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LITIGATION

Back in state court: patent-based malpractice

By Jonathan W. Hughes

On Feb. 20, Chief Justice John Roberts delivered the unanimous opinion of the U.S. Supreme Court in *Gunn v. Minton*, No. 11-1118. The opinion appears to put an end to the fairly brief period of federal court "arising under" jurisdiction in patent-based legal malpractice cases. Justice Roberts broadly announced that the court was "comfortable concluding that state legal malpractice claims based on underlying patent matters will rarely, if ever, arise under federal patent law for purposes of [28 U.S.C.] section 1338(a)."

The reaction of the lower courts was swift. Within days, federal courts began clearing their dockets of patent-based legal malpractice cases relying on "arising under" federal jurisdiction. See, e.g., *Cold Spring Harbor Laboratory v. Ropes & Gray*, No. 11cv10128-RGS (D. Mass.) (order granting motion to dismiss, dated Mar. 14, 2013); *Gerawan Farming, Inc. v. Townsend Townsend and Crew LLP*, No. 1:10-CV-02011 LJO JLT (sua sponte dismissal, dated Mar. 8, 2013). Federal courts began clearing out other state law claims relying on "arising under" cases based on *Gunn* as well. See, e.g., *Andrews v. Daughtry*, No. 1:12-cv-00441 (M.D.N. Car.) (order granting remand, dated Feb. 22, 2013) (copyright and partnership); *Marcus v. Medical Initiatives, Inc.*, No. 8:12-cv-2864-T-24 TGW (M.D. Fla.) (order granting remand, dated Feb. 27, 2013) (drug labeling); *Isufi v. Prometal Construction, Inc.*, No. 12-CV-5225 (E.D.N.Y.) (order granting remand, dated Feb. 28, 2013) (wage disputes); *Shore Bank v. Harvard*, No. 2:12cv336 (E.D. Va.) (order granting motion to dismiss, dated Mar. 8, 2013) (employment and TARP issues); *Bollea v. Clem*, No. 8:13-cv-00001-T-27AEP (M.D. Fla.) (order granting remand, dated Mar. 28, 2013) (copyright); *Brattain v. Alcitepe*, No. 11-1816 (D.D.C.) (order granting in part motion to dismiss, dated Mar. 29, 2013) (securities).

In the wake of *Gunn*, is there any room left for patent-based legal malpractice claims in federal court? According to the *Gunn* court — not much. The *Gunn* court held that only a "small and special category" of state law claims would satisfy the "arising under" jurisdiction test, and that patent-based state legal malpractice claims would "rarely, if ever" satisfy the standard.

Before looking at whether the federal court's doors remain open to patent-based legal malpractice claims, let's first review how they got into federal court in the first place.

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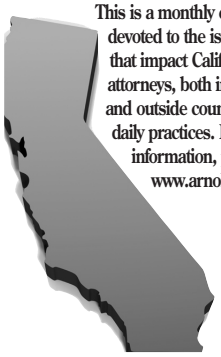

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The Federal Circuit opens the door

In a pair of decisions on the same day in 2007, the Federal Circuit opened the door for federal court jurisdiction in patent-based malpractice claims relying on the federal court's "arising under" jurisdiction. *Air Measurement Technologies, Inc. v. Akin Gump Strauss Hauer & Feld, L.L.P.,* 504 F.3d 1262 (Fed. Cir. 2007); Immunocept, LLC v. Fulbright & Jaworski, LLP, 504 F.3d 1281 (Fed. Cir. 2007).

Both cases involved legal malpractice allegations between nondiverse parties based on client allegations that their attorneys made errors in prosecuting and defending their rights. In both cases the clients claimed their patent rights would have been more valuable but for the alleged malpractice.

Importantly, both cases required the clients to prove that the alleged errors caused them damage through a case-within-a-case. It isn't enough for a malpractice plaintiff to say, or have an expert say, that he or she would have gotten a better result. The parties must actually try the hypothetical case that would have occurred without the alleged error.

The *Air Measurement* court described the case before it as one of first impression. The court held that because the federal court had jurisdiction over the underlying patent infringement case, it also had "arising under" jurisdiction over the malpractice case. The court said it would be "illogical" for the federal court "to hear the underlying infringement suit" but turn away the "same substantial patent question in the 'case within a case' context of a state malpractice claim."

After *Air Measurement* and *Immunocept*, patent-based legal malpractice cases routinely were litigated in federal court.

The Supreme Court shuts the door

That is, until *Gunn v. Minton*. The Supreme Court didn't find it "illogical" at all to ship off to state court the "hypothetical" malpractice case that is virtually identical to the underlying patent case that proceeds in federal court.

Gunn followed the pattern of *Air Measurement*. Minton hired his lawyer Gunn to prosecute a patent and then defend litigation to invalidate it. After the federal court declared his patent invalid, Minton sued his lawyer in state court, alleging that the lawyer waived an important argument by waiting too long to raise it. Minton alleged that if the lawyer had raised the argument earlier, the patent would not have been invalidated.

The lawyer defended the case arguing that the late-raised legal issue would not have succeeded. The state courts agreed, and then Minton raised the jurisdictional issue, arguing that under *Air Measurement* and *Immunocept*, the federal court had exclusive jurisdiction. The Texas Supreme Court agreed with Minton that the federal court had exclusive jurisdiction.

The Supreme Court reversed. It applied the test set forth in *Grable & Sons Metal Products, Inc. v. Darue Engineering & Mfg.*, 545 U.S. 308, 314 (2005), that "federal jurisdiction over a state law claim will lie if a federal issue is: (1) necessarily raised, (2) actually disputed, (3) substantial, and (4) capable of resolution in federal court without disrupting the federal-state balance approved by Congress."

The court had no trouble finding that Minton's claim satisfied the first two *Grable* factors — that the federal issue was "necessarily raised" and "actually disputed." The court focused on the third element — whether the malpractice case presented a "substantial" federal law issue.

> In the wake of Gunn, is there any room left for patent-based legal malpractice claims in federal court? According to the Gunn court — not much.

The court held that the malpractice case did not raise a "substantial" federal law issue because the patent law issues decided in the malpractice "case within a case" would be "merely hypothetical." The result of the malpractice case would not "change the real-world result of the federal patent litigation," would not be precedential for the federal courts on patent law, and thus "would not implicate any substantial federal law interest."

Is the door ajar?

It is too early to know just how far ajar the door may be left open. On the one hand, the court's statement that only "rarely, if ever" will federal "arising under" jurisdiction lie under for state legal malpractice claims seems to suggest there isn't much room. But, the court's reliance on the "hypothetical" nature of the case within a case may suggest an opening in some cases. The case within a case is relevant to the causation element of the malpractice claim. But, at least in theory, a substantial federal law issue could be raised on another element of the malpractice claim. For example, a party may argue that an issue of duty, or breach of a duty, such as a duty set forth in a federal statute or in the PTO's rules — not causation — raises a substantial question of federal law.

This issue has been raised but not yet decided in *Axcess International Inc. v. Baker Botts*, Civ. No. 3:10-CV-1383-F (N.D. Tex.), a patent-based legal malpractice action pending in federal court in Texas. Interestingly, that case is before the same district court judge who decided *Air Measurement* before the Federal Circuit's decision. Just five days after the Supreme Court announced its decision in *Gunn*, Judge W. Royal Furgeson issued an order asking the parties to brief whether he should dismiss the case in light of *Gunn*. The law firm in that case argued the federal court continues to have jurisdiction even after *Gunn* because the plaintiff alleged the direct violation of federal law, and the federal law issue does not arise in the "merely hypothetical" case-within-a-case context. Judge Furgeson has not announced a decision.

For now, it is safe to say that if the only federal issue raised by the malpractice case arises in the case within a case, there will be no "arising under" federal court jurisdiction. However, whether patent-based malpractice cases may raise other federal issues that will satisfy the "substantial" federal issue element of the *Grable* test, we'll have to stay tuned to see.

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