



Federal Courts as the Forum and Federal Law as the Remedy

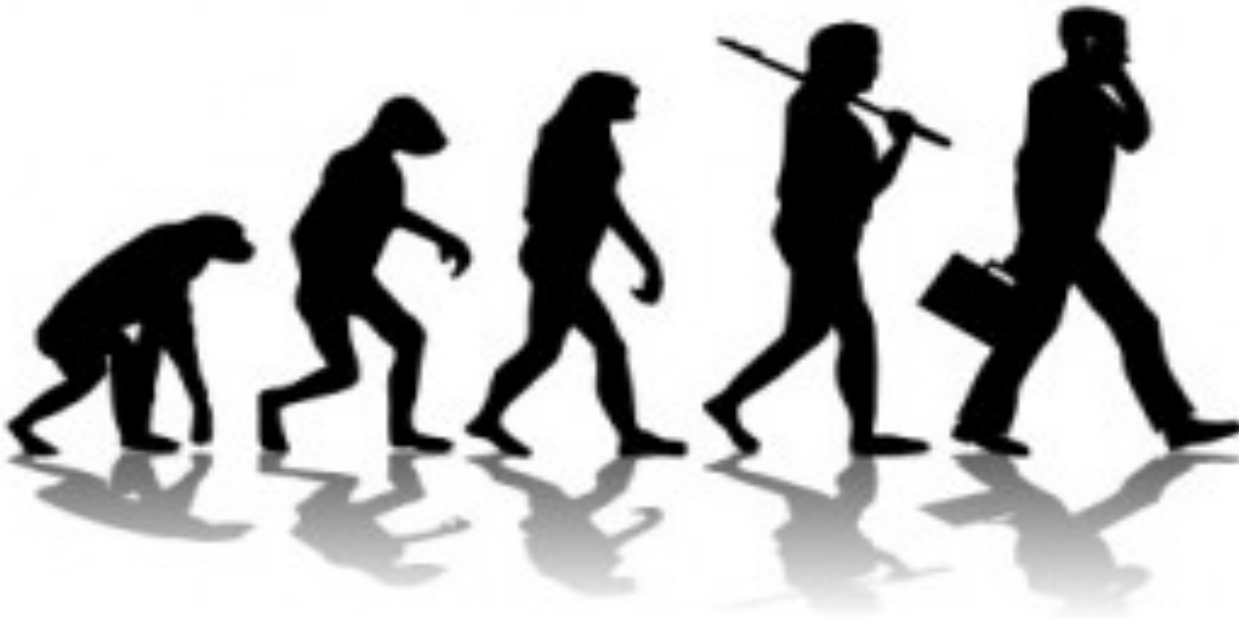
Federal Bar Association

September 20, 2012



Ron Mallen
Hinshaw & Culbertson LLP
Office (415) 263-8112
rmallen@hinshawlaw.com
www.hinshawlaw.com

Evolution of the lawyer



Looking to the Past to See the Future



The First American Decision

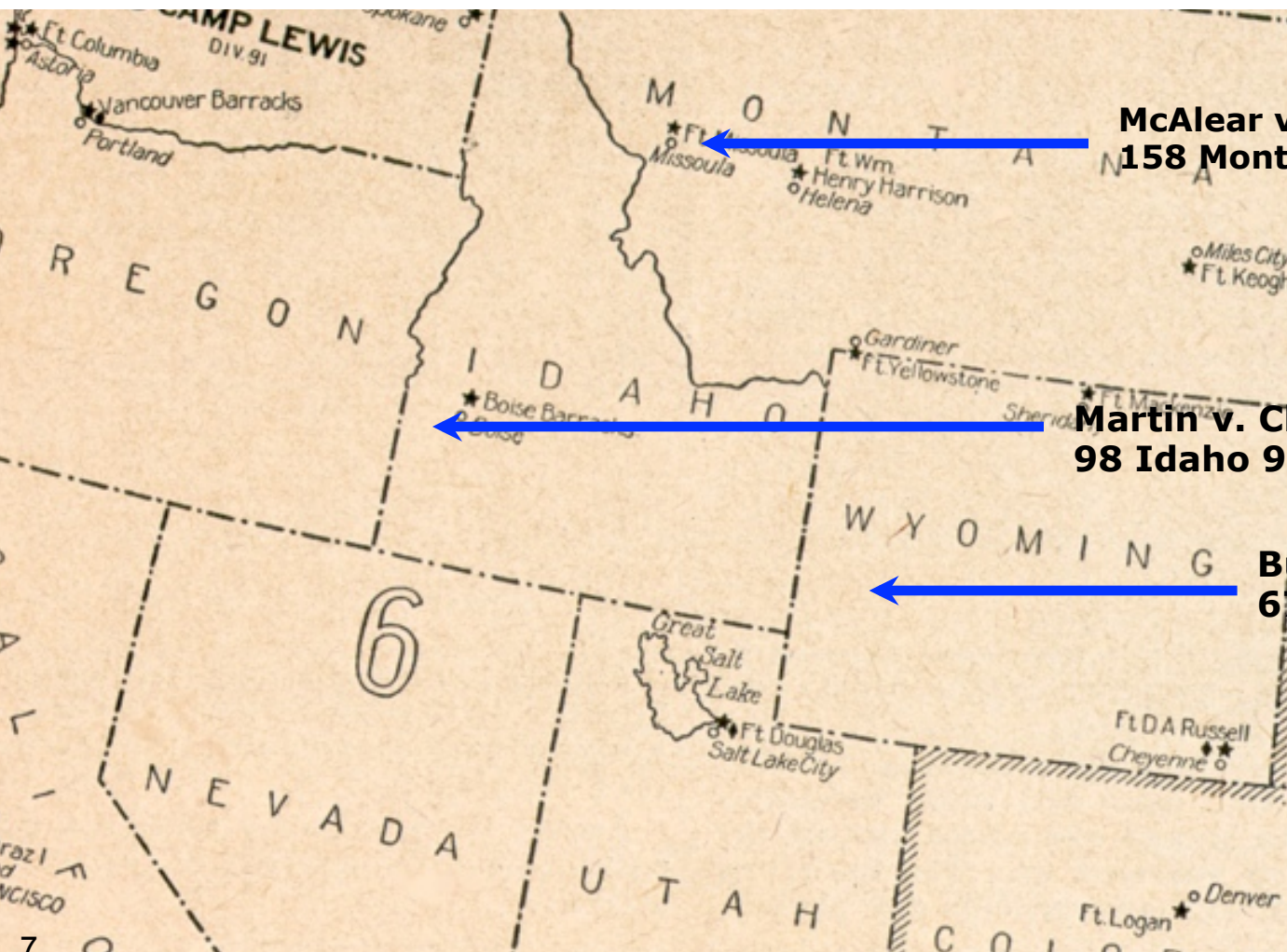
Stephens v. White, 2 Va. (2 Wash.) 203 (1796), 1796 WL 649:



In November 1779, in the County Court of *Frederick*, an action of debt for £ 62, against *B. Chambers* executor of *William Williams*, and then and there employed the defendant to prosecute the said suit to judgment, who in consideration thereof undertook to conduct the same to the best of his skill and judgment; yet the defendant had neglected to do his duty as an attorney, by failing to file a declaration, whereby the judgment obtained in the said suit was reversed, and the plaintiff had lost his said debts of £ 62 and costs, and had sustained injury.

Plea not guilty

The Last Jurisdictions to Report Legal Malpractice Decisions

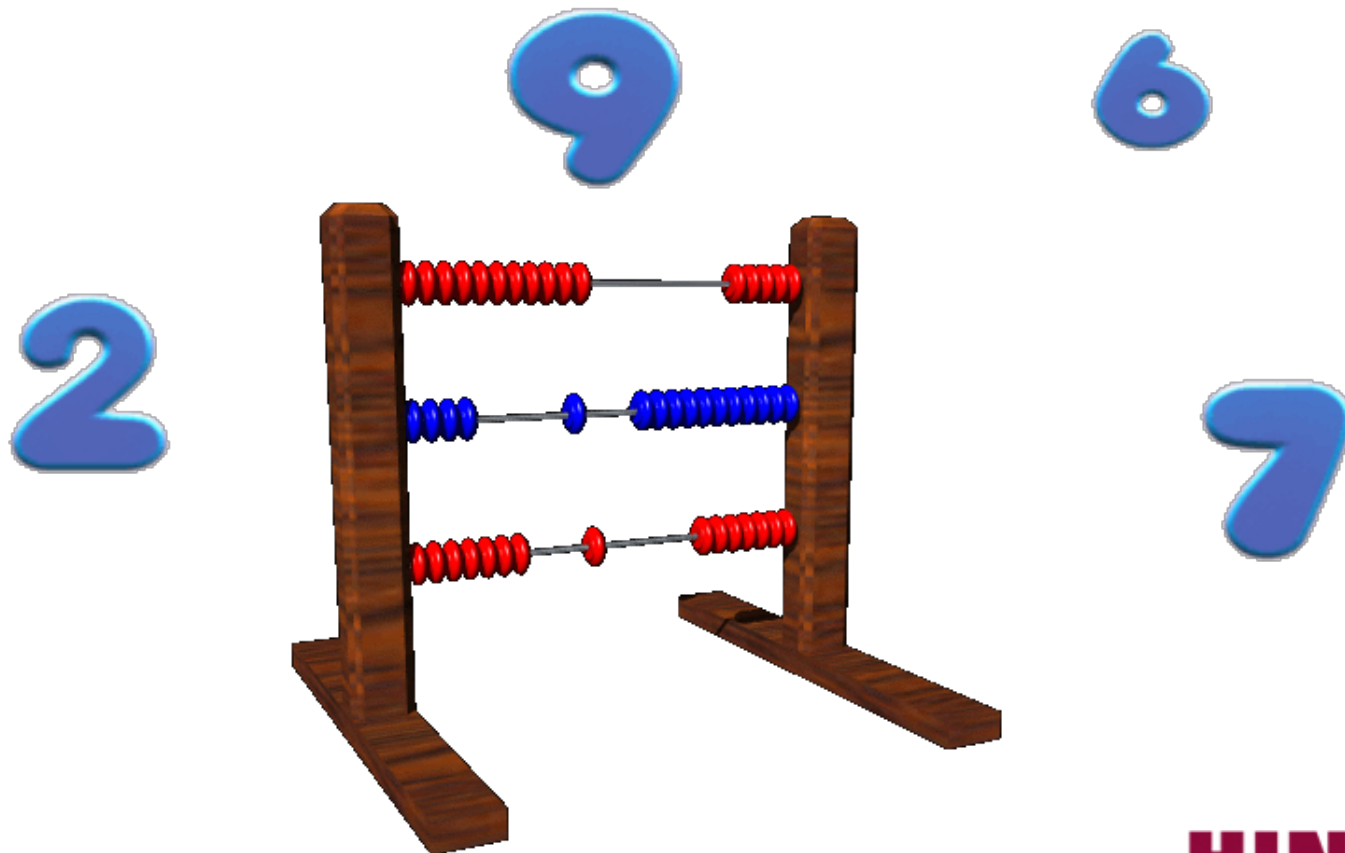


**McAlear v. Saint Paul Insurance Co.,
158 Mont. 452, 493 P.2d 331 (1972)**

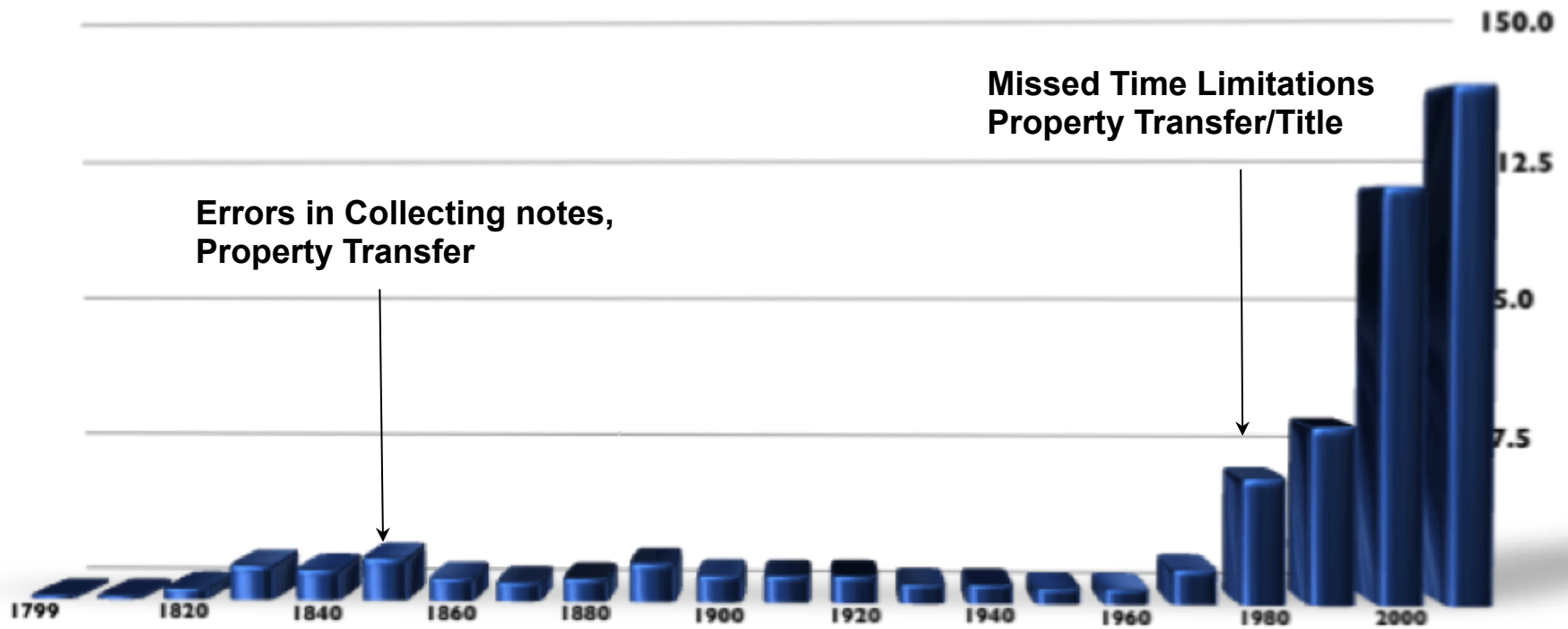
**Martin v. Clements,
98 Idaho 906, 575 P.2d 885 (1978)**

**Burk v. Burzynski,
672 P.2d 419 (Wyo.1983)**

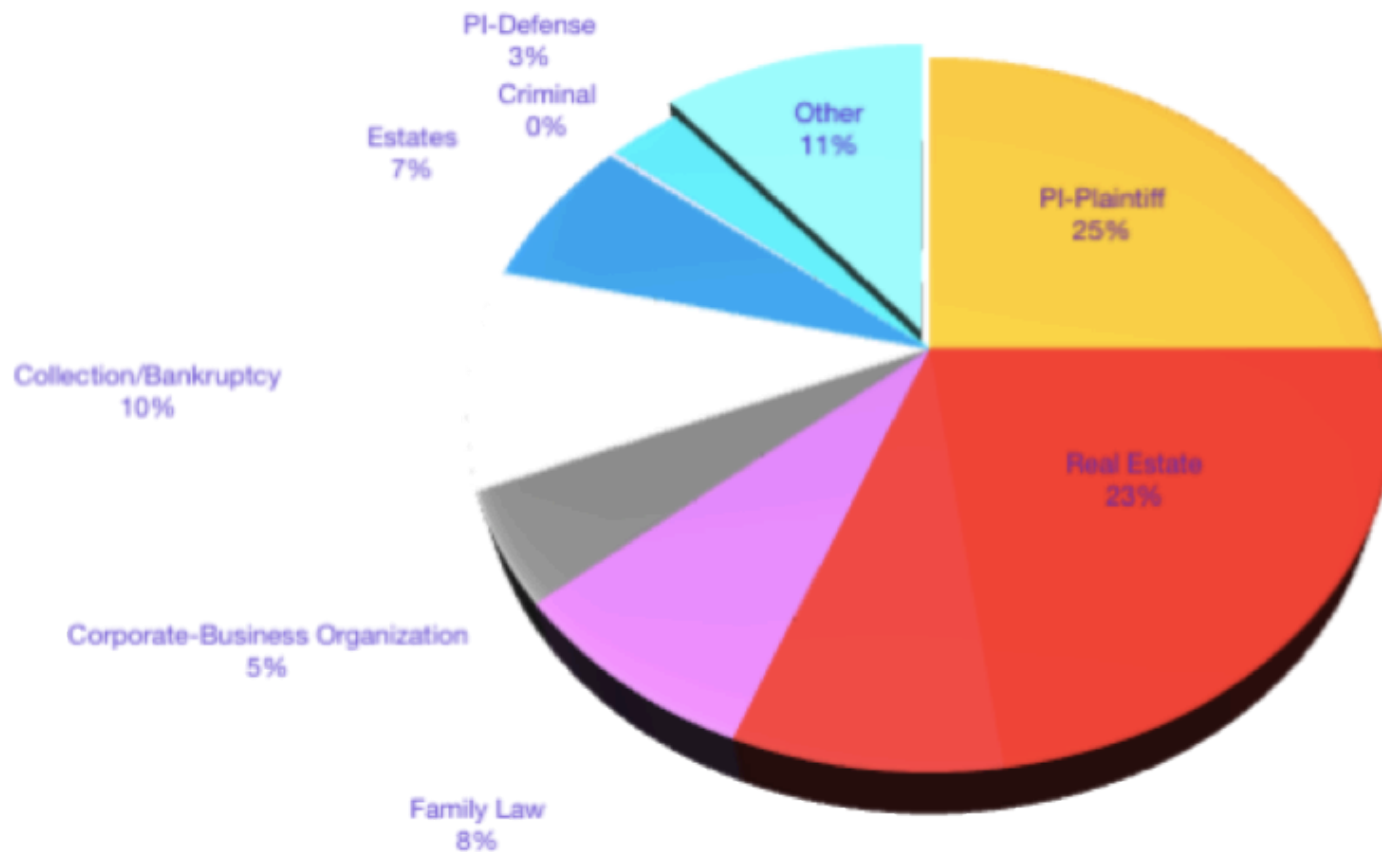
Statistics



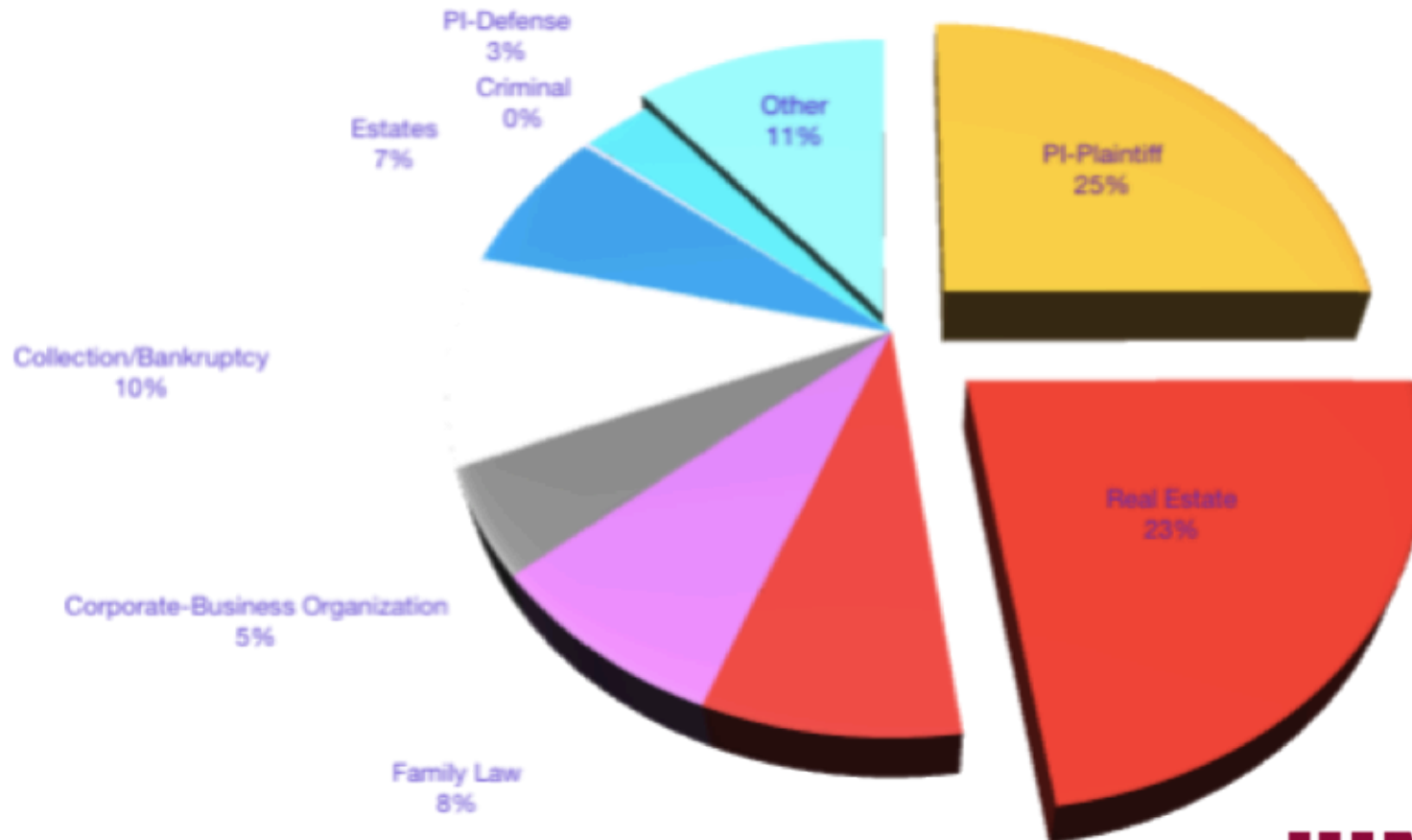
Causes of Loss



Claims by Area of Practice—1985



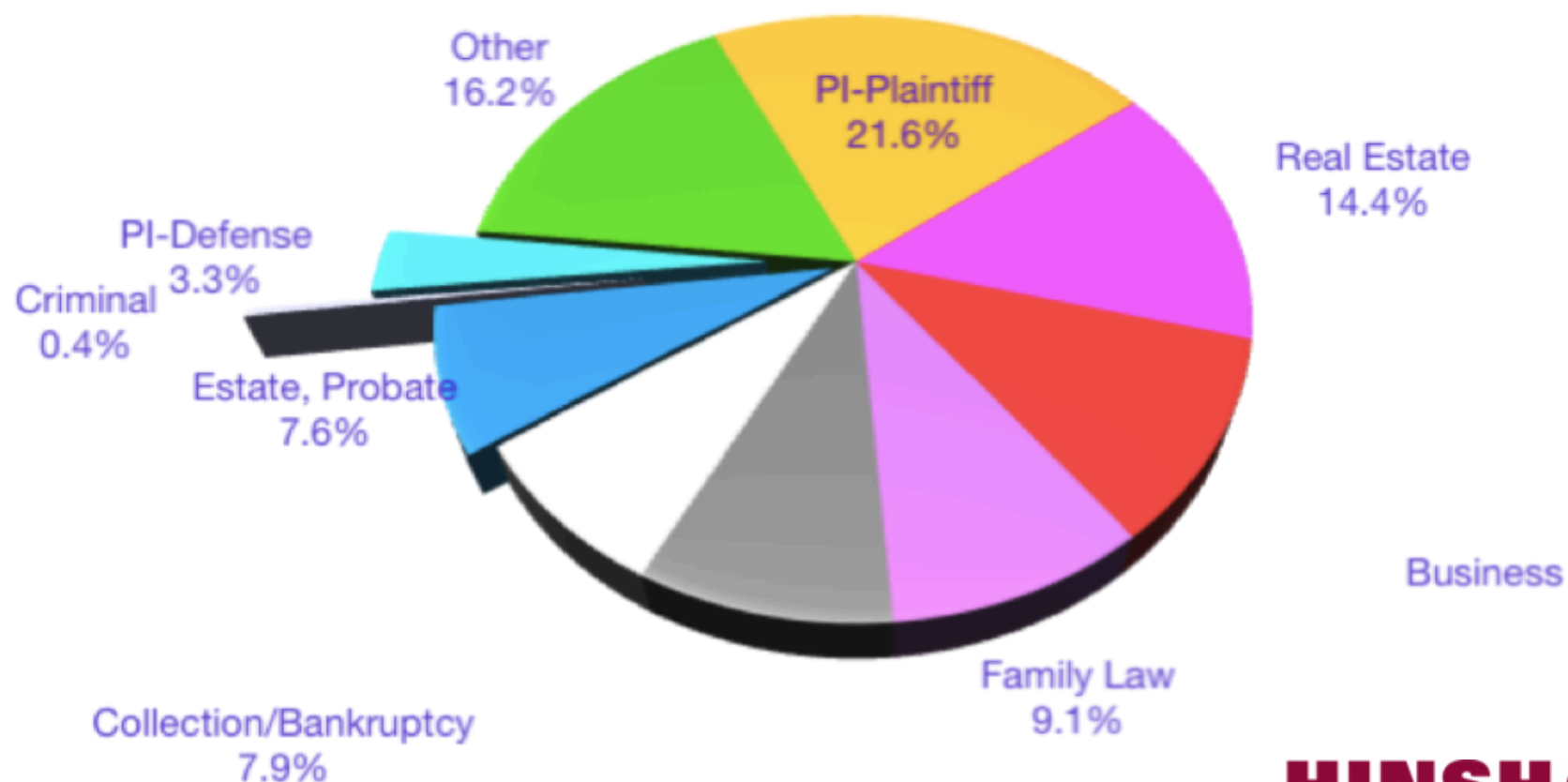
Claims by Area of Practice—1985



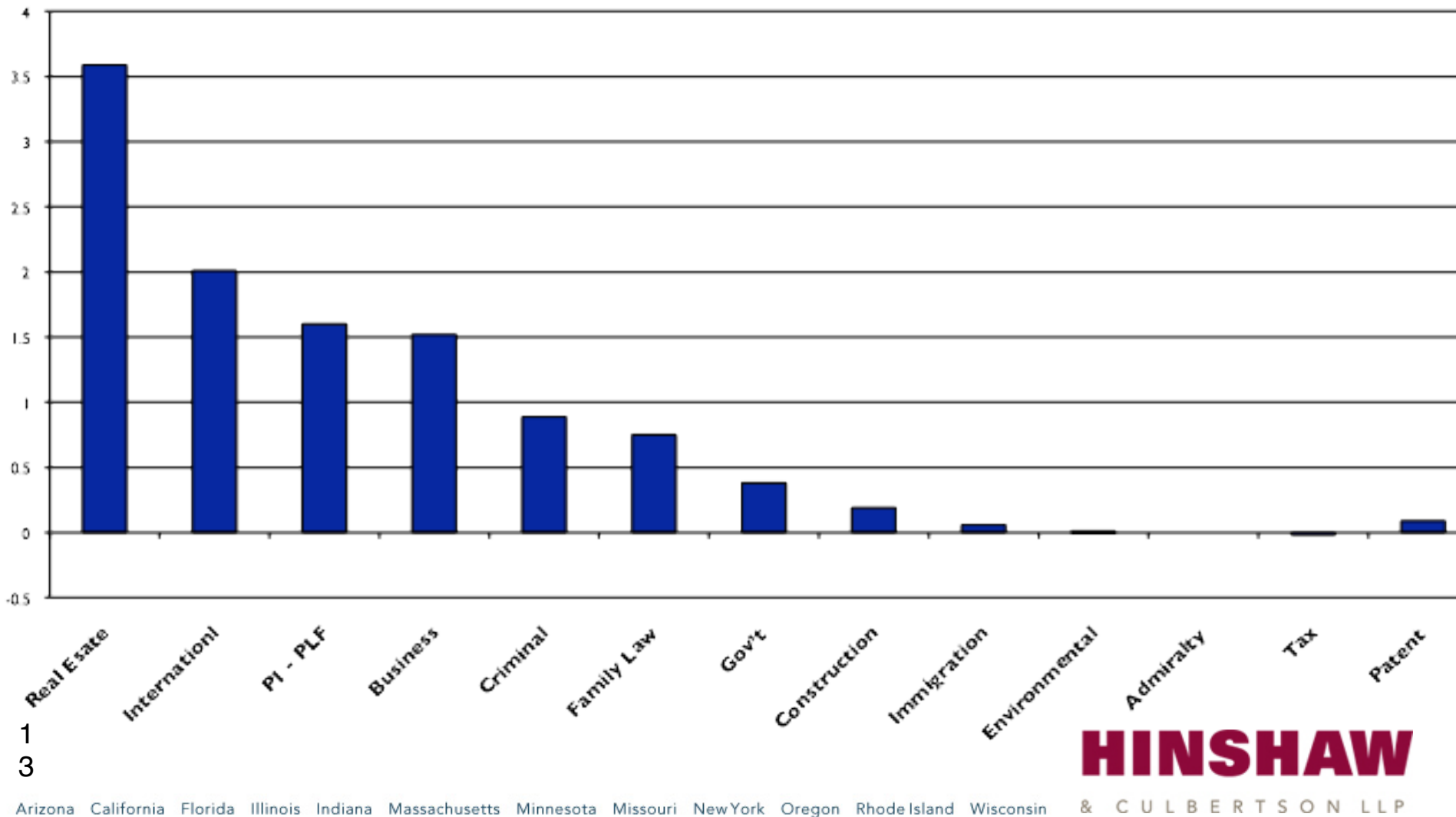
HINSHAW

& CULBERTSON LLP

Claims by Area of Practice—1995



2007--Areas of Law



How Many Claims in a Career?



1
4

HINSHAW

Arizona California Florida Illinois Indiana Massachusetts Minnesota Missouri New York Oregon Rhode Island Wisconsin

& CULBERTSON LLP

Three Claims in a Career



Our Changing Profession



The background of the image is a dark, almost black, space filled with numerous numbers. These numbers are in various colors, including bright yellow, orange, and magenta. They appear to be floating or falling from the top, creating a sense of motion and depth. The numbers are of different sizes and are slightly blurred, giving the impression of a digital or data-driven environment.

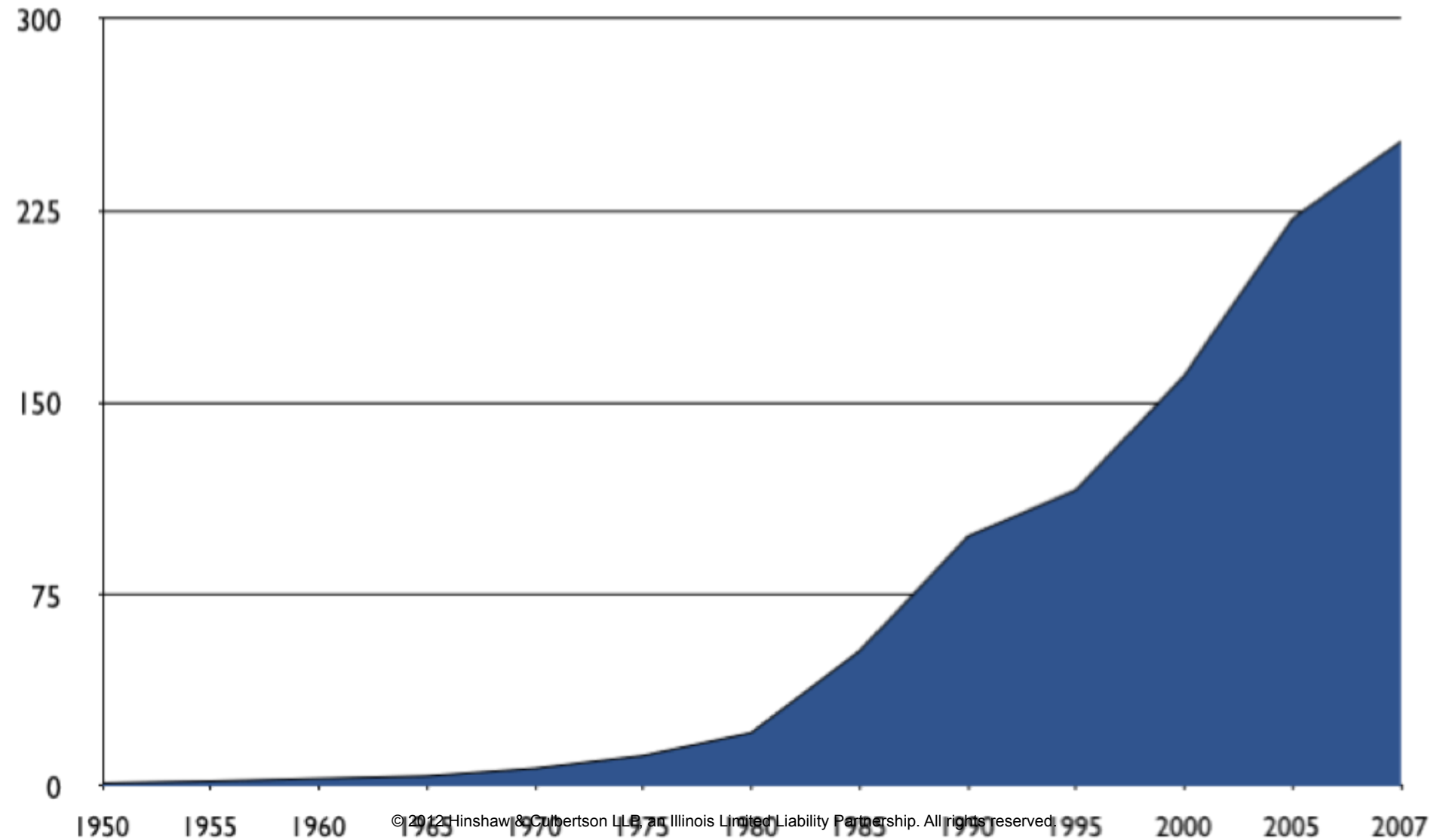
THE CHANGING PROFESSION

The Changing Profession

- * **1980:** The largest firms had 51 + lawyers, which was an insignificant percentage of the profession.
- * **2000:** 14% of the legal profession practiced in firms of 101 or more.
- * **2007:** Am Law 200 firms, which is slightly more than 1 percent of the law firms, employ 100,500 lawyers.
- * **2007:** Era of Mega Firms – The average Am–Law–100 firm is 702 lawyers; 20 law firms have from 1,000 lawyers to over 3,000 lawyers.



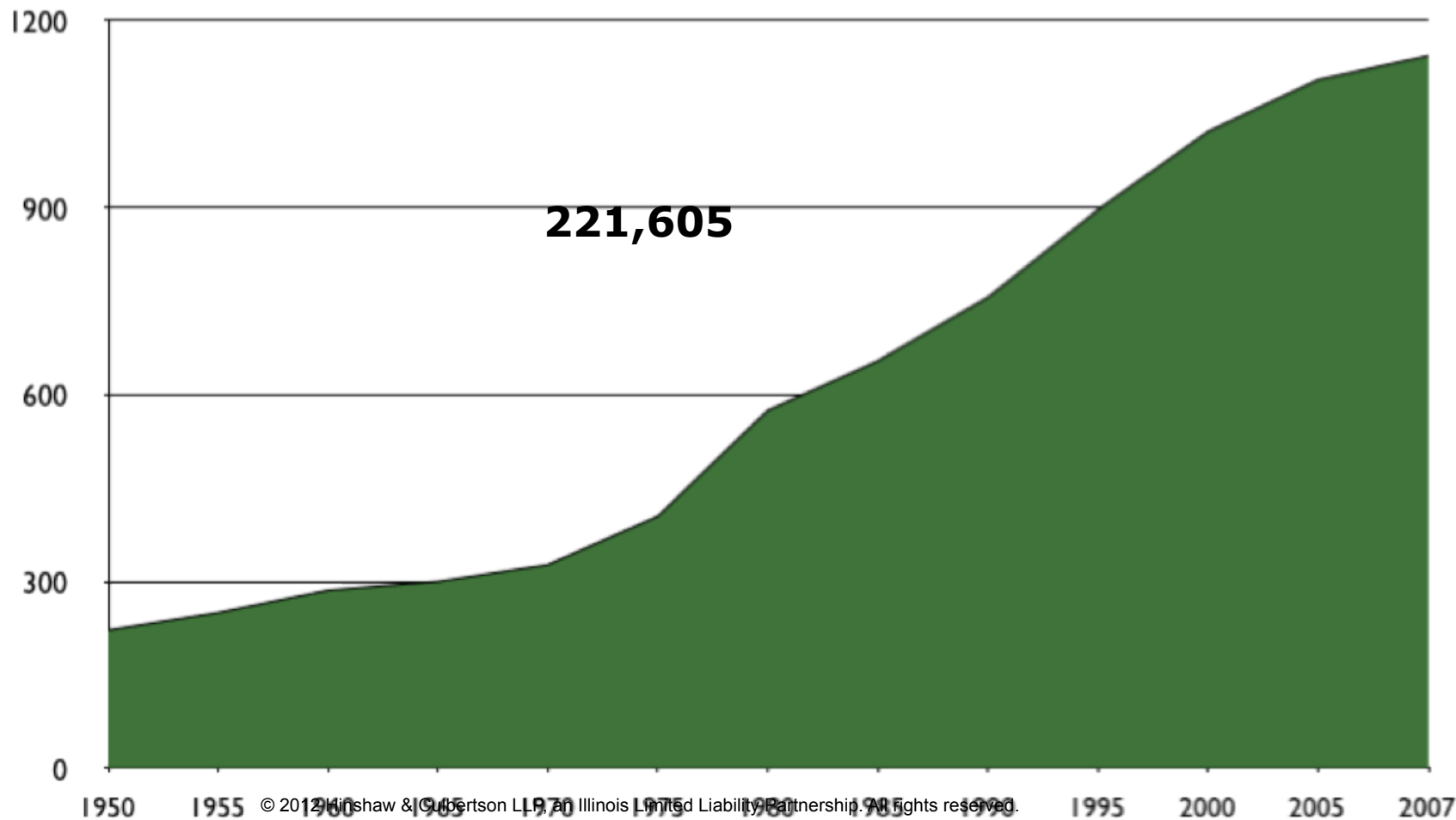
Legal Services Income (\$ billion)



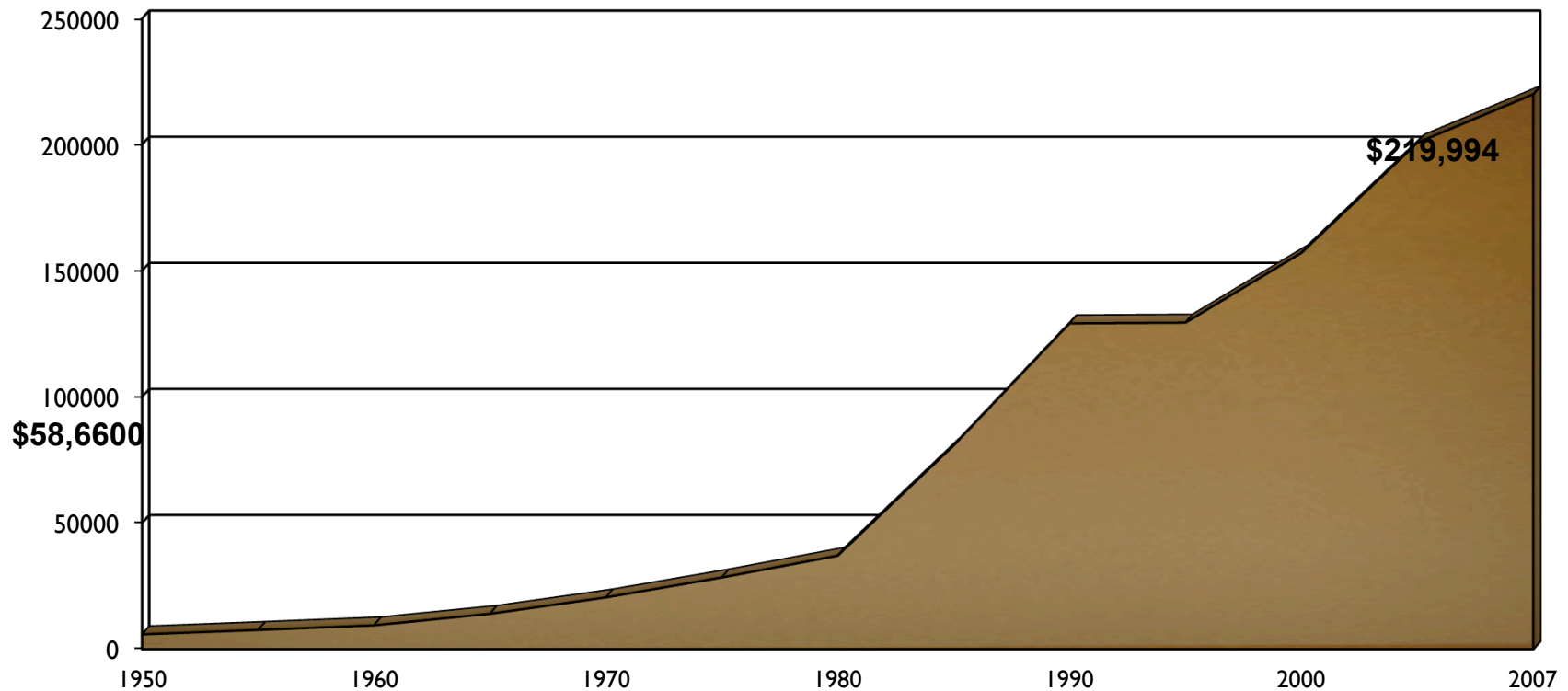
Change in Lawyer Population



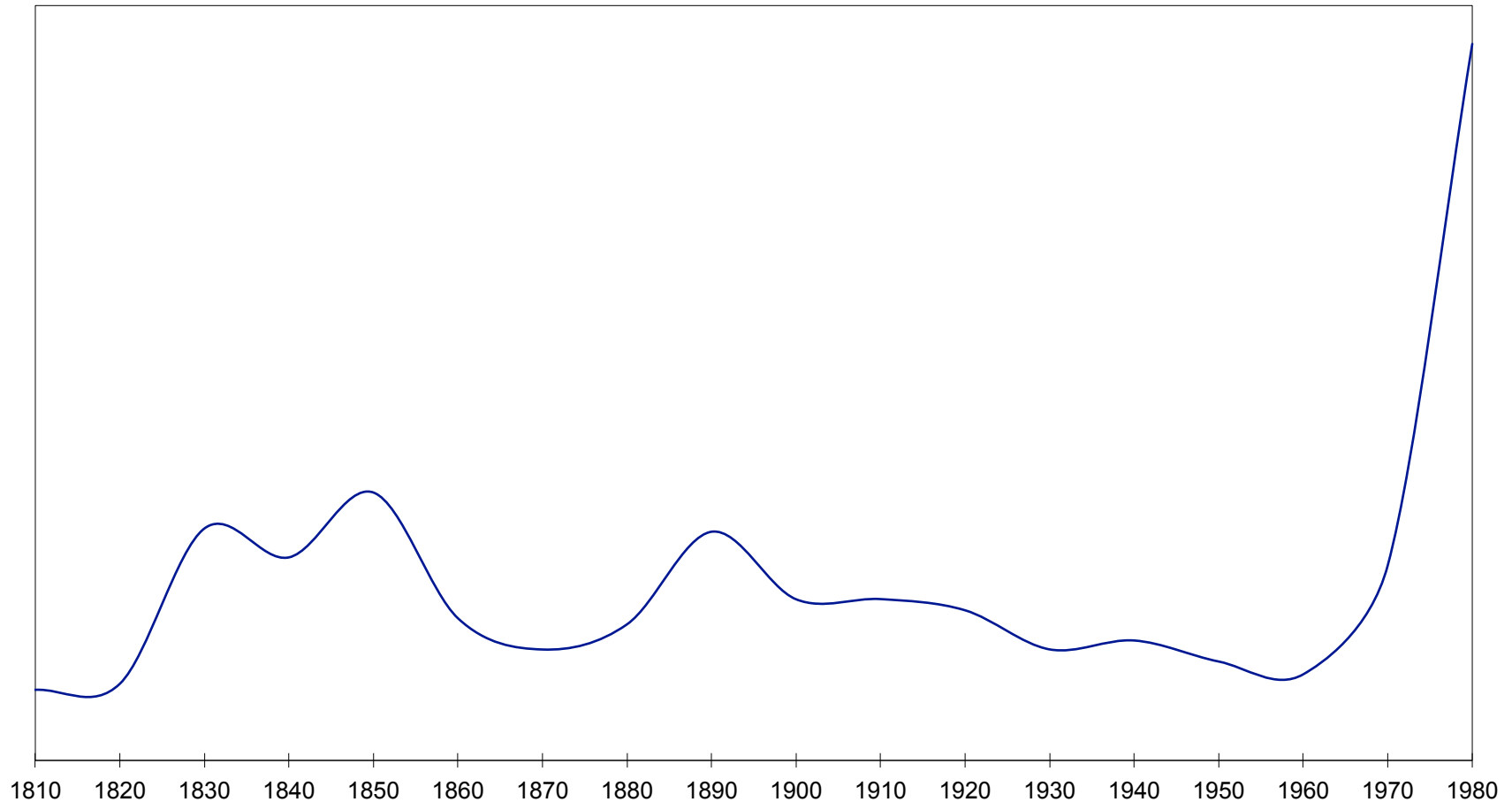
1,143,358



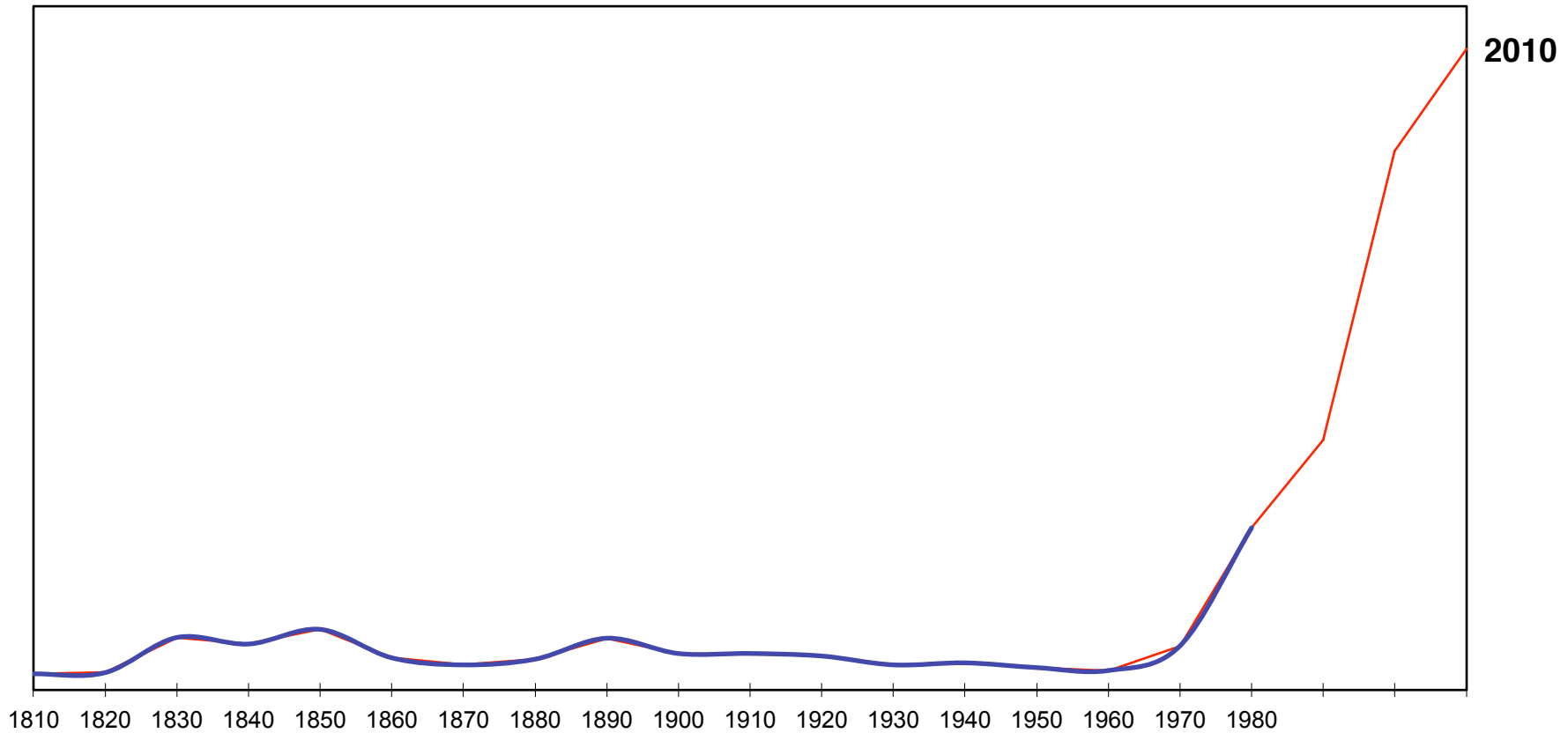
Income Adjusted by Lawyer Population



Legal Malpractice (1977) Decisions by Population

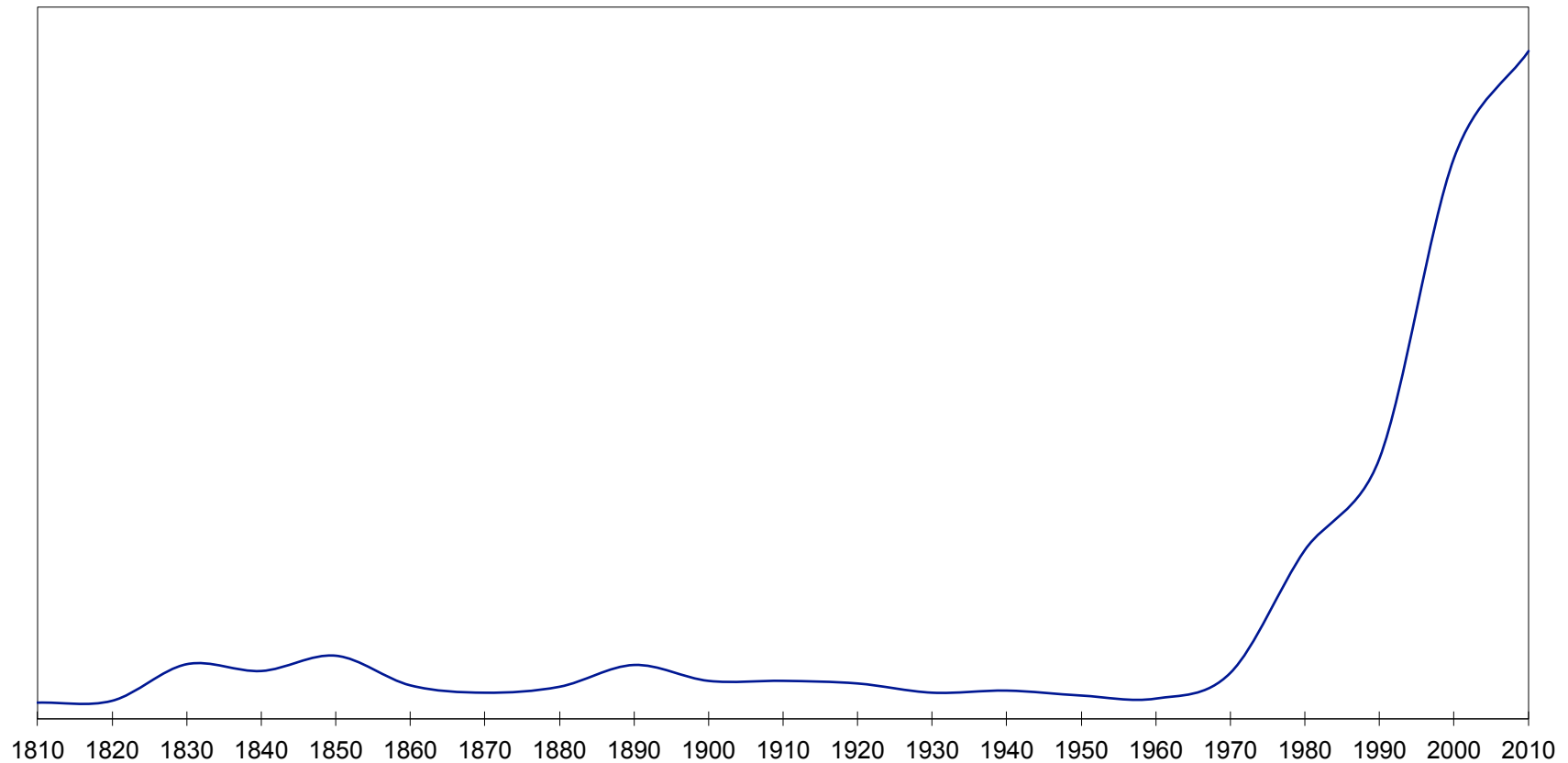


Legal Malpractice Decisions by Population

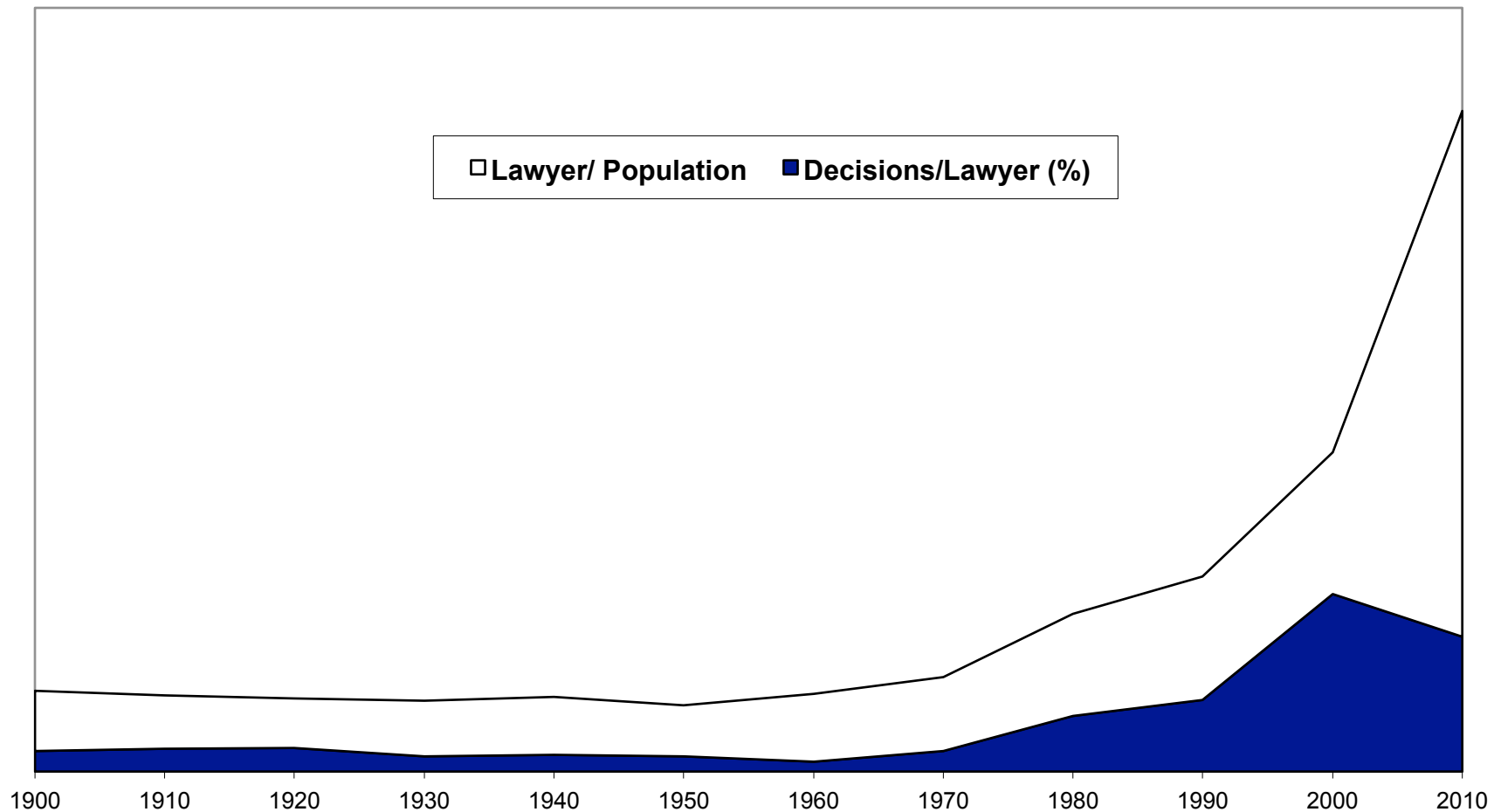


Legal Malpractice (2011)

Decisions by Population



Legal Malpractice Decisions by Lawyer Population



Severity?



Federal Statutory Remedies Applied to Lawyers



FDCPA 15 U.S.C. §1692



Heintz v. Jenkins, 514 U.S. 291, 115 S. Ct. 1489, 131 L. Ed. 2d 395 (1995).

- Lawyers not exempted.

Jerman v Carlisle, McNellie, Rini, Kramer & Ulrich, 130 S.Ct. 1605, 176 L.Ed.2d 519 (2010).

- Mistake of law regarding FDCPA provisions does not amount to *bona fide* error affirmative defense

A strict liability statute for noncompliance

FDCPA 15 U.S.C. §1692



Miller v. Upton, Cohen & Slamowitz, Miller v. Upton, 687 F.Supp.2d 86 (E.D. N.Y. 2009)

- Was law firm "meaningfully involved" in collection suit? Firm could not rely on prior firm's meaningful review. Must have independent review
- Section 1692k provides In an individual action the plaintiff can recover any “actual” damages and “such additional damages as the court may allow, but not exceeding \$1,000.”
- Also court costs and “a reasonable attorney's fee” as determined by the court.

TCPA -- 42 U.S.C. § 227



- Prohibits unsolicited advertisement by fax or computer
 - Private action to enjoin violations
 - \$500 per violation
 - Treble damages willful or knowing
- *Stern v. Bluestone*, 12 N.Y.3d 873, 911 N.E.2d 844 (2009) (unsolicited fax that is substantive in nature is not an “unsolicited advertisement”).
 - In conjunction with the FDCPA - D.G. *ex rel.* Tang v. William W. Siegel & Associates, Attorneys at Law, LLC, 791 F.Supp.2d 622 (N.D.Ill.2011).

Securities Litigation Against Lawyers ... and Beyond, the Good News



Claims Under Section 10(b) of the Securities Exchange Act of 1934



- Section 10(b) implemented by Rule 10b-5
 - Section 10(b) makes it unlawful to “use or employ . . . any manipulative or deceptive device or contrivance.” 15 U.S.C. § 78j(b).
 - Rule 10b-5(b) makes it unlawful to “make any untrue statement of a material fact or to omit to state a material fact necessary in order to make the statements made, . . . , not misleading.” 17 C.F.R. § 240.10b-5(b).
 - Subsections (a) and (c) of Rule 10b-5 make it unlawful to “employ any device, scheme, or artifice to defraud” or to “engage in any act, practice, or course of business which operates or would operate as a fraud or deceit upon any person.” 17 C.F.R. § 240.10b-5(a)-(c).

Central Bank and the PSLRA



- Widely believed that there was an implied right of action under 10b-5 for “aiders and abettors” of securities fraud. See *Central Bank of Denver, N.A. v. First Interstate Bank of Denver, N.A.*, 511 U.S. 164, 192 (1994) (Stevens, J., dissenting).
- Until *Central Bank of Denver, N.A. v. First Interstate Bank of Denver, N.A.*, 511 U.S. 164 (1994): no private right of action for aiding and abetting under 10b-5.
- Congress legislates in 1995 (“PSLRA”):
 - Private Securities Litigation Reform Act – restores the right to the SEC to file enforcement actions for aiding and abetting securities fraud. 15 U.S.C. § 78t(e)

Other Avenues Foreclosed



- Plaintiffs, foreclosed in federal court, sue in state court for violation of state “Blue Sky” laws – i.e. state securities laws
- Congress responds with SLUSA in 1998 – forcing class actions into federal court “by any private party” alleging fraud “in connection with” the purchase or sale of securities. 15 U.S.C. § 78bb(f)(1)
- RICO claims barred by PSLRA’s amendment to RICO statute. 18 U.S.C. § 1964(c)

Post-Central Bank and PSRLA History



- 1997-2001: Period of relative calm; litigation against lawyers in federal courts rare
- 2001-05: Enron and other corporate failures place pressures on Courts to expand federal remedies against lawyers in securities cases
- Parties explore the reaches of Rule 10b-5
 - “Scheme” liability (*Simpson*, 452 F.3d 1040 (9th Cir. 2006))
 - “Mastermind theory” (*In re Global Crossing*, 322 F. Supp. 2d 319 (S.D.N.Y. 2004))



- Several Courts of Appeals wrestled with new inroads into *Central Bank*
- Supreme Court grants certiorari – In re Charter Communications, Inc., Securities Litigation, 443 F.3d 987 (8th Cir. 2006) (“*Stoneridge Investment Partners, LLC v. Scientific-Atlanta, Inc.*,” 128 S. Ct. 761, 169 L. Ed. 2d 627 (U.S. 2008).)
- *Stoneridge* involved “scheme” liability under Rule 10b-5(a) & (c). Claim was against transactional counterparties

Stoneridge Result



- Court holds that scheme claim fails for lack of reliance and reaffirms 5-4 that there is no liability for aiders and abettors
- Courts dismiss scheme claims against outside lawyers based on *Stoneridge*. See *In re Parmalat*, 570 F. Supp. 2d 521 (S.D.N.Y. 2008); *In re DVI*, 249 F.R.D. 196 (E.D. Pa. 2008)
- *Stoneridge* did not decide whether statements by secondary actors, such as attorneys, could be the basis for a private civil action under section 10(b) of the 1934 Act and Rule 10b-5, where there was no attribution of the allegedly misleading statements to the attorney.

Next Round for Lawyers – Attribution: *Refco*



- Refco's failure in SDNY leads to 10b-5 claims against lawyers
- *Pacific Investment Management Company, LLC v. Mayer Brown LLP*, 603 F.3d 144 (2d Cir. 2010). Second Circuit affirms dismissal of securities fraud claim against lawyers – no attribution
- The mere identification of a secondary actor being involved in a transaction was not sufficient

Next Round for Lawyers – Attribution – Fifth Circuit -- *AFFCO*



AFFCO Investments, LLC v. Proskauer Rose, LLP,
625 F.3d 185 (5th Cir.2010)

The court assumed that the law firm had provided the promoter an erroneous opinion that the investment was not an abusive tax shelter and that the law firm's opinion would provide a defense to an IRS challenge. In affirming the district court's dismissal of the securities claim, the court focused on the failure of the plaintiffs to allege that they saw or knew of the law firm's work product before investing. General statements by the promoter that the tax issues have been vetted with "major national law firms" were not sufficient.

Next Round for Lawyers – Attribution – Fifth Circuit



AFFCO Investments, LLC v. Proskauer Rose, LLP,
625 F.3d 185 (5th Cir.2010)

The court said:

Knowing the identity of the speaker is essential to show reliance because a word of assurance is only as good as its giver. Clients engage “name-brand” law firms at premium prices because of the security that comes from the general reputations of such firms for giving sound advice, or for winning trials. Specific attribution to a reputable source also induces reliance because of the ability to hold such a party responsible should things go awry.

Next Round for Lawyers – Attribution – Third Circuit



In re DVI Inc. Securities Litigation, 639 F.3d 623 (3d Cir.2011)

Dismissed a claim by a putative class of investors against Clifford Chance for alleged participation in a scheme to artificially inflate the price of DVI securities. The plaintiffs urged the fraud-on-the-market presumption, contending that a “communication” requirement was different than the more stringent “attribution” requirement, which under *Stoneridge* did not require defendants to be publicly identified. Siding with *Refco*, the court held that *Stoneridge* precluded the presumption based on indirect reliance, and required that the law firm’s conduct as a secondary actor was actually disclosed to the investing public. Thus, the claim against a class action against the law firm could not be certified because individual issues of reliance predominated.

Attribution Rule– *Janus Capital*



- *Janus Capital Group Inc. v. First Derivative Traders*, 131 S. Ct. 2296, 180 L. Ed. 2d 166 (2011):

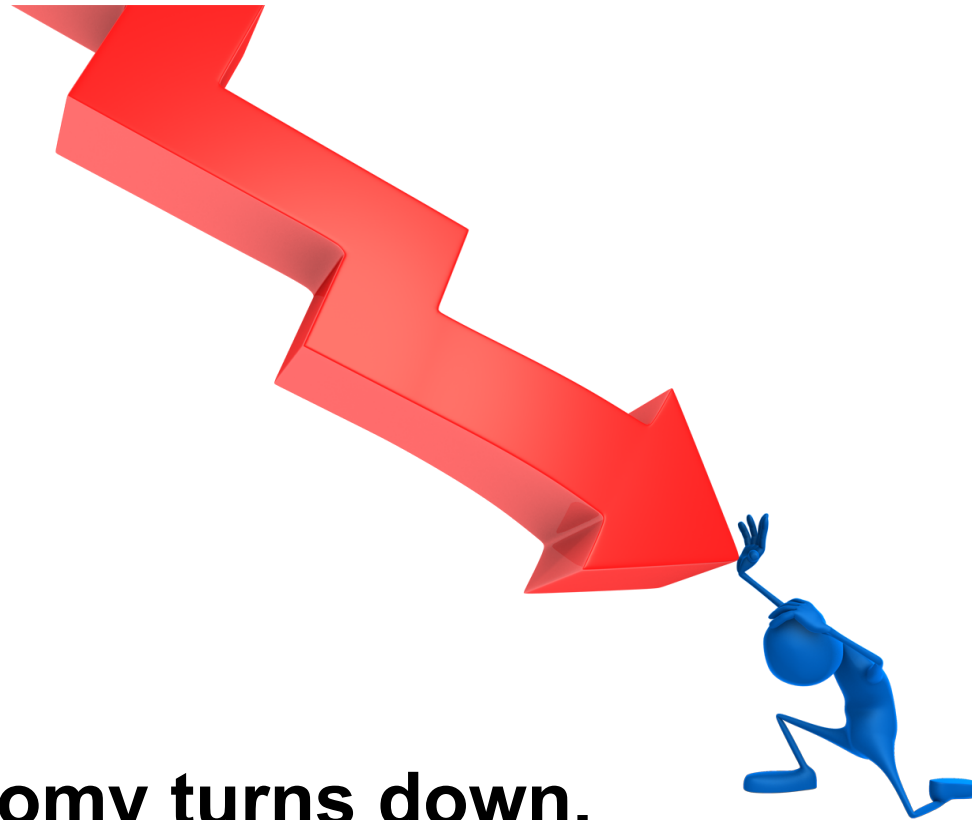
For purposes of Rule 10b-5, the maker of a statement is the person or entity with ultimate authority over the statement, including its content and whether and how to communicate it. Without control, a person or entity can merely suggest what to say, not “make” a statement in its own right. One who prepares or publishes a statement on behalf of another is not its maker. And in the ordinary case, attribution within a statement or implicit from surrounding circumstances is strong evidence that a statement was made by--and only by--the party to whom it is attributed. This rule might best be exemplified by the relationship between a speechwriter and a speaker. Even when a speechwriter drafts a speech, the content is entirely within the control of the person who delivers it. And it is the speaker who takes credit--or blame--for what is ultimately said.

Practical Aspects of Securities Litigation Against Lawyers



- Lawyers and law firms seen as “hard targets” in securities cases
- If the corporate issuer of the security is viable, most plaintiffs will not sue lawyers and accountants
- Where the issuer/client fails, the exposure comes from both the issuer/client (through bankruptcy trustee, litigation trust, or creditors’ committee) for malpractice.

The Impact of Economic Downturns – into



**“As the economy turns down,
litigation frequency goes up”**

Into Bankruptcy Court



A close-up photograph of a rectangular bronze plaque mounted on a light-colored, textured stone wall. The plaque has a thin, raised border and features the words "UNITED STATES" on the top line and "BANKRUPTCY COURT" on the bottom line, both in a serif font. The letters are raised from the surface of the plaque. In the upper left corner, a portion of a metal door handle or lock mechanism is visible.

UNITED STATES
BANKRUPTCY COURT

Claims Arising out of Closed Banks





Bankruptcy Trustee Suits Cause Increasing Concern

Anthony Lin

Law Firms as Targets

While securities class actions are brought on behalf of shareholders, bankruptcy trustee suits are brought for the benefit of creditors, the biggest of which are usually banks and investment funds. These creditors have grown more aggressive about recouping losses, lawyers say, with trustees acting accordingly.

THE NEWS

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Failed Corporate Deals Fuel Malpractice Suits Against Firms

Mar 31, 2008, 04:04 pm CDT

By [Molly McDonough](#)

Failed corporate deals are fueling malpractice and other deal-related claims that large law firms are finding increasingly difficult to fend off.

The [National Law Journal reports that](#) during the past few years, law firms including Mayer Brown, Clifford Chance and Akin Gump Strauss Hauer & Feld have faced some of the "most aggressive and expensive malpractice and fraud lawsuits," some seeking more than \$100 million in damages.

An increasing number of the corporate deal-related suits are being filed by trustees overseeing a client's bankruptcy, the NLJ reports. Joining in are large investors, which are also targeting law firms.

"In many instances, law firms have been successful because these are claims being brought by third parties to whom the law firm doesn't owe any duty," says Gibson Dunn & Crutcher partner Kevin Rosen, who chairs his firm's legal malpractice defense practice group.

Buyout Firm Sues Mayer Brown

Posted by Peter Lattman



Well if Mayer Brown were a stock, recent headlines would probably have caused it to drop along with the rest of the market. There was a New York Law Journal [story](#) earlier this week about a lawsuit filed against the firm by a bankruptcy trustee for a defunct health care company. The firm has denounced the suit as a “perversion of the civil and bankruptcy systems.”

This morning, the WSJ has a story [that](#) buyout shop Thomas H. Lee Partners sued Mayer Brown over the firm’s alleged role in a cover up at firm Refco. Lee owned a big stake in the brokerage and was wiped out when allegations of financial shenanigans forced the company into bankruptcy. Lee claims that Mayer Brown knew about bogus financial transactions and didn’t inform Lee when the buyout firm was conducting due diligence on whether to buy in. A Mayer Brown spokeswoman said the firm “will defend ourselves vigorously.”

[The lawsuit](#) comes on the heels of a bankruptcy examiner’s report published this month ([click here](#)) alleging that Mayer Brown [handled](#) 17 loan transactions that helped Refco shift bad loans off its books. The examiner’s report — authored by Joshua Hochberg at McKenna Long — [said there was “significant evidence” that Mayer](#) Brown drafted and negotiated the loan transactions though it knew or should have known they were fraudulent.



UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

	§ Chapter 11
In re:	§
	§ Case No. 05-60006 (RDD)
REFCO INC., <i>et al.</i> ,	§
	§ Jointly Administered
Debtors.	§

Final Report of Examiner

JOSHUA R. HOCHBERG (JRH 9440)
MCKENNA LONG & ALDRIDGE LLP
1900 K Street, NW
Washington, DC 20006-1108
Telephone: (202) 496-7500
Facsimile: (202) 496-7756

Court Appointed Examiner

CHARLES E. CAMPBELL (CEC 6100)
ROBERT A. BARTLETT (RAB 0550)
MCKENNA LONG & ALDRIDGE LLP
Suite 5300, 303 Peachtree Street, NE
Atlanta, GA 30308
Telephone: (404) 527-4000
Facsimile: (404) 527-4198

Counsel to the Examiner



UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

In re REFCO, INC. SECURITIES
LITIGATION

This Document Relates to:
RH CAPITAL ASSOCIATES LLC, PACIFIC
INVESTMENT MANAGEMENT
COMPANY LLC. and PIMCO FUNDS:
PACIFIC INVESTMENT MANAGEMENT
SERIES – PIMCO HIGH YIELD FUND, on
behalf of themselves and all other similarly
situated,

Plaintiffs,

v.

MAYER BROWN LLP and JOSEPH P.
COLLINS,

Defendants.

**CONFIDENTIAL-PORIONS OF THIS
COMPLAINT HAVE BEEN REDACTED**

Master File: No. 05 Civ. 8626 (GEL)

JURY TRIAL DEMANDED

CLASS ACTION COMPLAINT
AGAINST MAYER BROWN LLP AND
JOSEPH P. COLLINS

Bankruptcy Trustee Sues McDermott, Will & Emery for Malpractice



Apr 16 2008, 11:16 PM

- A bankruptcy trustee for Saint Vincent's Catholic Medical Centers of New York has sued McDermott, Will & Emery for \$1.2 billion in damages for legal malpractice, fraud and breach of fiduciary duty, charging that partners at the Chicago-based law firm "put their personal relationships and selfish economic concerns above the interests of the charitable institution they were entrusted to protect."
- The 75-page complaint, filed Monday in Manhattan Supreme Court by trustee Richard Gray, alleges McDermott Will put off a much-needed Chapter 11 filing to facilitate self-dealing by two other members of the hospital group's restructuring team.

Sued Where?



- *Parmalat Capital Finance Ltd. v. Bank of America Corp.*, 671 F.3d 261 (2d Cir.2012): **A district court must abstain from hearing state law claims that are related to a bankruptcy case when those proceedings can be “timely adjudicated” in state court. 28 U.S.C. § 1334(c)(2).**
- *Stern v. Marshall*, 131 S.Ct. 2594, 180 L.Ed.2d 475 (2011): **bankruptcy courts do not have constitutional authority to issue final judgments in core proceedings, based on state-law claims, because only Article III judges have the power to hear cases “at the common law, or in equity, or in admiralty.”**

Sued for What? —The “Big” Claims



- **Aiding and Abetting a Fiduciary Breach**—a state law claim.
- **Deepening Insolvency** – a state law claim -causes injury through “operational limitations, strained corporate relationships, diminution of corporate assets, and the legal and administrative costs of bankruptcy.” *Kirschner v. K & L Gates LLP*, 2012 PA Super 102, --- A.3d ----, 2012 WL 1662075 (Pa.Super.2012).

“Big Case” Defenses—*in Pari Delicto* (Unclean Hands) and The *Wagoner* Doctrine



***Pinter v. Dahl*, 486 U.S. 622, 632, 108 S. Ct. 2063, 20771 (1988):**



The equitable defense of *in pari delicto*, which literally means “in equal fault,” is rooted in the common-law notion that a plaintiff's recovery may be barred by his own wrongful conduct. Traditionally, the defense was limited to situations where the plaintiff bore “at least substantially equal responsibility for his injury,” and where the parties' culpability arose out of the same illegal act.

In Pari Delicto—A State Common Law Defense--Entities



Trustee, who steps into the shoes of the wrongdoer, is foreclosed from suing its lawyers

- *Mosier v. Callister, Nebeker & McCullough*, 546 F.3d 1271 (10th Cir. 2008)
- *Magnesium Company of North America*, 2009 W.L. 116519 (Bankr. S.D.N.Y. January 16, 2009)
- *Gray v. Evercore Restructuring LLC*, 544 F.3d 320 (1st Cir. 2008)



In Pari Delicto

The Adverse Interest Exception

***In Pari Delicto*—The Adverse Interest Exception— In the Context of Entities:**



The misconduct usually is by the entity's officers or directors. If the wrongdoer was an officer or director, the exception precludes imputation of management misconduct if that person acted for his own interests and adversely to the interest of the corporation.

***Kirschner v. KPMG LLP*, 15 N.Y.3d 446, 477, 938 N.E.2d 941, 959 (2010)**



In short, outside professionals—underwriters, law firms and especially accounting firms—already are at risk for large settlements and judgments in the litigation that inevitably follows the collapse of an Enron, or a Worldcom or a Refco or an AIG-type scandal. Indeed, in the *Refco* securities fraud litigation, the IPO's underwriters, including the three underwriter defendants in this action, have agreed to settlements totaling \$53 million. * * * In the AIG securities fraud litigation, PwC settled with shareholder plaintiffs last year for \$97.5 million. * * * It is not evident that expanding the adverse interest exception or loosening imputation principles under New York law would result in any greater disincentive for professional malfeasance or negligence than already exists* * * Yet the approach advocated by the Litigation Trustee and the derivative plaintiffs would allow the creditors and shareholders of the company that employs miscreant agents to enjoy the benefit of their misconduct without suffering the harm.

Kirschner v. KPMG LLP, **15 N.Y.3d 446, 938 N.E.2d 941 (2010)**



A fraud that provides any benefit to the corporation is not “adverse” to the corporation's interests, even if motivated by the agent's acting for personal gain. Because the exception requires adversity, it cannot apply unless the insider needed to be benefitted at the corporation's expense. “The crucial distinction is between conduct that defrauds the corporation and conduct that defrauds others for the corporation's benefit. * * * The principles of *in pari delicto* and imputation, with its narrow adverse interest exception, which are embedded in New York law, remain sound.



The “Sole Actor” Exception to the Adverse Interest Exception



The “sole actor” exception applies if the wrongdoer is the sole shareholder.

It does not apply if there were innocent officers and directors who had authority to stop the wrongdoing



The *Wagoner* Doctrine

Shearson Lehman Hutton, Inc. v. Wagoner,
944 F.2d 114 (2d Cir. 1991)

Not an Affirmative Defense but Standing



- Trustee stand in the shoes of the debtor.
- Generally, a Trustee has no standing to sue third parties on behalf of estate's creditors.
- “[W]hen a bankrupt corporation has joined with a third party in defrauding its creditors, the trustee cannot recover against the third party for the damage to the creditors.”

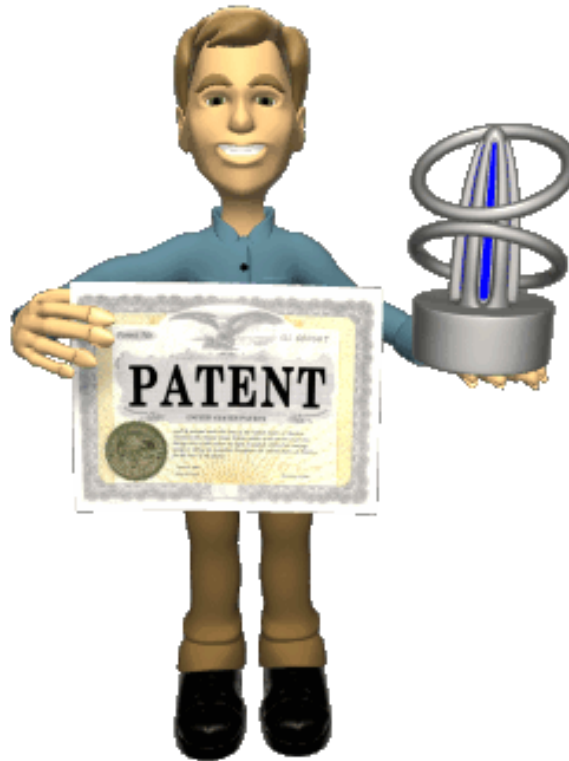
Not All Courts Agree with *Wagoner*



In re Senior Cottages of America, LLC, 482 F.3d 997, 1003 (8th Cir.2007) (collecting contrary authority):

“We agree with the First, Third, Fifth, and Eleventh Circuits that the collusion of corporate insiders with third parties to injure the corporation does not deprive the corporation of standing to sue the third parties, though it may well give rise to a defense that will be fatal to the action. Standing is one aspect of the constitutional requirement that courts may only decide cases or controversies.”

2010 Patent Law Update



The Case-Within-a-Case, or





Alice in Legal Malpractice Land



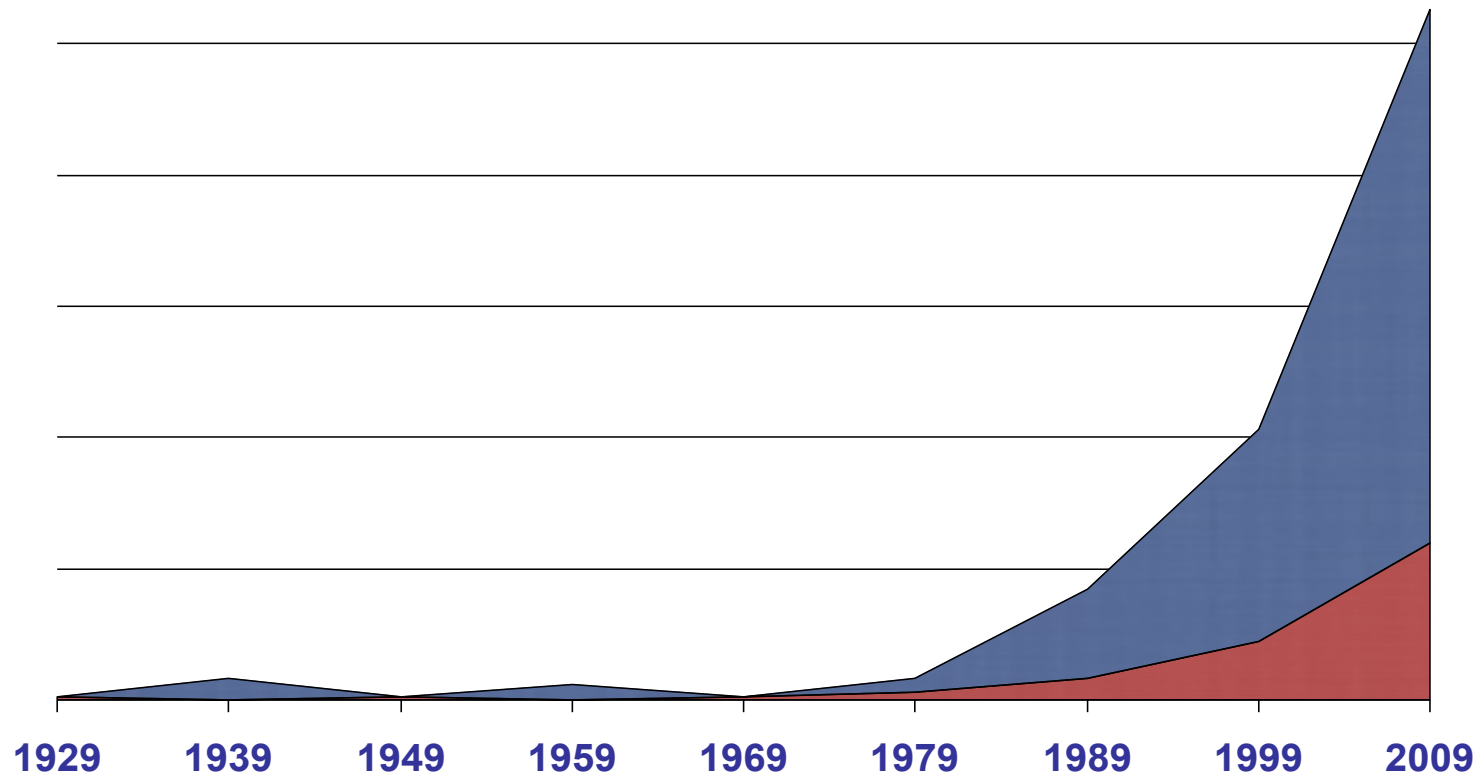
“Legal malpractice litigation is a land of second chances. Would-be lawsuits, which were never filed or litigated, are resurrected and tried. Significant legal issues are decided solely as abstract propositions for parties more concerned with the result than with the reasons. Lawsuits that were tried and lost may be retried. Appeals destined for the highest courts, which never left the trial court, are decided as hypothetical questions for trial judges.”

(me, § 37:1, Legal Malpractice (Thomson/West. 2012 Ed.)

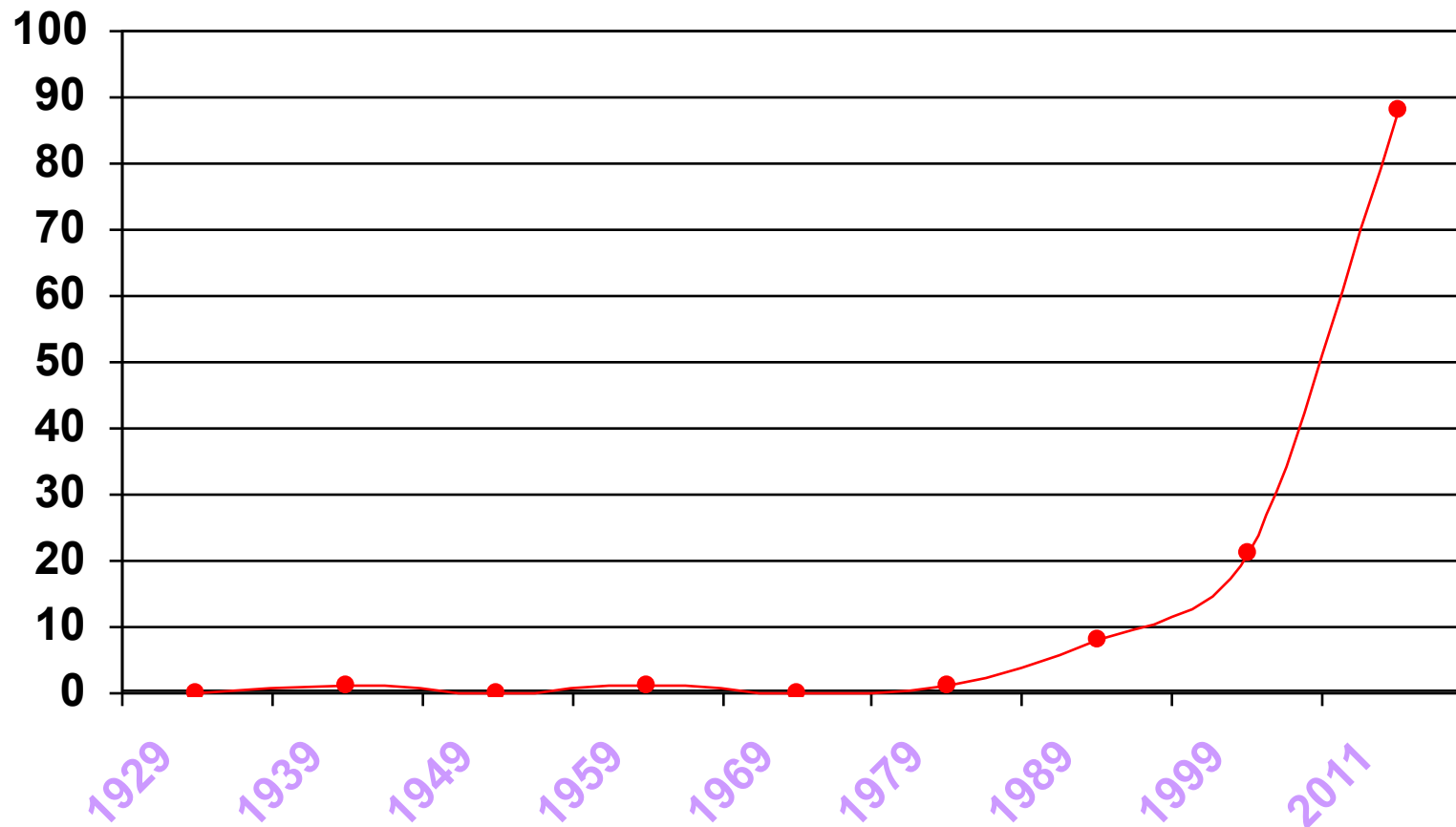
Intellectual Property Law



■ Legal Malpractice Decisions (published and unpublished) ■ Adjusted by Population

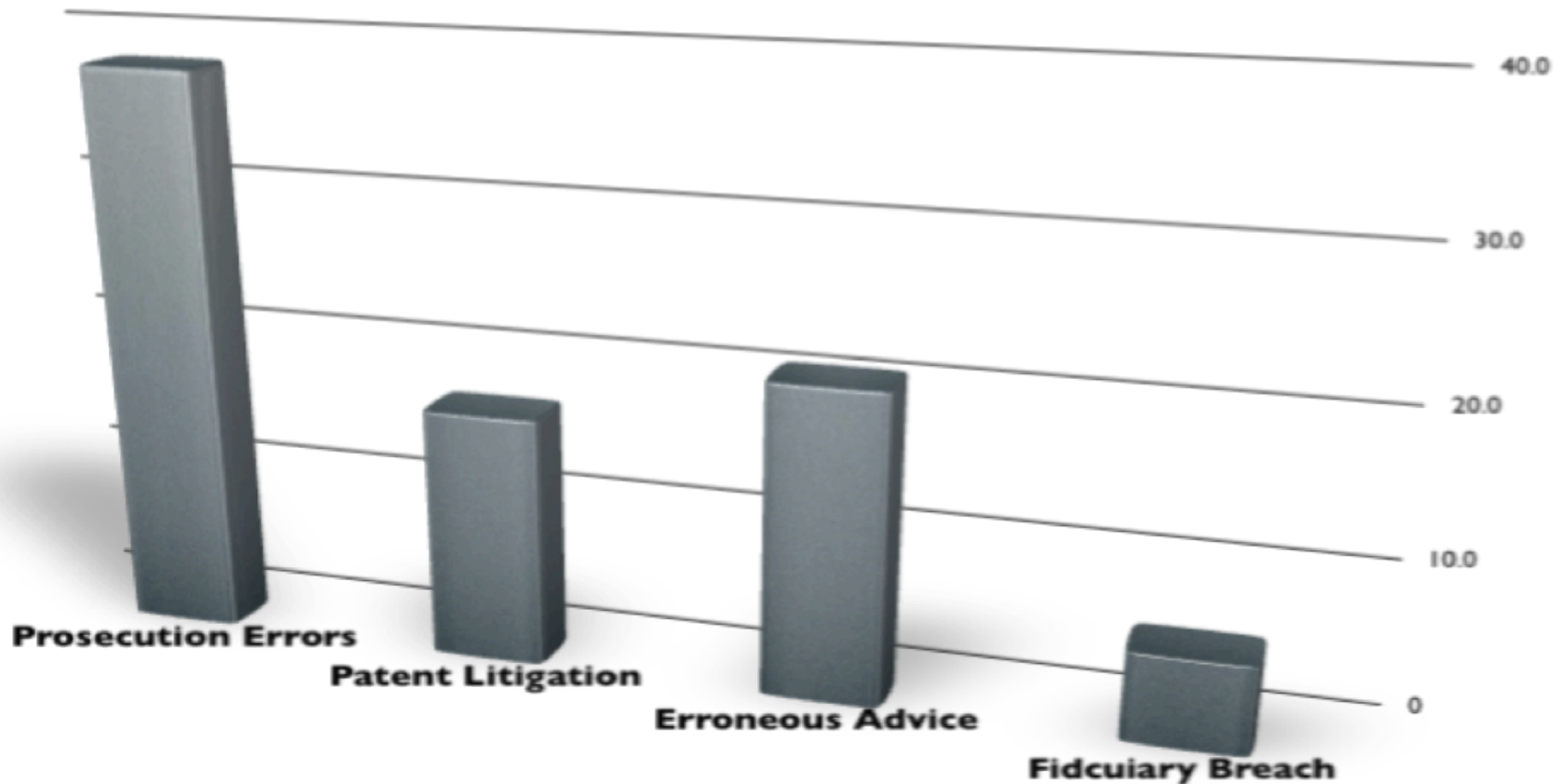


Intellectual Property--Decisions Adjusted by Population

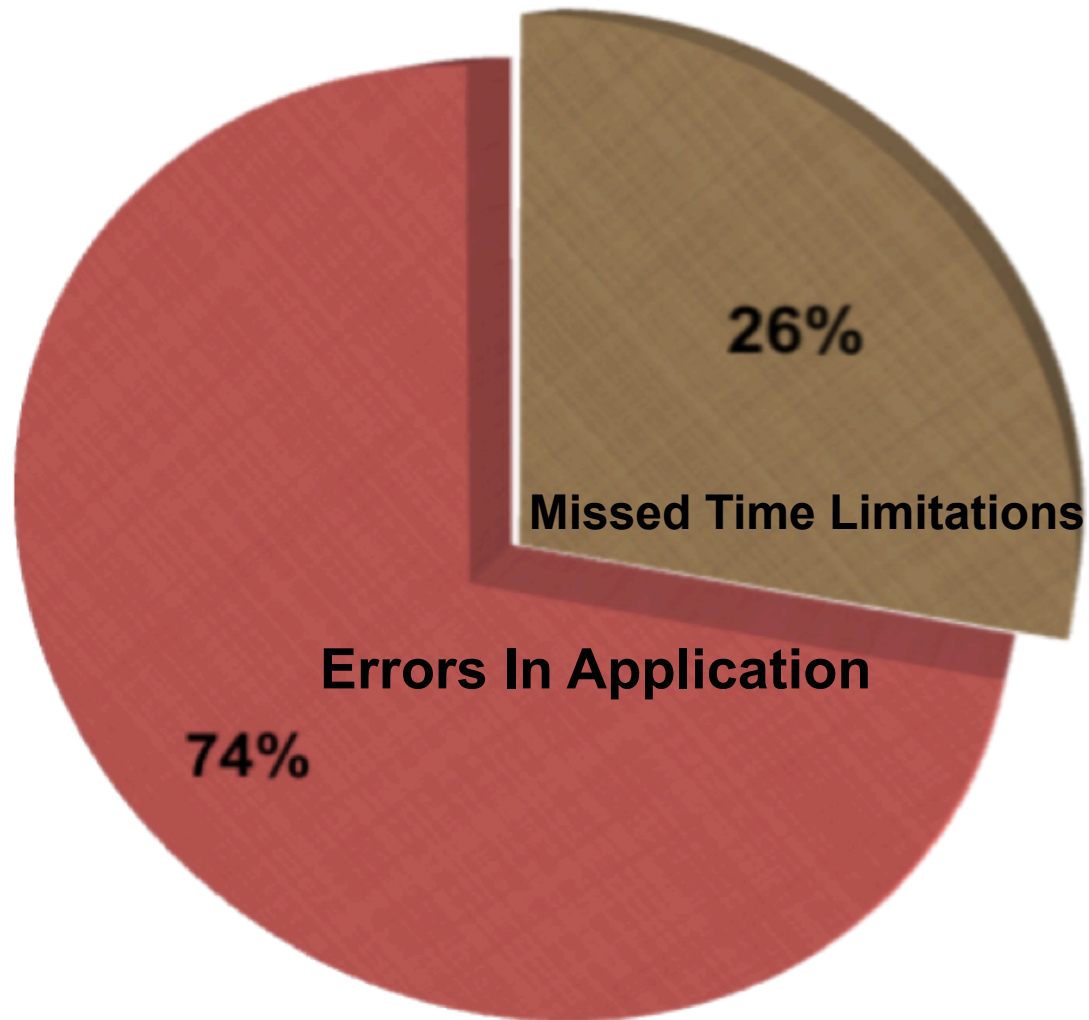


Intellectual Property Law

Nature of Alleged Errors



Prosecution Errors



Errors



■ Improper evaluation

- *Brown v. McGuire, Woods, Battle & Boothe Intern. III, LLP*, 2003 WL 22521431 (Va. Cir. Ct. 2003)
- *Voight v. Kraft*, 342 F.Supp. 821 (D. Idaho 1972)

■ Too Narrow drafting

- *Immunocept, L.L.C., et al. v. Fulbright & Jaworski, L.L.P.*, supra
- *Warren v. Eckert Seamans Cherin & Mellot*, 45 Pa. D&C. 4th 75 (Ct. Com. Pl. 2000)

Errors



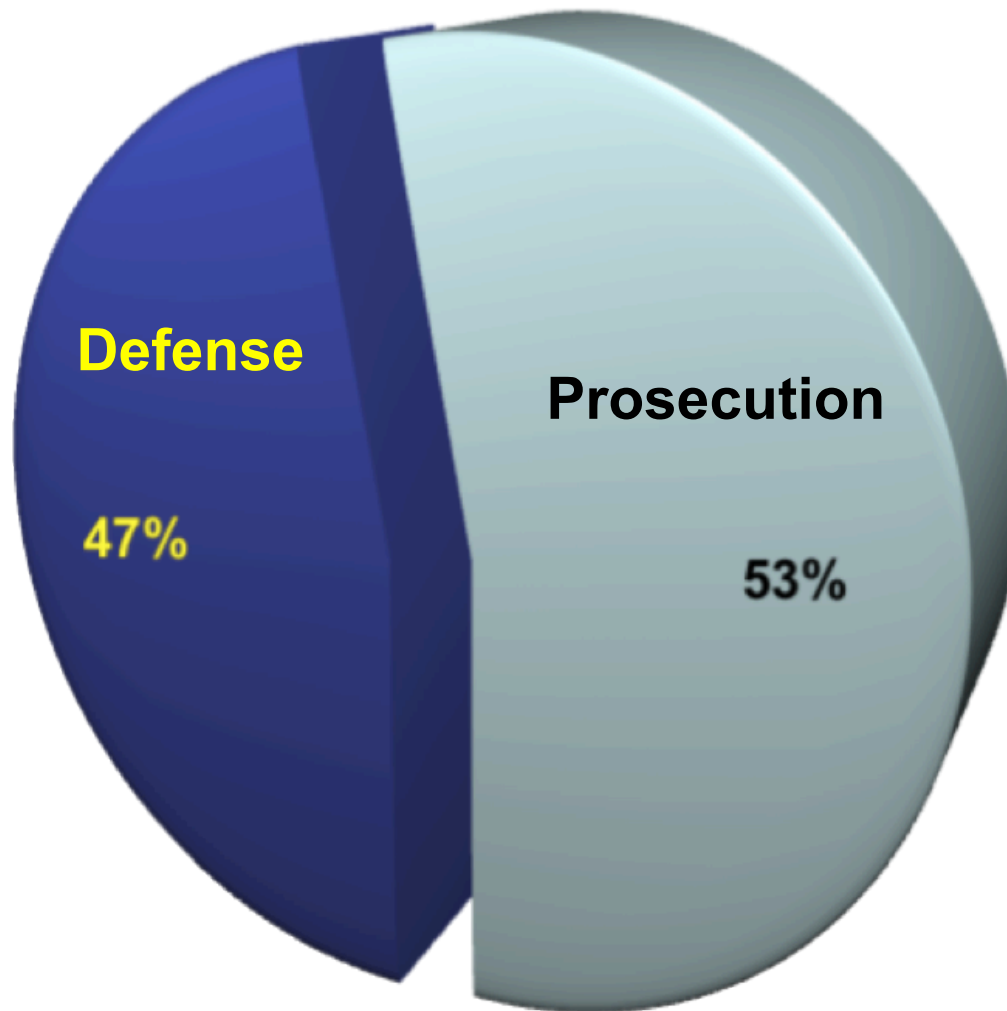
■ Procedural errors

- *IMT Inc. v. Haynes & Boone, LLP*, 1999 WL 58838 (N.D. Tex. 1999)
- *Boehm v. Wheeler*, 223 N.W.2d 536 (Wis. 1974)

■ Foreign protection

- *Waterloov Gutter Prot. Sys. Co. v. Absolute Gutter Prot., L.L.C.*, 64 F. Supp. 2d. 398 (D.N.J. 1999)
- *IGEN, Inc., v. White*, 672 N.Y.S.2d 867 (N.Y. App. Div. 1985)

Litigation Errors



Errors



■ Procedural errors

- *Saveca v. Reilly*, 488 N.Y.S.2d 876 (N.Y. 1985)
- *Harsco Corp. v. Kerkam, Stowell, Kondracki & Clarke, P.C.*, 961 F.Supp. 104 (M.D. Pa. 1997)

■ Litigation strategy

- *Immunocept, L.L.C., et al. v. Fulbright & Jaworski, L.L.P.*, *supra*
- *Wilco Marsh Buggies & Draglines, Inc. v. XYZ Ins. Co.*, 520 So. 2d. 1292 (La. 1998)

... More Errors



■ Advice regarding risks of litigation

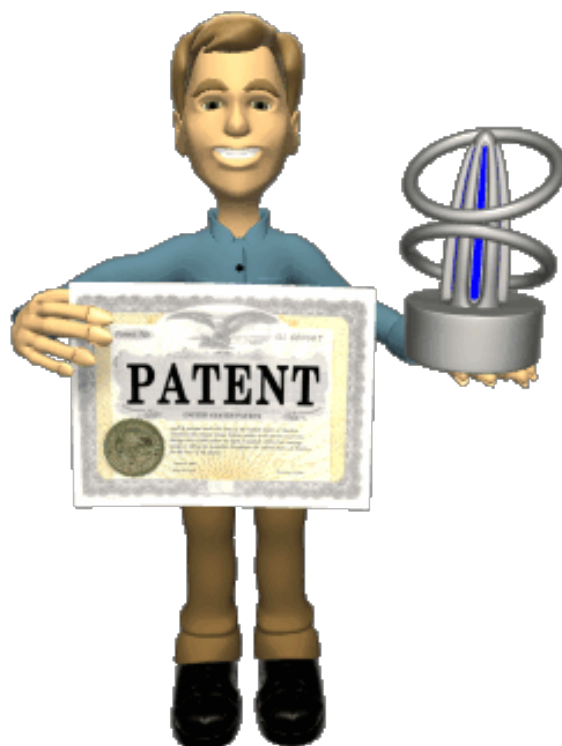
- *Ruttle v. Toffel*, 805 So. 2d 689 (Ala. 2001)
- *Gittes v. GMIS, Inc.*, 1999 WL 500144 (S.D.N.Y. 1999).
- *Sherman Indus., Inc. v. Goldhammer*, 683 F.Supp. 502 (E.D. Pa. 1988)

■ Communication with client

- *Magnacoustics, Inc. v. Ostrolenk, Faber, Gerb & Soffen*, 755 N.Y.S.2d 726 (N.Y. App. Div. 2003)
- *Fotodyne, Inc. v. Barry*, 449 N.W.2d 337 (Wis. Ct. App. 1989)



Where . . . are IP Malpractice Suits filed?



Subject Matter Jurisdiction



- The statute:
28 U.S.C. § 1338 grants federal courts original jurisdiction over any civil action “arising under” federal statutes relating to patents
- Historically:
State courts have maintained jurisdiction over legal malpractice claims arising out of patent law. Because it “arises under” common-law negligence principles.
 - *Delta Process Equipment, Inc. v. New England Ins. Co.*, 560 So. 2d 923 (La. Ct. App. 1st Cir. 1990)
 - *New Tek Mfg., Inc. v. Beehner*, 270 Neb. 264, 702 N.W.2d 336 (2005)

Filed in State Court, but



Patent Law

Exclusive Federal Jurisdiction



AirMeasurementTechnologies, Inc. v. AkinGumpStraussHauer & Feld, L.L.P., 504 F.3d 1262, 84 (Fed.Cir.2007).

Immunocept, LLC v. Fulbright & Jaworski, LLP, 504 F.3d 1281 (Fed.Cir.2007).

Patent/Copyright

28 U.S.C. § 1338(a)



- “Original jurisdiction of any civil action arising under . . . patents, plant variety protection, copyrights and trademarks.”
- “Exclusive” jurisdiction for “patents, plant variety protection and copyright cases.”

Subject Matter Jurisdiction – Now



- The federal circuit disagrees:
In 2007, citing both *Christianson* and *Grable & Sons Metal Products*, the U.S. Court of Appeals for the Federal Circuit asserted *exclusive jurisdiction* over two legal malpractice claims, which turned on resolving patent law questions.
 - *Air Measurement Technologies, Inc. v. Akin Gump Strauss Hauer & Feld, L.L.P.*, 504 F.3d 1262 (Fed. Cir. 2007)
 - *Immunocept, L.L.C., et al. v. Fulbright & Jaworski, L.L.P.*, 504 F.3d 1281 (Fed. Cir. 2007)

The Debate: Federal Subject Matter Jurisdiction Over State Legal Malpractice Claims



. . . . Evolving but not settled

***Christianson v. Colt Indus. Operating Corp.*, 493 U.S. 800, 809, 810, 108 S. Ct. 2166 (1988)**

- Section 1338 jurisdiction for cases “in which a well-pleaded complaint establishes either that federal patent law creates the cause of action or that the plaintiff’s right to relief necessarily depends on resolution of a substantial question of federal patent law, in that patent law is a necessary element of one of the well-pleaded claims.”
- “[A] claim supported by alternative theories in the complaint may not form the basis for § 1338(a) jurisdiction unless patent law is essential to each of those theories.”

Grable & Sons Metal Prods., Inc. v. Darue Eng. & Mfg., 545 U.S. 308, 313-14, 125 S. Ct. 2363 (2005)



- Focus on §1331 “arising under” jurisdiction.
- “[T]he question is, does a state-law claim necessarily raise a stated federal issue, actually disputed and substantial, which a federal forum may entertain without disturbing any congressionally approved balance of federal and state judicial responsibilities.”
- Restricted to cases “indicating a serious federal interest in claiming the advantages thought to be inherent in the federal forum” and “only if . . . consistent with congressional judgment about the sound division of labor between state and federal courts. . . .”

Air Measurement Technologies, Inc. v. Akin, Gump, 504 F.3d 1262 (Fed. Cir. 2007)



- Alleged malpractice in patent prosecution and patent litigation forced low settlement
- Invalidity and unenforceability defenses would not have existed but for alleged negligence
- “the district court will have to adjudicate, hypothetically, the merits of the infringement claim” to determine causation and damage
- “illogical” for federal court to hear underlying infringement claim but then not “hear the same substantial patent question in the ‘case within a case’ context of a state malpractice claim.”

Immunocept, LLC v. Fulbright & Jaworski, 504 F.3d 1281 (Fed. Cir. 2007)



- Legal malpractice based on alleged patent prosecution errors
- Focus of plaintiff's malpractice claim is patent “claim scope determination” where “attorney error narrowed the scope of the patent”

Davis v. Brouse McDowell, L.P.A., **596 F.3d 1355 (Fed. Cir. 2010)**



- Legal malpractice based on unsuccessful filing of a patent application
- “It is undisputed” that plaintiff’s allegations relating to the filing “do not raise an issue of U.S. patent law”
- But, federal jurisdiction was present because the claims relating to filing required a predicate showing that “but for” the negligence, plaintiff would have secured the patent

Warrior Sports, Inc. v. Dickinson Wright, P.L.L.C., 631 F.3d 1367 (Fed.Cir.2011)



- Legal malpractice claim that defendant failed to timely file maintenance fees, resulting in lapse of patent and acted negligently in the reissue proceedings, allowing its competitor to invoke an inequitable conduct defense
- In *Warrior Sports, Inc. v. Dickinson Wright, P.L.L.C.*, 666 F. Supp. 2d 749 (E.D. Mich. 2009), district court remanded back to state court
- On appeal, the court vacated and remanded, finding that “at least one of [plaintiff’ s] malpractice claims” required the court to resolve a substantive issue of patent law



Not All State Courts Agree with the Federal Circuit, and not all Judges within the Federal Circuit agree

Singh v. Duane Morris, LLP, 538 F.3d 334 (5th Cir. 2008)



- Alleged malpractice based on representation in federal trademark lawsuit – failure to introduce evidence to establish secondary meaning.
- “Decline to follow” *Air Measurement*.
 - “It is possible that the federal interest in patent cases is sufficiently more substantial, such that it might justify federal jurisdiction.”
- Stated Reasoning: Federal interest not “substantial” in regulating malpractice

Texas initially says, no,

Minton v. Gunn, 301 S.W.3d 702 (Tex. App. 2009)



[W]e decline to follow the Federal Circuit's decisions in *Immunocept* and *AMT* for two reasons: First, the Federal Circuit's holdings are not binding on this court. The Supreme Court of Texas has explained that: “While Texas courts may certainly draw upon the precedents of the Fifth Circuit, or any other federal or state court, in determining the appropriate federal rule of decision, they are obligated to follow only higher Texas courts and the United States Supreme Court.” Second, we believe the Federal Circuit misapplied United States Supreme Court precedent by disregarding the federalism analysis that the Supreme Court has applied to restrict the scope of federal “arising under” jurisdiction to a “small and special category” of cases where a substantial question of pure federal law is in dispute that has precedential value. According to the United States Supreme Court, claims that are “fact-bound and situation-specific,” such as the legal malpractice claim at issue in this case, do not fall within the scope of federal “arising under” jurisdiction. While this result may conflict with Federal Circuit decisions, we are obligated only to follow the rules for determining “arising under” jurisdiction established by the United States Supreme Court “

Then, *Minton v. Gunn*, 355 S.W.3d 634 (Tex. 2011), reverses, but . . .



The three dissenting justices, focused on the fact that this was a legal malpractice action:

“It is only under the gloss applied to that language by later decisions of the Federal Circuit that we could imagine that a legal malpractice action ‘arises under’ patent law. Common sense tells us that this is a matter for state courts.”

Federal Circuit Dissenters



Byrne v. Wood, Herron & Evans, LLP, 676 F.3d 1024, 1027 (Fed.Cir.2012)

- Dissent:

That reading of *Christianson* is wrong, however, Supreme Court precedent permits federal courts to exercise federal question jurisdiction over state law claims *only* in the rare case where a federal issue is “actually disputed and substantial,” and where doing so will not upset “any congressionally approved balance of federal and state judicial responsibilities.”

Memorylink Corp. v. Motorola, Inc., **676 F.3d 1051, 1053 (Fed.Cir.2012)**



- **Dissent:**

“Here, to the extent this negligence case implicates patent law at all, it does not do so in any substantial or meaningful way. No patent rights will be altered, no change in inventorship can occur in the context of it, and no binding discussion of principles of inventorship could emerge. And, resolution of the patent issue involved is only one factor in the state law negligence analysis which would be employed in deciding this case; the federal issue is simply not dispositive of the case.”

Implications for the future—What if the Court Does not have Jurisdiction?



***Singh v. Duane Morris, L.L.P.*, 338 S.W.3d 176 n. 6 (Tex. App.2011):**



“[W]e note that since the Fifth Circuit determined there was no federal jurisdiction, all of the district court's orders, as well as the final judgment, are void and have no legal significance.”*

***[except as to the statute of limitations]**



Legal Malpractice Cases Outside of Patent/Copyright

Federal Taxes



- *Booth v. Baldwin*, 2009 WL 3756676 (W.D. Pa. Nov. 9, 2009)
 - Legal malpractice claim alleging defendant attorney failed to draft provisions of trust correctly in order to avoid the federal estate tax
 - Attorney defendant argued case could not be “fully litigated without a thorough discussion of the federal taxes at issue”
 - Defendant could “establish neither that the underlying federal statute is anything but collateral nor that it is essential to Plaintiff’s cause of action”

Labor Management Relations Act



- *Daido Metal Bellefontaine, LLC v. Mason Law Firm Co., LPA*, 2010 WL 2541636 (S.D. Ohio June 18, 2010)
 - Legal malpractice claim based on attorney's allegedly negligent handling of labor negotiations, which resulted in a strike and unfair labor practice charges under 28 U.S.C. 51 against the employer client
 - Court framed the issue as whether the lawsuit was “substantially dependent” on the interpretation of the collective bargaining agreement and concluded that the terms of the agreement were only tangentially involved
 - Court rejected comparison to patent law, noting that “patent law is uniquely federal” and remanded to state court

Title VII Employment Discrimination



- *Steele v. Salb*, 681 F. Supp. 2d 34 (D.D.C. 2010)
 - Legal malpractice claim concerning the handling of a federal action for Title VII employment discrimination
 - Attorney defendant sought removal arguing that the malpractice claims were “premised on the interpretation and application of federal law”
 - Court distinguished the patent cases cited by defendant and remanded to state court, explaining the “uniquely federal nature of federal patent law cases.”



- *Just Trust Solutions, Inc. v. Buchanan Ingersoll & Rooney, P.C.*, 2010 WL 2998673 (D. Md. July 23, 2010)
 - Legal malpractice claim alleging that defendant was negligent in creating an employee stock ownership plan that violated provisions of ERISA
 - Case remanded to state court
 - Although “court will have to determine whether the [plan] actually violated ERISA” this did not raise a substantial federal question

Anti-SLAPP Statutes and the FRCP



31 States as of 2012



Anti-SLAPP – new 2012

Texas:



V.T.C.A., Civil Prac. & Rem. Code § 27.001, *et. seq.*

Some are very limited protection, e.g. Florida
(governmental action)

And . . .

Comparing Anti-SLAPP to Summary Judgment, Motion to Dismiss, Demurrer (CCP § 425.16)

- Early dispositive motion
- Evidence based, so not limited to the pleadings
- Immediate discovery stay
- Quick ruling timeframes
- No leave to amend if granted
- Immediate right of appeal if denied

Strict Procedural Requirements & Fee Shifting



- 60-day entitlement to bring motion, thereafter subject to the court's discretion
- Must be heard within 30 days, unless Court docket conditions requires a later setting.
- Successful moving defendants entitled to fees/costs, including fees/costs on appeal
- Plaintiffs successfully defending anti-SLAPP motion entitled to fees and costs only if the anti-SLAPP motion was frivolous or filed solely to cause unnecessary delay



Two Step Process:



- 1. Defendant must show that challenged cause of action is one arising from protected activity-Speech or Petition;
- 2. Burden shifts to Plaintiff to demonstrate a *prima facie* showing of evidentiary facts which would, if proven at trial, support a judgment in Plaintiff's favor.



What Is “Protected Activity?”



- Focus is on “*principal thrust*” or “*gravaman*” of defendant's activity
- Not applicable if “protected activity” is only collateral or incidental

Most Commonly Arises in Third Party Cases Against Attorneys



- Malicious prosecution
- Abuse of process
- Defamation
- Tortious Interference
- Other third party claims against attorneys relating to prior court litigation or governmental administrative actions

Not Usually Applicable to Claim by a Client: Loyalty or Negligence



- *United States Fire Ins. Co. v. Sheppard, Mullin, Richter & Hampton* (2009) 171 Cal. App. 4th 1617.
- *Benasra v. Mitchell Silberberg & Knupp LLP* (2004) 123 Cal.App.4th 1179.

Illinois: *Sandholm v. Kuecker*, 2012

III. 111443, 962 N.E.2d 418 (2012):



- The legislature did not intend “to abolish an individual's right to seek redress for defamation or other intentional torts, whenever the tortious acts are in furtherance of the tortfeasor's rights of petition, speech, association, or participation in government.”
- Based on the allegations of the complaint, the defamation claim was not a SLAPP suit intended to interfere with the rights of petition or speech.



Application in Federal Court

1. Does not apply to a Federal remedy
2. Conflicts with Federal Procedure?

Erie R.R. v. Tompkins , 304 U.S. 64, 58 S.Ct. 817, 82 L.Ed. 1188 (1938).



- Federal Courts apply the substantive law of the state in which they sit, but apply federal law procedural law.

Does not apply to:

- **FDCPA claims**-*Carr v. Asset Acceptance, LLC*, 2011 WL 3568338 (E.D. Cal. 2011)
- **Civil Rights Act**-*Ginx, Inc. v. Soho Alliance*, 720 F. Supp. 2d 342 (S.D. N.Y. 2010)

Federal vs. State Procedure –Appeals

—“Collateral Order” Doctrine

Metabolic Research, Inc. v. Ferrell, --- F.3d ----, 2012 WL 2215834 (9th Cir.2012), “whether the values underlying the particular anti-SLAPP statute can be satisfied through the normal appellate process.” In looking to Nevada law, there is no right to appeal a denial. The same is true under Oregon law, *Englert v. MacDonell*, 551 F.3d 1099 (9th Cir.2009) But under California law, there is a right of appeal from a denial. *Batzel v. Smith*, 333 F.3d 1018 (9th Cir.2003).

Anti-SLAPP – Federal vs. State Procedure



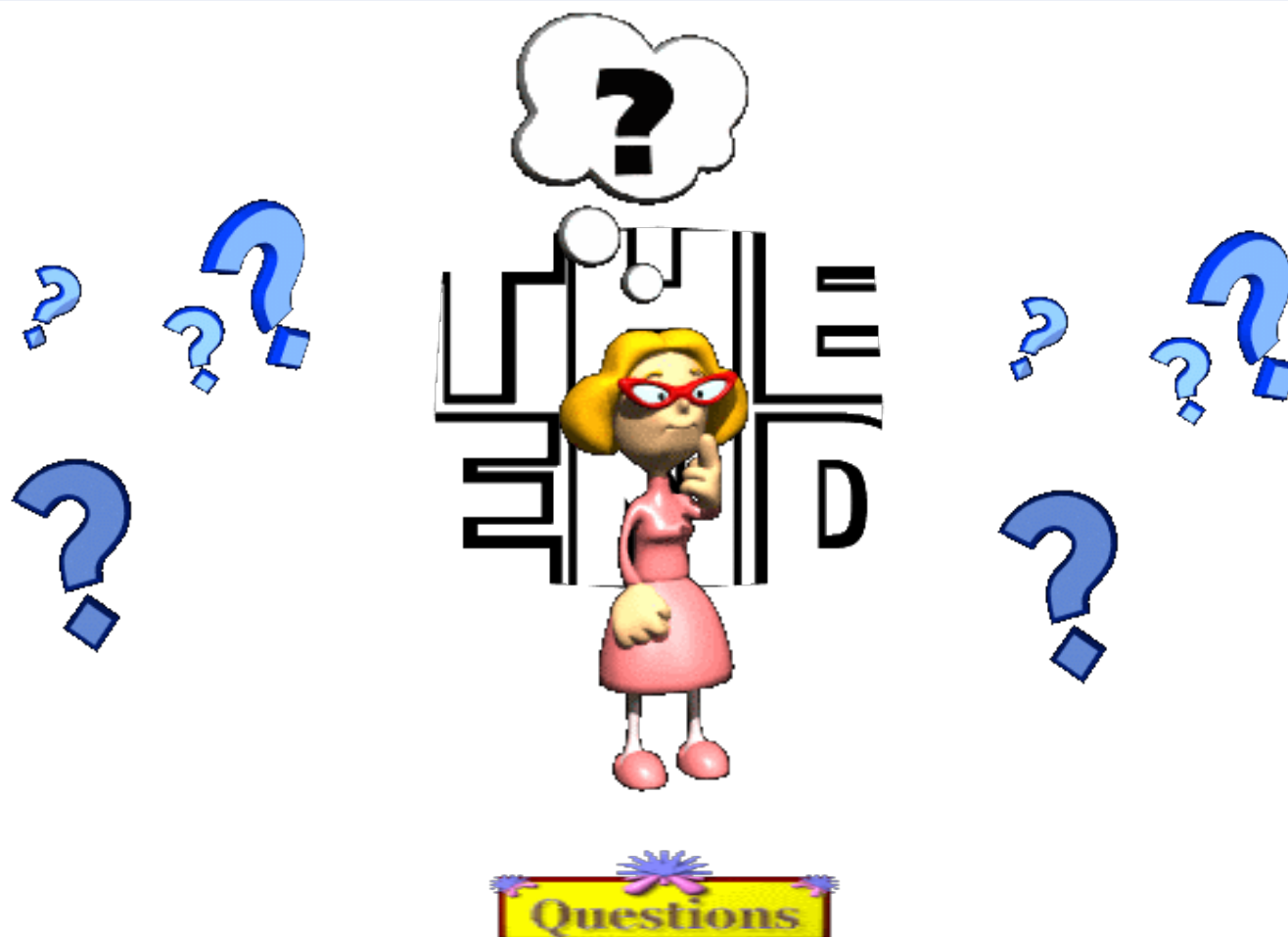
- Trend or anomaly? *3M Co. v. Boulter*, 842 F.Supp.2d 85 (D.D.C.2012):

“Upon careful examination of the Act's special motion to dismiss procedure, this Court holds that it squarely attempts to answer the same question that Rules 12 and 56 cover and, therefore, cannot be applied in a federal court sitting in diversity. . . .”
- Disagreeing with *United States v. Lockheed Missiles & Space Co.*, 190 F.3d 963, 972 (9th Cir.1999).
- See also, *Sherrod v. Breitbart*, 843 F.Supp.2d 83, 40 Media L. Rep. 1422 (D.D.C.2012); *The Saint Consulting Group, Inc. v. Litz*, 2010 WL 2836792 (D.Mass. 2010).

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Ron Mallen

415-263-8112

rmallen@hinshawlaw.com