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U.S. Supreme Court Narrows Federal Jurisdiction For Malpractice Actions Arising out of Federal Patent Issues

February 21, 2013
Lawyers for the Profession® Alert

Gunn v. Minton, ___ U.S. ___, ___ S.Ct. ___, 2013 WL 610193 (February 20, 2013)

Brief Summary

In a 9-0 decision, the U.S. Supreme Court held that state courts have jurisdiction to resolve state legal malpractice actions even if the determination of the malpractice claim requires resolution of a disputed federal patent question. This decision effectively overrules the Federal Circuit's prior case law in *Air Measurement Technologies, Inc. v. Akin Gump Strauss Hauer & Feld, LLP,* 504 F. 3d 1262 (2007) and *Immunocept, LLC v. Fulbright & Jaworski, LLP,* 504 F. 3d 1281 (2007). Although the Supreme Court did not expressly rule out the possibility of federal jurisdiction in these cases, it did suggest that all but the rarest patent malpractice cases belong in state court.

Complete Summary
Gunn previously represented Vernon Minton in prior patent infringement litigation. In that underlying litigation, however, the district court declared Minton's patent invalid because he had placed it "on sale" more than one year prior to filing his application. Minton later determined that he may have prevailed under the "experimental use" exception to the on-sale bar, but that Gunn was allegedly negligent in failing to advise him of that available argument. Minton then sued Gunn for legal malpractice in Texas state court. After losing in state court, however, Minton requested that the case be sent to federal court based upon 28 U. S. C. § 1338(a)'s provision for exclusive federal jurisdiction over any case "arising under any Act of Congress relating to patents." The Texas Supreme Court agreed with Minton and found that because Section 1338(a) provided exclusive jurisdiction for claims relating to patents, the state court lacked jurisdiction over the state law legal malpractice action against Gunn. Gunn then petitioned the U.S. Supreme Court to address the scope of federal "arising under" jurisdiction.

The question, as the Supreme Court saw it, was whether a state law malpractice claim could be said to "arise under" federal patent law simply because the court hearing it would address patent law issues in deciding whether the lawyer defendant had erred and whether that error had cost his

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client. The “arising under” language used in Section 1338(a) has its foundation in the U.S. Constitution. Section 1338(a) is particularly focused on “any civil action arising under any Act of Congress relating to patents.” Section 1338(a) is particularly noteworthy because, unlike most causes of action, it provides for *exclusive federal jurisdiction* if the “arising under” requirement is met. In most patent cases, the “arising under” analysis is quite easy because the complaint asserts a claim that is clearly based on federal patent law, such as a patent infringement claim or a complaint seeking a declaration of invalidity. The U.S. Supreme Court has also held, however, that “arising under” jurisdiction may exist in cases where the cause of action is not based upon federal law, but where there is an underlying federal issue arising from the well-pled cause of action. *See, e.g., Grable & Sons Metal Products, Inc. v. Darue Engineering & Mfg.,* 545 U. S. 308 (2005). In *Grable,* the U.S. Supreme Court noted that this other form of “arising under” jurisdiction will only exist when the cause of action alleged in the complaint: (1) necessarily raises a stated federal issue; (2) that is actually disputed; (3) substantial, and (4) capable of resolution in federal court without disrupting the federal-state balance approved by Congress.

A legal malpractice action is generally a state law claim. Applying the foregoing factors, the Supreme Court ruled that Minton’s malpractice claim did not arise under patent law. The Court went further, however, and observed that: “state legal malpractice claims based on underlying patent matters will rarely, if ever, arise under federal patent law for purposes of §1338(a).” The Court acknowledged that the federal patent question at issue here, i.e., the viability of the experimental use exception, was necessary and actually disputed in Minton’s legal malpractice claim. The Court determined, however, that that federal question was not “substantial.” The resolution lacked significance to the federal system because the patent law issue would only be resolved in a hypothetical sense in the context of the malpractice litigation. Regardless of whether the state court determined that the experimental use exception applied, Minton’s patent would remain invalid. State court adjudication of these matters in similar cases will not undermine the development of federal patent law. The Court also found the fourth requirement of *Grable* unsatisfied, stating: “We have no reason to suppose that Congress—in establishing exclusive federal jurisdiction over patent cases—meant to bar from state courts state legal malpractice claims simply because they require resolution of a hypothetical patent issue.”

In addition, although not explicitly holding such, the Supreme Court suggested that state court decisions involving patent issues such as invalidity or obviousness should not have preclusive effect on other courts. For example, a state court decision involving a patent dispute that results in a state court finding that a particular patent is invalid should have no preclusive effect on either the U.S. Patent and Trademark Office or federal courts. Rather, “the result would be limited to the parties and patents that had been before the state court.”

Significance of Opinion

This opinion presents issues of considerable significance. It will have a huge impact because it appears that legal malpractice actions involving underlying patent issues that are currently being litigated in federal court will most likely be dismissed for lack of subject matter jurisdiction, absent diversity or other special conditions. Although the Supreme Court did not hold that a patent malpractice case could never arise under federal patent law, it made clear its view that such cases will “rarely, if ever” exist. It appears that virtually all legal malpractice actions arising out of underlying patent issues will be litigated in state courts, again absent diversity or other special conditions. This case also raises a number of other issues, such as its effect on cases where judgments have already been entered. Because subject matter jurisdiction may be raised in federal courts at any time so long at the case remains live, including on appeal, any federal patent malpractice case in which a judgment has not yet become final would be subject to dismissal, either on motion of a party (even a plaintiff like Minton seeking a “do-over”) or by the court where the case is pending. The application of statutes of limitations to cases dismissed in this way that are refiled in state court also presents an important issue.

For further information, please contact Terry McAvoy.

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