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Illinois State Court Has Jurisdiction of Legal Malpractice Claim Arising Out of Patent Matter

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Lawyers for the Profession® Alert

Magnetek, Inc. v. Kirkland and Ellis, LLP, ___ Ill. App. 3d ___, ___ N.E.2d ___, 2011 WL 2622413 (1st Dist. 2011)

Brief Summary

Plaintiff client filed a complaint in Cook County, Illinois for legal malpractice against defendant law firm, for its alleged negligence in an underlying patent infringement lawsuit. The trial court dismissed the complaint for lack of subject matter jurisdiction. The appellate court reversed and held that the action did not implicate substantial issues of patent law because it merely required the trial court to resolve factual issues related to the underlying plaintiff's inequitable conduct before the U.S. Patent and Trademark Office (USPTO).

Complete Summary

In 1998, an inventor filed a patent infringement lawsuit against the client. *Nilssen v. Magnetek, Inc.,* No. 98–CV–2229 (N.D. Ill.). The client retained the law firm to represent it in that action. The inventor alleged that the client infringed on certain patents, including U.S. Patent No. 5,432,409 (the '409 patent). A settlement agreement was reached whereby the inventor agreed to dismiss his infringement action and the parties agreed to arbitrate. On April 29, 2005, the arbitrator found in favor of the inventor and awarded him $23,352,439.63. The parties later settled the matter for $18,750,000.

The inventor petitioned for confirmation of the arbitration award and the client, who had retained new counsel and was not represented by the law firm in this proceeding, petitioned to vacate it. The client argued that, subsequent to the arbitration, it learned that the inventor had concealed facts from the USPTO in the prosecution of the '409 patent that would have prevented issuance of the patent. The client argued the arbitration award was procured as a result of the inventor's fraud before the USPTO. The client further contended that had it known of the inventor's misconduct before the USPTO at the time of the arbitration, it would not have entered into the settlement agreement.

On April 16, 2008, the district court held that it could only vacate the arbitration award if the client produced clear and convincing evidence of fraud in the procurement of the arbitration award and that such evidence was not discoverable with due diligence prior to the arbitration. Finding that the client

Attorneys

Terrence P. McAvoy

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had failed to make such a showing, the court denied the client's petition.

In 2001, while the underlying litigation was pending, the inventor sued another company for patent infringement, in the same jurisdiction as the underlying lawsuit. *Nilssen v. Osram Sylvania, Inc.,* 440 F. Supp. 2d 884 (N.D. Ill.2006) (*Osram I*). *Osram I* also involved the alleged infringement of the '409 patent. In that case, the law firm represented defendant company, which filed a counterclaim for a declaratory judgment that the patents at issue, including the '409 patent, were unenforceable because the inventor had engaged in inequitable conduct before the USPTO.

The district court declared all 11 of the inventor patents at issue, including the '409 patent, unenforceable.*Osram I*, 440 F. Supp. 2d at 911. On October 10, 2007, the U.S. Court of Appeals for the Federal Circuit affirmed. *Nilssen v. Osram Sylvania, Inc.,* 504 F.3d 1223 (Fed. Cir. 2007) (*Osram II*). The Federal Circuit concluded that the patents were "unenforceable due to inequitable conduct." A petition for *certiorari* was denied. *Nilssen v. Osram Sylvania, Inc.,* 554 U.S. 903 (2008).

Following confirmation of the arbitration award, the client sued the law firm for legal malpractice. Between the time of the arbitrator's ruling and the inventor's petition to confirm the arbitration award, the client alleged that it had "fortuitously and independently" learned of the undisclosed prior art and the inventor's misconduct before the USPTO that it claimed the law firm should have discovered. The client further alleged that that evidence was "used in two other cases involving the inventor in which the inventor's patents and patent claims were found to be unenforceable and invalid." The client attempted to use this newly discovered evidence to vacate the arbitration award, which the district court rejected. The client recounted the district court's finding that relief was not warranted because "[plaintiff's] counsel . . . should have been able to ascertain such facts in time for the arbitration proceeding."

As a result of the law firm's alleged negligence in "failing to investigate and discover the prior art and misconduct which had not been disclosed by the inventor and entering into a settlement agreement which precluded any further discovery or investigation prior to an arbitration," the client was prevented from "assert[ing] an effective defense that the inventor engaged in inequitable conduct and fraud and that the patent was invalid and/or unenforceable." The client alleged that as a proximate cause of the law firm's negligence, it was found liable on the judgment. The client further alleged that it incurred more than $300,000 in attorneys' fees and expenses in seeking to vacate the arbitration award and defeat the inventor's petition to confirm the award.

The law firm moved to dismiss, asserting that the trial court lacked subject matter jurisdiction because it involved substantial issues of patent law. The trial court granted the motion, reasoning "[t]here is a great deal of overlapping patent law playing out in this case."

On appeal, the appellate court noted that to satisfy the proximate cause element, the client would have to prove that if the law firm had asserted the inequitable conduct defenses it presented in *Osram I* in the client's case, the '409 patent would have been rendered unenforceable. The *Osram* opinions demonstrated that it would. Consequently, the issue of the unenforceability of the '409 patent, based on the defenses asserted by defendant company in the *Osram* cases and now claimed by the client, "has been resolved and is no longer disputed." While a finding of legal malpractice would depend on the unenforceability of the '409 patent, the trial court would not have to conduct an independent analysis of unenforceability because the district court established, and the Federal Circuit affirmed, the merits of that claim. The court thus held that there was no "disputed" federal patent issue raised by the client's legal malpractice complaint that would give rise to federal jurisdiction.

Significance of Opinion

This decision is yet another case which raises the issue of whether the federal courts have exclusive jurisdiction over legal malpractice claims simply because they arise out of some type of patent matter. In*Premier Networks, Inc. v. Stadheim and Grear,* 395 Ill. App. 3d 629, 918 N.E.2d 1117 (1st Dist. 2009), the same court determined that federal courts have exclusive jurisdiction over legal malpractice cases in which the issues are "inextricably bound to determinations of substantive issues of patent law." This court held, however, that because the disputed patent issues had already been litigated, there was no federal jurisdiction.

For more information, please contact Terrence P. McAvoy or your regular Hinshaw attorney.

Note: The New Mexico Supreme Court has accepted review in the case featured in last week's Lawyer's for the Profession alert, which was the decision of the New Mexico Court of Appeals in *Helena Chemical Company v. Uribe, et al.,* (no litigation privilege for attorney and client alleged defamatory statements to the news media), and the case is now pending in the supreme court.

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