

Firm That Prosecuted Competing Patents Subject to Breach of Fiduciary Duty Claim, But Not to Conversion Claim

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Tethys Bioscience, Inc. v. Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., 2010 WL 2287474 (N.D. Cal. 2010)

Brief Summary

After a law firm represented two competing companies in pursuing similar patents, one of the companies sued the firm for breach of fiduciary duty and conversion based on the fact that the patent applications ended up substantially similar. The court held that plaintiff failed to adequately state a claim for conversion because it had not yet established ownership of the intellectual property (i.e., it had not been granted a patent). But the court allowed plaintiff's breach of fiduciary duty claim to proceed.

Complete Summary

Plaintiff and its competitor shared a law firm at a time when both were pursuing similar patents. Upon discovering that the competitor's patent application was substantially similar to its own, plaintiff sued the law firm for breach of fiduciary duty and conversion, alleging that the firm had disclosed plaintiff's confidential intellectual property to the competitor. The law firm moved to dismiss for failure to state a claim. The U.S. District Court for the Northern District of California granted the motion to dismiss as to the conversion claim, but otherwise denied the motion.

The court held that plaintiff had sufficiently stated a claim for breach of fiduciary duty, and adequately alleged breaches of both the duty of loyalty and the duty of confidentiality. Regarding the former, although the firm argued that the two clients were not adverse (under the conflict of interest standard in California RPC 3-310(C)) because their inventions were fundamentally different, the court declined to make such a determination given the limited factual record. Regarding the latter, the court noted that although some information related to patent applications is not protected by the attorney-client privilege, it may still be confidential, and although people with

ordinary skill in the art may already know certain information related to a patent application, this fact does not allow lawyers to decide what information is confidential and disclose it with impunity. Regarding the element of damage, the court held that plaintiff had adequately stated a claim as to the decrease in value of its technology and business, but that its other claims (e.g., reimbursement of fees paid to new counsel for services already rendered, and disgorgement of fees received by defendant firm) were not legally cognizable because they merely recited remedies rather than injuries.

Finally, the court held that plaintiff had not adequately stated a claim for conversion because ownership of the property at issue could not be established until the patent was granted. On this point, the court noted that it was adhering to a policy of not expanding the tort of conversion when doing so might displace more suitable law — in this case federal patent law.

Significance of Opinion

This opinion highlights the often difficult decisions that a patent lawyer, or any lawyer with a specialized practice, can face when dealing with confidential client information where clients' interests can be interrelated. This opinion also demonstrates the sometimes fine line between injury and remedy. Even though a party who has switched firms may feel injured by the costs that accompany such a switch, this alleged "injury" may not be adequate to state a claim against the former firm.

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