 1,390,090	\$ 1,470,100	\$ 1,436,400
Administrative	\$ 1,015,677	\$ 500,847	\$ 1,035,200	\$ 1,343,400
Securities	\$ 872,757	\$ 833,729	\$ 891,500	\$ 801,900
Corporate	\$ 462,225	\$ 677,592	\$ 625,300	\$ 585,400
Patent Trademark & Copyright	\$ 1,308,539	\$ 580,679	\$ 560,200	\$ 624,000
Litigation	\$ 110,626	\$ 123,356	\$ 122,500	\$ 104,900



AMERICAN BAR ASSOCIATION LAWYERS PROFESSIONAL LIABILITY STUDY

JAMISON RISK SERVICES

NUMBER OF CLAIMS BY TYPE OF ALLEDGED ERROR

<u>1985</u>	<u>1995</u>	<u>1999</u>	<u>2003</u>	<u>2007</u>	
45%	47%	56%	47%	47%	- Substantive Errors
<u>27%</u>	<u>27%</u>	<u>16%</u>	<u>28%</u>	<u>29%</u>	<u>- Administrative Errors</u>
17%	17%	19%	15%	11%	- Client Relations
11%	9%	9%	10%	14%	- Intentional Wrongs



AMERICAN BAR ASSOCIATION

LAWYERS PROFESSIONAL LIABILITY STUDY

MOST COMMON ALLEGED ERRORS

JAMISON RISK SERVICES

<u>1985</u>	<u>1995</u>	<u>1999</u>	<u>2003</u>	<u>2007</u>	
10%	11%	22%	11%	12%	Failure to Know / Properly Apply Law
4%	4%	2%	4%	11%	Failure to File Document No Deadline
9%	11%	3%	8%	9%	Planning Error / Procedure Choice
9%	10%	6%	10%	8%	Inadequate Discovery \ Investigation
11%	7%	7%	5%	8%	Failure to Calendar Properly
7%	7%	15%	7%	7%	Failure to Know / Ascertain Deadline
4%	3%	2%	3%	5%	Fraud
9%	10%	12%	6%	5%	Failure to Obtain Consent Inform Client
<u>3%</u>	<u>4%</u>	<u>5%</u>	<u>6%</u>	<u>5%</u>	<u>Conflict of Interest</u>
5%	9%	5%	9%	4%	Procrastination in Performance \ Follow-up



AMERICAN BAR ASSOCIATION LAWYERS PROFESSIONAL LIABILITY STUDY

TYPE OF ACTIVITY GIVING RISE TO CLAIMS

JAMISON RISK SERVICES

<u>1985 Claims</u>	<u>1995 Claims</u>	<u>1999 Claims</u>	<u>2003 Claims</u>	<u>2007 Claims</u>	<u>Type of Activity</u>
22%	16%	25%	23%	26%	Prep, Filing & Transmittal Documents
8%	13%	8%	19%	11%	Pre-Trial , Pre-Hearing
26%	29%	16%	16%	17%	Commencement Action\Proceeding
11%	12%	7%	15%	12%	Advice
8%	11%	6%	8%	8%	Settlement/Negotiation
7%	7%	5%	5%	6%	Trial or Hearing
5%	1%	13%	4%	5%	Title Opinion



AMERICAN BAR ASSOCIATION LAWYERS PROFESSIONAL LIABILITY STUDY

TYPE OF ACTIVITY GIVING RISE TO CLAIMS

<u>1985 Claims</u>	<u>1995 Claims</u>	<u>1999 Claims</u>	<u>2003 Claims</u>	<u>2007 Claims</u>	<u>Type of Activity</u>
3%	2%	16%	2%	6%	Investigation- Non Litigation
3%	3%	1%	2%	2%	Appeal Activities
3%	3%	1%	2%	2%	Post Trial or Hearing
2%	1%	.22%	1%	2%	Other Written Opinions
2%	1%	.39%	2%	1%	Ex Parte Proceedings
2%	1%	.20%	1%	1%	Tax Reporting
1%	1%	.38%	.36%	1%	Referral\Recommendation



Sup

- PTO Rules
- ABA Ethics 2000
- S.E.C.
- FASB
- Sarbanes Oxley

www.km-iptask.org



USPTO Rules Governing Registered Patent Attorneys & Agents C.F.R. Part 10

- ◆ **Section 10.65 practitioner shall not enter into a business transaction with a client if they have differing interests therein and if the client expects the practitioner to exercise professional judgment therein for the protection of the client unless the client has consented after full disclosure**
- ◆ **Section 10.66 practitioner has to decline or withdraw if the interest of another client may impair the independent professional judgment of the practitioner**



RPC Admissible as Evidence of Breach of Standard of Care

◆ Washington D.C

*Waldman v Levine, 544 A.2d 683 (DC 1998)

*Griva v Davidson, 637 A.2d 830 (DC 1994)

*Williams v Mordkofsky, 901 F.2d 158 (DC Cir. 1990)

◆ Maryland

*Hooper v Gill, 557 A.2d 1349 (Md.App. 1998)

*Ahan v Grammas, 2004 WL 272411)

◆ Illinois

*Nagy v Beckley, 578 N.E.2d 1134 (III. App. 1991)

◆ Nevada

*Mainor v Nault, 101 P.3d 308 (2004)



Violation of RPC Creates Rebuttable Evidence of Care Legal Malpractice

Michigan did not adopt the Preamble and Scope of the RPC
Lipton v Boesky, 110 Mich.App. 589. 313 N.W. 2d 163 (1081)

Holding : The Court explains violations of RPC as grounds for legal malpractice similar to criminal & tort law because

“[t]he same wrongful act may be offensive to the private individual as well as to public generally... The Code of Professional Responsibility is a standard of practice for attorneys which expresses in general terms the standards of professional conduct expected of lawyers in their relationships with the public, the legal system, and the legal profession. Holding a specific client unable to rely on the same standards in his professional relations with his own attorney would be patently unfair. We hold that, as with statutes, a violation of the Code is rebuttable evidence of malpractice.”

COMMONLY ALLEGED CONFLICTS

- ◆ **REPRESENTING MULTIPLE PARTIES**
- ◆ **REPRESENTING MULTIPLE DEFENDANTS**
- ◆ **TAKING MATTER ADVERSE TO CURRENT CLIENT**
- ◆ **TAKING MATTER ADVERSE TO FORMER CLIENT**
- ◆ **REPRESENTING BOTH SIDES OF TRANSACTION**
- ◆ **DOING BUSINESS WITH CLIENT**
- ◆ **CHANGING TERMS OF FEE AGREEMENT DURING REPRESENTATION**
- ◆ **PREJUDICING CLIENTS CASE BASED ON FEE DISPUTE**
- ◆ **CONTINUING TO REPRESENT CLIENT AFTER CONFLICT DISPUTE AND PREVIOUS CLIENT HAS NEW COUNSEL**



Louis Harris & Associates Study of 224 Large Firm Malpractice Claims with payments in excess of \$50,000

MOST SIGNIFICANT ERROR OR MISCONDUCT ALLEGED

18% - Conflict of Interest

18% - Planning or Strategy Error

17% - Failure to Know \ Properly Apply the
Law

14% - Inadequate Discovery of Facts or
Investigation

13% - Failure to Obtain Client's Consent
or to inform Client

17% - OTHER ?



ADVERSE CONSEQUENCES LAWYERS

FACE STEMMING FROM CONFLICTS

- **DISQUALIFICATION MOTIONS & ORDERS**
- **REVERSAL OF PROCEEDINGS**
- **DISCIPLINARY ACTIONS**
- **FORFEITURE OF FEES**
- **MALPRACTICE CLAIMS**



Recent Federal Cases on Disqualification

Federal Circuit

Fresenius USA, Inc v. Baxter Int'l Inc. 107 Fed Appx 910
(Fed. Cir. 2004) - Unpublished

<u>Date</u>	<u>Motion</u>	<u>Issue</u>	<u>Holding</u>
7/29/04	Granted as to Counsel & Firm	Failure to rebut presumption of shared confidences	Plaintiff Counsel DQ'd due to prior representation defendants predecessor in interest Firm failed to show effective screen of lawyer



Recent Federal Cases on Disqualification

Ninth Circuit

Concat LP v. Unilever PLC, 350 F.Supp.2d 796
(N.D. Cal 2004)

<u>Date</u>	<u>Motion</u>	<u>Issue</u>	<u>Holding</u>
09/7/04	Granted	Waiver of Conflict	DQ based on <u>conflict waiver</u> <u>insufficient</u> . Must evidence fully informed consent. <u>Screening</u> <u>inadequate</u> because it addresses only confidentiality issues, not loyalty



Recent Federal Cases on Disqualification

Second Circuit

Flaherty v. Filardi, 2004 U.S. Dist. LEXIS 12300
(S.D.N.Y. 2004)

<u>Date</u>	<u>Motion</u>	<u>Issue</u>	<u>Holding</u>
7/1/04	Denied	Representation of clients with potentially conflicting interests	Motion for DQ Denied where party claimed opposing counsel had conflict in representing joint clients. Both parties “ informed “ written consent was key




BREACH OF FIDUCIARY DUTY CLAIMS

DID LAWYER COMPLY WITH HIS FIDUCIARY DUTY TO CLIENT ?

BECAUSE A RELATIONSHIP OF TRUST AND CONFIDENCE EXISTED BETWEEN THEM LAWYER OWED CLIENT A FIDUCIARY DUTY. TO PROVE LAWYER COMPLIED WITH HIS\HER DUTY, LAWYER MUST SHOW:

- ◆ TRANSACTION IN QUESTION WAS FAIR & EQUITABLE TO CLIENT
- ◆ LAWYER MADE REASONABLE USE OF THE CONFIDENCE CLIENT PLACED IN HIM \ HER
- ◆ LAWYER ACTED IN UTMOST GOOD FAITH AND EXERCISED THE MOST SCRUPULOUS HONESTY TOWARDS THE CLIENT
- ◆ LAWYER PLACED HIS\HER INTEREST IN CLIENT BEFORE HIS\HER OWN, DID NOT USE THE ADVANTAGE OF HIS\HER POSITION TO GAIN ANY BENEFIT FOR HIMSELF AT EXPENSE OF THE THE CLIENT AND LAWYER DID NOT PLACE HIMSELF IN ANY POSITION WHERE HIS SELF-INTEREST MIGHT CONFLICT WITH HIS OBLIGATIONS AS A FIDUCIARY; AND
- ◆ LAWYER FULLY AND FAIRLY DISCLOSED ALL IMPORTANT INFORMATION



National Knowledge & Intellectual Property Management Taskforce – www.km-iptask.org

- ◆ Taskforce is eight-year old , industry—led and funded consortium consisting of business, government, and academic institutions that are committed to improving the creation, recognition and economic impact of intellectual capital, intellectual property and intangible assets.
- ◆ Taskforce mission is to define the competencies and set the standards to accelerate the transformation of knowledge to net worth in the competitive enterprise.
- ◆ Taskforce has been working with SEC, FASB and United Nations
- ◆ The Taskforce is a cross cut of disciplines providing an enterprise map for shareholder value creation and recognition in the knowledge economy.

WHAT DOES SOX REQUIRE REGARDING IP ASSETS?

Sections 401, 404 & 409 - Requires real time reports on “material” events that could impact the company’s finances or business operations “on a rapid & current basis”

- ◆ **REPORTING ON SEVERAL ASPECTS OF THE COMPANIES IP ASSETS**
- ◆ **CHANGES IN IP ASSETS VALUE THAT AFFECT FAIR REPRESENTATION PUBLIC INFORMATION REGARDING CO’S FINANCIAL INFORMATION THAT REQUIRE CEO AND CFO DISCLOSURE**
- ◆ **COMPANIES AUDIT INTANGIBLE \ IP ASSETS AND REPORT MATERIAL CHANGES THAT ARE LIKELY TO IMPACT THEIR FINANCIAL STRENGTH**
- ◆ **COMPANY WITH STRONG PATENT PORTFOLIO GET SUED AND STOCK PRICE FALLS**
- ◆ **COMPANY MESSAGES THE STREET THAT IT GETS “FUNDAMENTAL PATENT” AND STOCK PRICE SOARS**



- Aggressive Marketing
“ Accessorial Liability ”
- Lateral Hires
- Mergers
- Acquisitions



Louis Harris & Associates Study of 224 Large Firm

- ◆ 35% OF THESE CLAIMS INVOLVED ACTS OF A LATERAL HIRE OR LAWYER FROM AN ACQUISITION.
- ◆ 47% OF THE ABOVE CLAIMS AROSE OUT OF ACTIVITIES IN THE PREVIOUS FIRM .
- ◆ 27% OF THE ABOVE CLAIMS AROSE FROM CLIENT BROUGHT TO THE NEW FIRM FROM THE PRIOR FIRM
- ◆ 7% OF THE ABOVE CLAIMS AROSE FROM A NEW PRACTICE AREA THE LATERAL DEVELOPED AT FIRM



LATERAL IP LAWYER MOVEMENT RELATED MALPRACTICE CLAIMS

- ◆ Client hires IP Boutique firm to pursue patents in the US and to secure foreign patents in numerous countries
- ◆ Large General Practice Law firm acquires IP Boutique
- ◆ Client finds out that plan to acquire patent in one foreign country not concluded, instead of dropping patent application in a different foreign country as client allegedly directed.
- ◆ Client claims error cost it in excess of \$15,000,000



“LATERAL HIRES & CAREER COVERAGE”

- ◆ Law firm does Counseling for Client A .
- ◆ Firm also represents Client B in connection with a related matter on which the firm has counseled Client A .
- ◆ Later firm helps Client B on “related “ matter that is adverse to interests of Client A
- ◆ Client A sues law firm and Client B for conflict of interests, misappropriation of trade secrets and conversion.
- ◆ Plaintiff alleges damages in excess of \$50,000,000 stemming from depressed value of its initial public offering and other issues
- ◆ Firm settles malpractice claim with one of the clients and a claim is made by other client.
- ◆ The firm does not have sufficient policy limits in its professional liability policy to cover claims by the other client or any other clients.
- ◆ The firm advises all lawyers who were partners in the firm at the time of these claims that the firm will seek their contribution to defense fees and any loss payments in connection with this matter.
- ◆ Partners that left the firm to join other law firms report this claim for possible coverage under their new firm’s policy



- **Foreign Associates**
- **Annuity Payment Co.**
- **Local Counsel/Lead Counsel**
- **Temp. Agencies**
- **Software/Hardware Vendors**

Insurance



Affiliations with Foreign Lawyers

- ◆ Information About Legal Services
 - ABA Model Rule 7.1
- ◆ Strategic Alliances
 - ABA Model Rule 7.2(b)(4)
- ◆ Direct Contact with Prospective Clients
 - ABA Model Rule 7.3
- ◆ Ancillary Businesses or Law Related Services
 - ABA Model Rule 5.7



Affiliations with Foreign Lawyers

Exercising Supervision and Control

- ◆ Responsibilities of Partners, Managers and Supervisory Lawyers
 - ABA Model Rule 5.1
 - ABA Model Rule 8.4(a)
- ◆ Responsibilities of Subordinate Lawyers
 - ABA Model Rule 5.2
- ◆ Responsibilities Regarding Non-lawyer Assistants
 - ABA Model Rule 5.3



Supervision of Work Abroad

- ◆ Distance justifies heightened duty of due diligence
- ◆ Lawyer should have adequate understanding of legal training and business practices in jurisdiction where work is performed
 - Assess whether person performing work is akin to lawyer or nonlawyer
 - Disciplinary history of worker
 - Whether compensation can be adjusted for poor performance
 - Education and legal training
 - Ability to review work and ethical practices
 - Ability to provide input on performance
 - Ability to restrict or confine area of work or scope of responsibility



Technology – Data Management

“A computer lets you make more mistakes faster than any invention in human history – with the possible exceptions of handguns and tequila”

Mitch Radcliffe

Internet and Media

Consultant



E-LAWYERING RELATED EXPOSURES

Lawyers Internet based communication using email, website, blogs, extranets can lead to:

- Unintended Client Engagements
- Inadvertent Disclosure of Confidential Information
- Unauthorized Practice of Law
- Early Destruction of Electronic Documents



ELECTRONIC DISCOVERY RELATED LAWYERS PROFESSIONAL LIABILITY RISKS

- ◆ **When representing clients in litigation lawyers errors in communications with client, counsel and/or court that lead to: sanctions for spoliation such as an adverse inference, monetary penalties or even judgment on the merits for your adversary**
- ◆ **“Before” a malpractice claim is made against the firm, a lack of appropriate policies and procedures in connection with: Email Usage, Internet Usage and/or electronic discovery preservation and processing protocol (Shoemakers children with holes in their shoes)**



E-DISCOVERY RELATED MISTAKES TO AVOID

- ◆ **Failure to advise client of need to impose proper preservation holds in pre-litigation setting**
- ◆ **Using the legend, “Attorney Work Product” when no litigation is anticipated and then claiming a protection from discovery of documents so marked in later litigation, thereby establishing the date on which a records hold should have been implemented.**
- ◆ **Failure to involve information technology personnel early enough in the discovery process**
- ◆ **Failing to comprehend the universe of electronically stored information**
- ◆ **Failing to comprehend the auto-delete or recycling processes in electronic information systems .**



E-DISCOVERY RELATED MISTAKES TO AVOID

(continued)

- ◆ **Failing to adequately identify “key” players, failing to identify the storage habits of key players and then failing to secure storage media of key players**
- ◆ **Failing to follow up with key players to ensure that preservation orders are being followed.**
- ◆ **Failing to produce electronic information in timely manner**
- ◆ **Making unilateral decisions in producing electronic information, particularly with respect to form of production and metadata**
- ◆ **Failing to communicate early and clearly with client, with opposing counsel and with the court regarding e-discovery issues.**



- **Clearly Defined Scope of Services**
- **Due Diligence**
- **Indemnification and Hold Harmless**
- **Proof of Insurance**

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Any questions or comments

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