

Keywords: Conflict of interest; directly adverse representation; materially limited representation

General: The Massachusetts Supreme Judicial Court affirms a judgment of dismissal, finding that simultaneous representation by a law firm in the prosecution of patents for two clients competing in the same technology area for similar inventions is not a per se violation of Mass. R. Prof. Conduct 1.7.

Chris E. Maling v. Finnegan, Henderson, Farabow, Garrett & Dunner, LLP, & others

Massachusetts Supreme Judicial Court

SJC-11800

September 8, 2015 – December 23, 2015

I. Facts

In 2003, Chris E. Maling engaged Finnegan, Henderson, Farabow, Garrett & Dunner, LLP (“Finnegan”) to file and prosecute patent applications for Maling’s inventions related to screwless eyeglasses. Finnegan ordered prior art searches, prepared patent applications, and obtained four patents for Maling’s inventions. After obtaining his patents, Maling learned that Finnegan had been simultaneously representing a competitor, Masunaga Optical Manufacturing Co., Ltd. (“Masunaga”). Maling filed a complaint with the Massachusetts Superior Court (“the Superior Court”), alleging that a conflict of interest in violation of the Massachusetts Rules of Professional Conduct arose due to Finnegan’s simultaneous representation of Maling and Masunaga. Rule 1.7 of the Massachusetts Rules of Profession Conduct states:

- (a) Except as provided in paragraph (b), a lawyer shall not represent a client if the representation involves a concurrent conflict of interest. A concurrent conflict of interest exists if:
- (1) the representation of one client will be directly adverse to another client; or
 - (2) there is a significant risk that the representation of one or more clients will be materially limited by the lawyer’s responsibilities to another client, a former client or a third person or by a personal interest of the lawyer.

Further, in the complaint, Maling alleged harm from Finnegan’s failure to disclose the alleged conflict of interest. Specifically, Maling claimed Finnegan breached its fiduciary duty to Maling by failing to disclose that Finnegan was representing Masunaga to obtain patents for Masunaga in the “same patent space” as Maling. Additionally, Maling alleged that Finnegan failed to disclose relevant information to the United States Patent and Trademark Office (“USPTO”), and as a result, he obtained a patent for an invention that he could not market. Maling claimed that he would not have spent millions of dollars to patent and develop an invention that he would be unable to market if Finnegan had disclosed its conflict of interest or that Masunaga had a patent for a nearly identical invention. Further, Maling alleged that he was unable to obtain investor funding for the marketing of his invention because Finnegan declined to prepare a legal opinion for him that addressed similarities between the Masunaga patents and his patents. In sum, Maling alleged “great harm” and “tremendous financial hardship” due to Finnegan’s failure to disclose the alleged conflict of interest.

Finnegan moved to dismiss Maling’s complaint for failure to state a claim for which relief may be granted. The Superior Court found that Maling did not sufficiently allege that Finnegan violated its duties under Rule 1.7 and granted the motion. Maling appealed, and the Massachusetts Supreme Judicial Court (“the Court”) transferred the case to its court on its own motion.

II. Issues

- 1) Is the simultaneous representation by a law firm in the prosecution of patents for two clients competing in the same technology area for similar inventions a per se violation of Rule 1.7?

2) Did the Superior Court err in finding that Maling did not sufficiently allege that Finnegan violated its duties under Rule 1.7 by simultaneously representing Maling and Masunaga?

III. Discussion

1) No. Maling argued Rule 1.7 sets forth a duty to avoid representing clients with conflicting interests. The Court noted that subject matter conflicts in patent prosecutions (e.g., the simultaneous representation of clients competing for patents in the same technology area) do not fit neatly into the traditional conflict analysis. Further, the Court noted that Maling's broad interpretation of Rule 1.7 would render all subject matter conflicts in patent prosecutions actionable, per se violations. The Court found that while subject matter conflicts in patent prosecutions may present legal and ethical problems, they do not, standing alone, constitute an actionable conflict of interest that violates Rule 1.7.

2) No, the Court found that Maling did not sufficiently allege that Finnegan violated its duties under Rule 1.7 by simultaneously representing Maling and Masunaga.

Adverse Representation under Rule 1.7 (a) (1)

Representation is "directly adverse" and in violation of Rule 1.7 (a) (1) when a lawyer "act[s] as an advocate in one matter against a person the lawyer represents in some other matter, even when the matters are wholly unrelated." Maling argued that he and Masunaga were directly adverse because they were competing in the "same patent space." The Court disagreed, noting that the rules of professional conduct are clear that direct adverseness requires a conflict as to the legal rights of the clients, not merely conflicting economic interests. Further, the Court noted that District Court precedent (*Curtis v. Radio Representatives, Inc.*) established that simultaneous representation of two companies competing in the same industry does not itself establish an actionable breach of an attorney's fiduciary duty.

In *Curtis*, a law firm simultaneously represented two competing companies and successfully obtained radio broadcast licenses for each company. The District Court in *Curtis* found that the law firm's simultaneous representation of the two competing companies could be directly adverse if objectionable electrical interference could occur between two stations. Here, the Court noted that an actionable conflict of interest could arise if claims in two patent applications are identical or obvious variants of each other. However, the Court noted that the USPTO did not call an interference proceeding to resolve conflicting claims in Maling's and Masunaga's patent applications. Additionally, the Court noted that Maling did not allege his claims were identical or obvious variants of Masunaga's claims. Further, the Court found that Maling's conclusory allegation that his inventions were very similar to Masunaga's applications "in many important respects" was not sufficient to find that Finnegan should have reasonably foreseen the potential for an interference proceeding.

The Court also noted that if Finnegan had provided Maling with the opinion without disclosing the conflict and obtaining consent, then Finnegan's simultaneous representation of Maling and Masunaga arguably would have been directly adverse and in violation of Rule 1.7 (a) (1). However, because Finnegan declined to provide the opinion and Maling failed to allege that Finnegan had agreed to provide such an opinion in its engagement with Maling, the Court found that Maling did not sufficiently allege a conflict of interest based on adverse representation.

Material Limitation under Rule 1.7 (a) (2)

Representation is "materially limited" and in violation of Rule 1.7 (a) (2) if "the lawyer has a competing interest or responsibility that 'will materially interfere with the lawyer's independent professional judgment in considering alternatives or foreclose courses of actions that reasonably should be pursued on behalf of the client.'" Maling argued that Finnegan could not adequately protect both

his interests and Masunaga's interests because they both sought patents for extremely similar devices in a very narrow market. Maling alleged that his representation was adversely affected as a result. The Court noted that Maling did not allege that his claims were altered or narrowed in light of Masunaga's applications or that his client confidences were disclosed or used in any way to Masunaga's advantages. Further, while Maling alleged that he was harmed because Finnegan obtained patents for Masunaga first, the Court noted that Maling failed to allege that Finnegan delayed filing his patent application to ensure the success of Masunaga's applications over his own. Ultimately, the Court found that Maling's conclusory allegations that he was harmed due to Finnegan's alleged preferential representation of Masunaga were not sufficient to support an inference that Finnegan was "materially limited" in its ability to obtain patents for Maling.

The Court also emphasized the duty of a lawyer to determine whether the potential for conflicts of interest counsels against undertaking representation. The Court referred to Comment 8 of Rule 1.7, which states that "[t]he critical questions are the likelihood that a difference in interests will eventuate and, if it does, whether it will materially interfere with the lawyer's independent professional judgment in considering alternatives or foreclose courses of action that reasonably should be pursued on behalf of the client." The Court noted that Finnegan's unwillingness to provide Maling with the opinion raises a question as to whether the simultaneous representation foreclosed a course of action that should have been pursued on Maling's behalf. However, the Court found that Maling did not sufficiently allege that Finnegan should have reasonably anticipated that Maling would need a legal opinion that would create a conflict of interest. Thus, the Court found that Maling did not sufficiently allege that Finnegan's representation of Maling was "materially limited" due to Finnegan's simultaneous representation of Maling and Masunaga.

IV. Conclusion

The Court found that Maling did not adequately allege that there was a conflict of interest in violation of Rule 1.7. As a result, the Court found that Maling failed to state a claim and affirmed the dismissal of the complaint.

V. Practice Tips

To facilitate compliance with professional rules of conduct, firms should make reasonable efforts to implement internal procedures to identify and resolve actual and potential conflicts of interest.