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Federal Circuit Has Exclusive Jurisdiction of Appeal of Claim Arising Out of Patent Matter

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Lawyers for the Profession® Alert

USPPS, Ltd. v. Avery Dennison Corp., ___ F.3d ___ , 2011 WL 2811537 (5th Cir. July 19, 2011)

Brief Summary

The U.S. Court of Appeals for the Fifth Circuit held that the lawsuit, which involved state law claims of fraud and breach of fiduciary duty in connection with a patent application, required deciding an issue of patent law which rose to the level of creating a substantial federal interest such that the U.S. Court of Appeals for the Federal Circuit had exclusive appellate jurisdiction. The appeal was thus transferred to the Federal Circuit.

Complete Summary

Plaintiff appealed the district court's grant of summary judgment in favor of defendants, who included a law firm, its client and a partner in the law firm. The district court held that there was no genuine dispute of material fact as to whether plaintiff's claims were time-barred, and that, in the alternative, there was no genuine dispute of material fact as to causation. The Fifth Circuit requested supplemental briefing on the issue of whether exclusive appellate jurisdiction rested in the U.S. Court of Appeals for the Federal Circuit under 28 U.S.C. §§ 1295(a) and 1338(a).

Plaintiff had filed suit in federal district court on the basis of diversity jurisdiction. The lawsuit stemmed from the efforts of plaintiff and its owner to obtain a patent for the owner's invention related to personalized postage stamps. In 1999, the owner filed a patent application with the U.S. Patent and Trademark Office (USPTO). While the application was pending, the owner negotiated a licensing agreement with defendant client. In March 2001, the USPTO approved the owner's patent application and notified him that it would issue the patent upon payment of the requisite fees. In May 2001, the owner and defendant client entered into an agreement under which defendant client agreed to assume responsibility for prosecuting the owner's patent application and to pay all related fees and expenses. The owner subsequently revoked all previous powers of attorney and appointed attorneys from defendant law firm to act on his behalf. Plaintiff's complaint alleged that defendant law firm never disclosed to the owner or anyone at plaintiff that the firm did not represent the owner and held a higher loyalty to defendant client's interests.

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In June 2001, defendant law firm, acting pursuant to the owner's power of attorney, formally abandoned the owner's original patent application and submitted a second application pursuing more claims. In August 2001, plaintiff and defendant client entered into an agreement under which defendant client would pay plaintiff a royalty on sales of personalized postage stamps. In mid-2002, the USPTO rejected the patent applications. Defendant law firm filed responses, but the USPTO again rejected the applications. Defendant client notified plaintiff that there was no hope that the applications could be revived. On May 14, 2003, defendant law firm notified defendant client and plaintiff that the applications had been abandoned. In 2004, defendant client notified plaintiff that it intended to sell personalized postage stamps to third parties without further payment of royalties after the royalty agreement expired by its own terms.

Plaintiff alleged that defendant law firm's representation of defendant client created a conflict of interest with its representation of the owner and plaintiff in the patent-prosecution process. Specifically, plaintiff argued that defendant client benefitted from the rejection of the patent application because defendant client could produce the stamps without paying royalties once the patent was rejected. Neither defendant client nor its law firm supposedly disclosed this conflict to plaintiff.

The court initially noted that "[u]nder 28 U.S.C. § 1295(a), the Federal Circuit has exclusive jurisdiction of an appeal where the district court's jurisdiction was based, in whole or in part, on 28 U.S.C. § 1338." *Natec, Inc. v. Deter Co.*, 28 F.3d 28, 29 (5th Cir.1994) (*per curiam*). The court then noted that 28 U.S.C. § 1338(a) grants exclusive jurisdiction to the federal district courts over "any civil action arising under any Act of Congress relating to patents." In *Christianson v. Colt Indus. Operating Corp.*, 486 U.S. 800, 807–09 (1988), the U.S. Supreme Court summarized its precedents delimiting the scope of this language:

[I]n order to demonstrate that a case is one "arising under" federal patent law the plaintiff must set up some right, title or interest under the patent laws, or at least make it appear that some right or privilege will be defeated by one construction, or sustained by the opposite construction of these laws. . . . [Thus] § 1338(a) jurisdiction . . . extend[s] only to those cases in which a well-pleaded complaint establishes either that federal patent law creates the cause of action or that the plaintiff's right to relief necessarily depends on resolution of a substantial question of federal patent law, in that patent law is a necessary element of one of the well-pleaded claims.

In *Grable & Sons Metal Products, Inc. v. Darue Engineering & Manufacturing*, 545 U.S. 308, 314, the U.S. Supreme Court clarified the role that federalism concerns should play in this analysis: "[T]he question is, does a state-law claim necessarily raise a stated federal issue, actually disputed and substantial, which a federal forum may entertain without disturbing any congressionally approved balance of federal and state judicial responsibilities[?]"

The *USPPS* court recognized that there is thus a two-part inquiry: first, whether the case requires deciding an issue of patent law; and second, where a patent issue must be decided, whether that issue rises to the level of creating a substantial federal interest such that the Federal Circuit has exclusive appellate jurisdiction. The court noted that in *Air Measurement Technologies, Inc. v. Akin Gump Strauss Hauer & Feld, LLP*, 504 F.3d 1262 (Fed. Cir. 2007), and its companion case, *Immunocept, LLC v. Fulbright & Jaworski, LLP*, 504 F.3d 1281 (Fed. Cir. 2007), the Federal Circuit concluded that the exercise of 28 U.S.C. § 1338 federal jurisdiction was proper over state law claims of malpractice where the alleged malpractice required the court to construe a patent.

Because this was a damage claim, not a fee forfeiture, under Texas law, there had to be proof that the patent would have issued but for defendants' alleged conduct. The court ultimately held that this case raises issues of patent law, and those issues are substantial because of the special federal interest in developing a uniform body of patent law in the Federal Circuit.

Significance of Opinion

In *Singh v. Duane Morris LLP*, 538 F.3d 334 (5th Cir. Tex. 2008), the court had questioned the Federal Circuit's analysis, but did not need to decide the issue. Here, the court stated: "We are now squarely faced with the question of whether this state-law tort claim presenting questions of patent law involves a sufficiently substantial federal interest to permit federal jurisdiction over a state-law tort. We hold that it does."

For more information, please contact Terrence P. McAvoy.

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