

Patent Malpractice Suits A Growing Threat

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Wednesday, Nov 14, 2007 --- When Todd S. Sharinn represented Quickie LLC in patenting medical devices and helping the business get off the ground, he never expected any dispute to come between him and the company. After all, the company's principals, who were surgeons, were close friends who had helped Sharinn receive emergency medical care for an ill family member and had even attended his son's bris.

But that all changed when Quickie replaced Sharinn as counsel, then years later blamed him for failing to inform the company about a fee payment needed to keep a medical device patent from expiring. Sharinn and his former firm, Greenberg Traurig LLP, said the patent-in-question had expired in May 2004 – more than a year after Sharinn and Greenberg had their power of attorney revoked.

“What used to be a gentle law of practice which involved close relationships between clients and practitioners has been exploited of late,” said Sharinn, who now practices with Baker & McKenzie LLP. “As patents grow in value, if things do not go the way an inventor wants, they will take the approach to recoup money by suing, which is being handled by slip-and-fall guys by and large.”

The claim is part of a growing number of prominent malpractice suits that patent attorneys and their firms are facing, experts said.

A. Samuel Oddi, an intellectual property professor at The University of Akron School of Law, said the data he has seen indicates that patent attorney malpractice actions have been increasing compared to the paucity of actions filed in the past.

Until the last decade, malpractice suits against patent attorneys were virtually unknown because of the difficulty in identifying and proving attorney errors in the complicated area of patent law, according to a paper Oddi wrote about patent malpractice claims in 2004.

Using American Bar Association studies of malpractice claims submitted to insurers of legal malpractice, Oddi found that malpractice suits filed against intellectual property attorneys made up 0.57% of malpractice claims per year in a 1985 study. That rate rose to 0.94% in a 1995 study, and rose again to 1.04% of malpractice claims in a 1999 study.

Oddi said the increase may have been caused by the increasing value of

patents and the high costs of patent acquisition and litigation, which have enhanced expectations for returns on patent investment. However, when the patent does not meet those expectations, especially high goals proffered by an attorney, clients may take their frustration out on the attorney.

David Hricik, an ethics professor at Mercer University School of Law who specializes in intellectual property cases, said that while statistics he has seen show malpractice claims have been stable, damages per claim have increased.

“I believe that what plaintiffs’ lawyers are doing with some success is combining a basic point of malpractice – negligently missing a deadline, for example – with a conflict of interest to turn what would be a basic ‘oops’ case into an act of malice,” Hricik said.

While many patent malpractice suits settle out of court, Fish & Richardson PC decided to battle and lost a malpractice and breach-of-contract case filed by former client Kairos Scientific Inc. In 2003, a California state court awarded Kairos, a San Diego, Calif.-based technology company, \$30 million.

Kairos filed the suit in February 2001 for missing a foreign patent application deadline for an enzyme screening tool. The law firm admitted that it failed to timely file the foreign application but claimed the error did not cause any damage to the company.

In January 2006, a California appeals court upheld the award and a California Supreme Court later refused to take up the case.

Natasha Roit, an attorney for Kairos, said the case is an example of how big law firms give smaller clients less care than larger clients, which leads to malpractice claims.

“What Fish & Richardson put my client through was unconscionable. Because of a calendaring error, the firm destroyed my client’s invention in its entirety and instead of stepping up to the plate, they put the entire resources of the firm towards crushing the little guy,” said Roit, who was a self-practitioner who has since retired.

She said she did not realize the prevalence of patent errors regarding missed deadlines until the case became public, when she received dozens of phone calls regarding similar circumstances.

Fish & Richardson said Kairos settled the case with its insurance company following the California Supreme Court rejection and had no further comment on the case.

A recurrent theme in malpractice claims involved attorney failures to file for foreign patents within the one-year priority period, according to Oddi.

“I can’t imagine why this is happening,” Oddi said. “It’s like missing a statute

of limitations.”

Hricik said he has also seeing a growing number of cases in which a missed filing date is combined with a conflict of interest, such as to favor another client.

“There are a handful of those type of claims out there,” said Hricik, who also provides risk management services to firms. “I’m not sure why, except that missing a deadline lacks the sexiness of missing a deadline to benefit another client and, perhaps, the circumstances that give rise to the allegation are happening more frequently with the acquisition by large firms of patent practices.”

An example of a recent conflict-of-interest claim is a suit filed by ICU Medical Inc. against patent firm Fulwider Patton Lee & Utecht.

In January, Fulwider Patton paid \$8 million to settle the allegations that it breached attorney-client obligations by suddenly terminating its representation of ICU, then using information it acquired from ICU to aid competitors Medex Inc. and Alaris Medical Systems Inc.

Experts said proposed patent reforms may further increase malpractice claims.

For instance, Hricik termed the U.S. Patent and Trademark Office's proposed new rules, which were to be implemented on Nov. 1 before it was stayed pending a court appeal by GlaxoSmithKline, as “malpractice in a box.”

One of the new PTO rules would require patent practitioners to characterize prior art.

“Those characterizations will lead to additional claims of inequitable conduct against patent owners, and if proven, malpractice claims against the lawyers who prosecuted the patent,” Hricik said. “Also, such characterizations will increase the likelihood of estoppels arising as to claim scope, and clients, therefore, suing their lawyers for getting 'less' than they 'deserved.’”

Legislators are considering implementing a first-to-file system to receive a patent which could also lead to more malpractice suits, since the quality of applications may suffer because of the rush to file. Other concerns have also been made about the system.

“If a first-to-file system is adopted, there may be claims by inventors that the patent attorney was negligent in unreasonably delaying the filing of an application,” Oddi said.

Hricik did believe the size and frequency of malpractice awards would diminish if judicial rulings and legislators continue to lower the value of patents.

“What I have noticed over the last twenty years is more patent malpractice claims being brought as the value of IP increased; it stands to reason that, as I believe is the case, recent cases have decreased the value of patents, that fewer claims will be brought,” Hricik said.

Another factor that may affect awards are two recent U.S. Court of Appeals for the Federal Circuit decisions which gave federal courts jurisdiction over state law malpractice claims which involve questions of federal patent law.

On Oct. 15, the Circuit affirmed a Texas district court's decision to deny Akin Gump Strauss Hauer & Feld LLP and Branscomb PC's request to remand a malpractice case filed by Air Measurement Technologies Inc., North-South Corp., and Louis Herbert Stumberg to state court. The Circuit ruled that disputes that raise a “substantial, contested question of patent law” belong in federal court.

On the same day, the Circuit also asserted jurisdiction over medical device maker Immunocept Inc.'s malpractice suit against Fulbright & Jaworski LLP. The Circuit affirmed that Immunocept had violated a statute of limitations by filing the suit.

Hricik said he doubted that the rulings would stand, but if they do, “the value of a malpractice claim have no doubt dropped.”

“The few recent verdicts in state courts tend to confirm that, and as a litigator and as a general rule, defendants would much rather be in federal than state court because verdicts, generally, are lower,” Hricik said.

“There are several state court opinions deciding malpractice claims that don't make a lot of sense from a patent law perspective,” Hricik said. “As a result, I frequently used to warn lawyers that malpractice claims would be heard in state court, before a judge who would have no patent experience. At least now, the judge will be a federal judge with, perhaps, at least some experience with patents.”

Oddi said it was questionable how the Circuit decisions would affect malpractice suits.

“State courts have more familiarity with professional malpractice cases than do federal courts,” Oddi said. “On the other hand, at the appellate level, the Federal Circuit is much more familiar with patent practice and should be better able to identify malpractice when it sees it.”

Despite the possibility that malpractice suits may garner less rewards for plaintiffs, claims against patent firms over alleged misdeeds continue to be filed.

In September, Seyfarth Shaw LLP and Burnett Burnett & Allen were accused of negligence and fraud for their alleged incompetence in securing victory in a 2005 infringement action over snowboard design patents. Inventors

Richard W. Berger and Brant W. Berger retained the firm in the 2005 suit against French company Rossignol Ski Co. Inc.

The Bergers' suit, which seeks at least \$75 million, claimed that the firms “breached their respective duties to exercise the requisite degree of learning, skill, diligence and judgment.”

In February, Katten Muchin Rosenman LLP was hit with a malpractice suit for allegedly have a conflict of interest while representing International Foam Solutions Inc., which develops ways to recycle chemical polystyrene.

The company's owners, Harvey Katz and Claudia Iovino, accused the firm of violating attorney-client privilege by sending another company it represented IFS' secret patent numbers.

With malpractice claims a lingering problem, insurance has been a major protection for firms with patent practices.

However, Margaret Hepper, a senior vice president for the lawyers division of AON Affinity Insurance Services, an insurance broker for firms, said many insurance carriers have dropped underwriting for patent firms or significantly raised premiums since about 2001.

“That's when insurance companies underwriting patent firms realized it was definitely a different market than it had been 15 years ago [for patent insurance]. It was not nearly as benign,” Hepper said. “With the increase in the severity of claims, insurers felt that they didn't understand the risks well enough and rather than underwrite, they exited the market.”

Hepper said it was a “real shock” to the intellectual property community when premiums increased, which led to some smaller firms foregoing insurance.

She said that the severity of asserted malpractice claims have led to settlements and verdicts of more than \$10 million, which are “not unusual anymore.”

Timothy J. Maier, a partner at a small IP plaintiffs firm in Alexandria, Va., said that because of the potential liability that could cripple smaller firms, boutiques tend to take extra precautions, such as outsourcing work to make sure maintenance fees are paid on time, as well as other steps.

“We screen clients very carefully. Corporate clients don't tend to sue while smaller clients who work out of their garage and own one to five patents are ten times more likely to sue an attorney,” said Maier, who is a name partner at Maier & Maier PLLC.

He said the screening process includes retainers and conflict-of-interest checks. With more at stake in cases, Maier believed boutique firms were better positioned to serve clients.

Patent attorneys have other options to mitigate malpractice risks as well.

“Lawyers are ethically prohibited from seeking indemnity or absolution from malpractice claims by their clients, but they can use arbitration clauses and other means to try to control the expense of a malpractice claim,” Hricik said.

But no matter the amount of precautions taken, facing a malpractice claim – and the potential damage it can cause to one's reputation - may become inevitable.

Sharinn said he was not aware of losing any clients because of the malpractice case and IP Law360's previous coverage of the case in April, though the allegations have thrust “an air of caution” amongst his clients and firm.

“It hasn't negatively impacted me in terms of less clients but it has raised questions and caused grief at my current firm, where I am at a place in my career where a lot of eyes are focused on me and I'm supposed to be professional enough to move up in the firm, then I'm sued for malpractice and it really hits you,” said Sharinn, a junior partner.

Quickie's suit was originally only filed against Greenberg Traurig, but Thelen Reid Brown Raysman & Steiner LLP – which replaced Greenberg as Quickie's patent counsel in 2003 – was added to the suit. Thelen, in turn sued Sharinn as a third-party defendant.

Sharinn was originally retained by Quickie when he was at the firm Pepe & Hazard LLP. Quickie then transferred its business to Greenberg Traurig when Sharinn switched to that firm. He said Quickie never had any problems with his work, which included a markman hearing victory against Medtronic Inc. in an infringement suit over the suture patent.

However, Sharinn said he was replaced by Thelen Reid because a principal at Quickie wanted to move the patent work over to his brother-in-law.

PTO records show that Sharinn gave up his duties for Quickie in March 2003, and that Thelen represented Quickie on its patent issues from December 2003 to August 2006.

In May 2004, Quickie's patent expired. However, Quickie said it did not find out that its patent expired until July 2006, when another medical device company broke off from negotiations to license its suture device.

Last August, Thelen transferred Quickie's patent matters to Sterne Kessler Goldstein & Fox PLLC, according to PTO documents.

“This is an example of sour grapes,” Sharinn said about the malpractice case. “Slip-and-fall guys are running out of juice on slip-and-fall cases and are now looking into other opportunities to cash in and patent malpractice is another opportunity for them. To me, it's pretty sad.”

Attorneys for Quickie did not immediately return calls seeking comment on Wednesday.

While Sharinn said he could have a case for slander against Quickie, he was more interested in seeing the case come to a close.

While he has been hurt by the case, Sharinn said malpractice suits ultimately hurt small inventors, who are usually not as knowledgeable in patent law as other inventors and thus may make more patent mistakes that can be blamed on their counsel.

“I really enjoyed being able to work with smaller inventors, to be able to help nurture them not only as a patent attorney, but also in building a business around their technology,” Sharinn said. “This is something I used to enjoy, but I’m now leery to work with small clients and I’m not alone in that sentiment.”

--Additional reporting by Erin Coe