Determining Jurisdiction for Patent Law Malpractice Cases

This article originally appeared in The Legal Intelligencer on May 1, 2013

As an intellectual property attorney, the federal jurisdiction of patent-related cases always seemed clear to me. 28 U.S.C. 1338 provides that: "The district courts shall have original jurisdiction of any civil action arising under any act of Congress relating to patents." When Congress enacted that statute, it took things a step further, for the statute also states, "No state court shall have jurisdiction over any claim for relief arising under any act of Congress relating to patents." For years, patent law malpractice cases were under the jurisdiction of the federal court system. Recently, however, the U.S. Supreme Court changed that, and its decision is having significant effects on the way that patent law malpractice cases are adjudicated. The U.S. Supreme Court’s rationale is most interesting, and I explore its thinking in this article.

In Gunn v. Minton, 133 S. Ct. 1059 (Feb. 20, 2013), the U.S. Supreme Court held that patent law malpractice cases are not precluded from state court jurisdiction. Since the decision was issued, patent law malpractice cases have been leaving the federal courts, and have been arriving in the state courts. There may, however, be exceptions. Recently, in another case, it was argued that some patent law malpractice cases still belong in federal court (see below).

Here is how Gunn landed in the U.S. Supreme Court:

• Vernon Minton applied for and was granted a patent for an interactive securities trading system.

• Minton filed an infringement suit in the U.S. District Court for the Eastern District of Texas and lost, because it was determined that his invention was on sale for more than one year before he filed his application. (In the United States, with several exceptions, a patent application must be filed within one year of the invention being on sale, or all patent rights are lost.)

• Minton filed a motion to request reconsideration from the district court, alleging that the "on sale" bar did not apply because the sale was within the "experimental use" exception. The district court denied the motion.

• Minton appealed to the U.S. Court of Appeals for the Federal Circuit and again lost, being told his "experimental use" argument had been waived.

• Minton filed a patent law malpractice suit against his attorneys in Texas state court. He argued that his attorneys were negligent for failing to argue "experimental use" in a timely manner. Minton lost on substantive grounds.
Minton appealed to the Second Court of Appeals of Texas. But shortly after he filed his appeal, the Federal Circuit ruled (in an unrelated case, *Air Measurement Technologies v. Akin Gump Strauss Hauer & Feld*, 504 F.3d 1262 (Fed. Cir. 2007)) that malpractice claims that have a patent infringement issue belong in federal court. Minton then argued in his appeal that the Federal Circuit ruling required resolution of his patent malpractice claim in federal court. The Texas court disagreed with Minton, and held that Minton's state law (malpractice) claim did not trigger federal jurisdiction. The Texas court then considered the merits of Minton's malpractice claim, and affirmed the lower court decision that malpractice had not been proven.

The Supreme Court of Texas reversed, arguing that Minton's claim involved a "substantial federal issue."

The U.S. Supreme Court granted certiorari.

Again, 28 U.S.C. 1338 states that the federal district courts have jurisdiction when the civil action is "arising under" acts of Congress relating to patents. So, what does "arising under" mean? How is it determined whether or not "arising under" has occurred?

As the U.S. Supreme Court explained in *Gunn*, and for statutory purposes, the case is "arising under" when federal law creates the cause of action asserted. For example, Minton's original infringement suit was "arising under" because it was based on federal statutes relating to patent infringement. Yet, while Minton's malpractice claim is based on state law (there are no federal statutes pertaining to patent litigation malpractice), there is a "special and small category" of cases in which "arising under" jurisdiction applies.

Guidance on determining whether a state-law-based claim is appropriate for federal jurisdiction may be found in *Grable & Sons Metal Products v. Darue Engineering & Manufacturing*, 125 S. Ct. 2363 (2005). *Grable* articulated a four-part test to determine whether federal jurisdiction was appropriate: (1) Does the state-law-based claim necessarily raise a federal issue? (2) Is the federal issue actually disputed? (3) Is the federal issue substantial? (4) May a federal forum entertain the state-law claim "without disturbing any congressionally approved balance of federal and state judicial responsibilities"? The *Grable* court held that, when all four requirements were met, federal jurisdiction is proper because there is a "serious federal interest in claiming the advantages thought to be inherent in a federal forum" and the federal interest can be addressed without disturbing "congressional judgment about the sound division of labor between state and federal courts."

By addressing each of the above four points, the U.S. Supreme Court sought to determine if federal jurisdiction was now proper for adjudicating patent law malpractice.
On the first prong, yes, the U.S. Supreme Court acknowledged, resolution of a federal patent question is "necessary" to Minton's case. The requirements for alleging legal malpractice vary slightly from state to state, but the requirements in Texas (where the malpractice suit was filed) are representative of other jurisdictions: (1) that the defendant attorney owed the plaintiff a duty; (2) that the attorney breached that duty; (3) that the breach was the proximate cause of the plaintiff's injury; and (4) that damages occurred. To prove item 3, a "case within a case" or a "trial within a trial" is needed. The claimant needs to show that the failure of his or her former attorney to make an argument caused the case to be lost. To succeed in his malpractice suit, Minton needed to show that if his attorney had argued the "experimental use" exception during the infringement litigation, then Minton would have won the case. The original infringement suit needed to be repeated with an additional "experimental use" argument to see if the additional argument would have changed the outcome of the suit. Arguing "experimental use" requires the application of patent law. A federal patent question needed to be resolved.

On the second prong, yes, the U.S. Supreme Court acknowledged, the federal issue is "actually disputed." Minton argued that correct application of the "experimental use" exception would have maintained the validity of his patent; his former attorneys argued otherwise. A federal issue is definitely in dispute.

On the third prong, however, the U.S. Supreme Court determined that the issue being raised was not substantial.

The third prong requires establishment of "the importance of the issue to the federal system as a whole." For example, the Grable decision (which related to whether the IRS had the authority to seize property) emphasized the government's "strong interest" in being able to seize property in order to recover unpaid taxes. Thus, the government's "direct interest in the availability of a federal forum to vindicate its own administrative action" resulted in "an important issue of federal law that sensibly belong[ed] in a federal court." As another example, in Smith v. Kansas City Title & Trust, 41 S. Ct. 243 (1921), the plaintiff argued that the government had issued bonds unconstitutionally and thus those bonds could not be purchased. Because the decision required a determination of "the constitutional validity of an act of Congress," the case was determined to have arisen under federal law. In both cases, the U.S. Supreme Court's primary concern was not whether its decision was important to the parties litigating the case. Rather, the U.S. Supreme Court's primary concern was whether its decision was important as a matter of federal law.

In Gunn, the question being adjudicated carried no such importance. Gunn's federal issue will arise in the "trial in a trial" that malpractice suits require. But the conclusion of that "trial in a trial" will yield a hypothetical result. A decision will be rendered as to whether malpractice occurred, but the patent that was previously found to be invalid (during the infringement suit) will not suddenly become valid. Minton's patent will remain invalid.
Furthermore, Congress created exclusive jurisdiction of actual patent cases in the federal court system to ensure uniformity in the development of patent law (see *Bonito Boats v. Thunder Craft Boats*, 109 S. Ct. 971 (1989)). As state rulings on patent-related matters will not serve as precedent to federal courts, decisions that state courts reach on patent-related matters have no effect on patent law.

Grable’s fourth requirement was also not met. States have “a special responsibility for maintaining standards among members of the licensed professions.” Thus, the court held that Congress’ exclusive federal jurisdiction over patent cases was not meant to preclude state courts from adjudicating legal malpractice claims, particularly just so a hypothetical patent issue could be resolved.

Ultimately, there is no requirement under U.S. law that “all questions in which a patent may be the subject-matter of the controversy” are under the exclusive jurisdiction of the federal courts (see *New Marshall Engine v. Marshall Engine*, 32 S. Ct. 238 (1912)). In the present case, having a state court answer a hypothetical question of patent law (a) has no broad effect; (b) does not create binding precedent on a patent claim in the future; and (c) does not affect the validity of Minton’s patent. The U.S. Supreme Court thus concluded that the state courts have subject-matter jurisdiction for patent law malpractice cases.

Consequences of the U.S. Supreme Court’s decision have been swift.

On February 28, the U.S. District Court for the Northern District of Illinois tossed out a third-party complaint against Patton Boggs, Barnes & Thornburg and Edwards Wildman Palmer for patent law malpractice. The suit was dismissed for a lack of federal subject-matter jurisdiction. *Gunn* was cited.

On March 14, the U.S. District Court for the District of Massachusetts found a lack of subject-matter jurisdiction for a patent law malpractice case that had been pending against Ropes & Gray. *Gunn* was again cited.

On April 12, the U.S. District Court for the Northern District of Texas dismissed a patent law malpractice lawsuit against Baker Botts. Again, the basis was *Gunn*.

Not all patent malpractice cases may be going to state court. On April 24, attorneys representing the Andrus firm in the Eastern District of Wisconsin opposed plaintiff GemEx’s motion to remand. The defendants argued that the patent in the suit was currently in force. As the question to be resolved in the lawsuit was not hypothetical, and since the court’s decision will affect patent rights going forward, it was argued that *Gunn* did not apply, and that federal court was the correct jurisdiction for the suit. It remains to be seen how the court will rule.

Attorneys accused of patent law malpractice typically prefer to adjudicate the claims in a federal forum, because federal judges have more experience in dealing with
patent issues than state judges. *Gunn*, however, articulates multiple reasons why
patent law malpractice is an issue for state jurisdiction: (1) the decisions are
nonbinding precedent; (2) the decisions do not change the ultimate outcome, i.e., no
matter how the state courts rule in the malpractice suit, the underlying patent (if
previously invalidated) will remain invalid; and (3) state courts have an interest in
regulating the attorneys who they license.

In light of the patent law malpractice suits that have been dismissed for lack of
jurisdiction since the *Gunn* decision, state jurisdiction appears to have been strongly
established. The states are responsible for maintaining standards among the attorneys
who they license, and *Gunn* ensures that the states can fulfill this obligation.

— by Lawrence Ashery