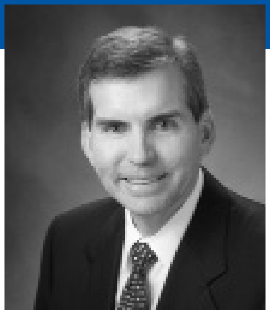
Lack of Privity Sinks Trademark Legal-Malpractice Claim

Avoiding Liability



By Jeffrey P. Lewis

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It has been a basic premise nationwide that, subject to some exceptions, standing to assert a legal-malpractice claim depends upon the existence of privity between the claimant and the lawyer. Stated differently, a third party to the attorney/client relationship generally cannot state a claim for legal malpractice.

In 1983, the Pennsylvania Supreme Court, in *Guy v. Liederbach,* 459 A.2d 744 (Pa. 1983), carved out an exception to that general rule to recognize a claim by a disinherited heir based upon an intended third-party-beneficiary theory under the Restatement (Second) of Contracts § 301 (1979). In *Guy,* a lawyer was retained by a client to draft a will, which his client did sign, intended to leave an inheritance to the client's niece. Under a New Jersey law in effect at the time, a beneficiary named in a will who witnesses the execution of a will is disinherited by operation of law. As a result, the niece, by having witnessed the signing of the will by her uncle in New Jersey, caused her disinheritance. She did not sustain the harm until her uncle died, which is when the will became operative. But her uncle's estate could not assert a malpractice claim against the lawyer because the estate had sustained no loss as a result of the lawyer's negligence for his failure to ensure that someone other than the niece witnessed the will. Instead, it was the niece, a non-client, who had sustained the harm. The Supreme Court of Pennsylvania, accordingly, recognized the claim by the niece against the lawyer, notwithstanding her status as a non-client, based upon the premise that she was an intended third-party beneficiary.

The testator's intent to leave his estate to his niece in *Guy* was stated in plain language in the will, which the testator had signed. Relying upon a footnote in *Guy,* which is dicta, the Superior Court in *Estate of Agnew v. Ross,* 110 A.3d 1020 (Pa. Super. 2015); Petition for Allowance of Appeal Granted, 122 A.3d 1030 (Pa. 2015), held that a beneficiary named in a trust amendment could recover under the same principle, notwithstanding that the trust amendment was unsigned, where, because of the lawyer's negligence, the settlor had died before he had the opportunity to sign in the presence of witnesses. In *Agnew,* however, the three-judge Superior Court panel relied upon the footnote in *Guy* that recognized the possibility that the intended third-party-beneficiary theory under Section 301 could apply even where the beneficiaries are named in a document that has not been signed by the testator/settlor of the will/trust. In the Superior Court panel's view, the stated intention by the settlor must require proof that the intention was clear, direct and precise. But, as previously noted, *Agnew* is now on appeal to the Supreme Court of Pennsylvania and it remains to be seen whether the Superior Court panel's holding will remain the law of this commonwealth with respect to this legal principle.

The issue of whether a party lacking privity can assert a claim against a lawyer was more recently revisited in the context of a trademark malpractice case in *Kallista, S.A. et al. v. White & Williams LLP et al.* 2016 N.Y. Misc. LEXIS 77; 2016 NY Slip Op 26009 (Sup.Ct. N.Y.). In *Kallista,* suit was brought against the defendant attorney and his law firm, alleging, along with another claim, claims of legal malpractice, fraudulent concealment of that alleged malpractice and breach of contract premised upon the defendants' malpractice. Plaintiffs were a startup company in the sale of skin-care products and the owner's wife, who was not an owner, officer or employee but who later managed the company. They contended that the defendants had failed to conduct a full and complete trademark search that would have revealed an existing similar trademark owned by a different company engaged in the sale of the same class of products in the United States, where plaintiffs intended to sell.

Plaintiffs contended that the defendants had also failed to file trademark applications even though they had falsely represented that this work had been performed and had charged plaintiffs accordingly. Moreover, the plaintiffs alleged that they had been advised to commence selling their product "as soon as possible because the registration could not be finalized until that was done." The defendants were advised of an office action from the U.S. Patent and Trademark Office "that there was a likelihood of confusion between the [competitor's] registration and the [plaintiff company's] application … and therefore the [plaintiff company's] application was refused." The plaintiffs alleged that the defendants did not inform them of this ruling. The plaintiffs further alleged that the defendants "filed a petition with the U.S. Trademark Trial and Appeal Board … to cancel the [competitor's] mark on the ground of fraud" and to request suspension of their client company's application, all without informing the plaintiffs. Moreover, the plaintiffs accused the defendants of entering into negotiation with the competitor for a coexistence agreement, also without informing them, which would have limited their market.

The aspect of this case germane to the issue of a malpractice claim asserted by a claimant lacking privity concerns all but one of the claims asserted by the plaintiff wife. She contended that she had left a well-paying job to join her husband's company, unaware of the trademark problem and thus to her detriment when the company allegedly failed as a result. In the context of their motion to dismiss, the defendants argued that the plaintiff wife lacked standing to assert a malpractice claim "because she was not in privity with [d]efendants." Moreover, the defendants denied that the plaintiff wife could assert a claim for fraudulent concealment because "any representation that they made to her was not made for the purpose of inducing her to rely upon it, nor would any such reliance be justifiable." They also denied any duty of disclosure based upon the premise that she had not retained them as her counsel, thus she was not a party to a contract with the defendant law firm and thus could not assert a claim for breach of contract.

In response, plaintiff wife argued that "she has standing to sue because she is the co-founder and general manager of [plaintiff company], a firm owned by her husband. She contended that she had standing because there is, or should be, an exception to privity based on fraud, collusion or special circumstances, because the misconduct was directed towards her." The court rejected this argument, in part because the plaintiff wife was not even an employee of the plaintiff company at the time the defendant lawyers were retained. Moreover, the court noted that the defendant law firm had never given her any "legal advice or [given] her any information as to the status of the [plaintiff company's] trademark application." The court noted that even if such information had been given, it would not necessarily have been sufficient to create a " 'near privity' relationship sufficient to extend liability for malpractice to a non-client." The court concluded that, "[T]here are simply no facts alleged that would make it foreseeable that [plaintiff wife] was a third-party beneficiary of a contract made by [the law firm] with [plaintiff company, of] which [plaintiff's wife] is not an owner, officer or employee."

This decision suggests the judiciary's continued resistance to attempts to broaden the parameters of legal malpractice claims to include claims by non-clients.