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Federal Circuit Holds That Federal Court Has Exclusive Jurisdiction Over Legal Malpractice Claim Arising out of Patent Prosecution

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Lawyers for the Profession® Alert

Landmark Screens, LLC v. Morgan, Lewis & Bockius, LLP, ___ F.3d ___ , 2012 WL 1382855 (Fed. Cir. 2012)

Brief Summary

The U.S. Court of Appeals for the Federal Circuit held that the federal district court has exclusive jurisdiction over legal malpractice claims arising out of defendants' prosecution of plaintiff's patents.

Complete Summary

Plaintiff client appealed from the final decision dismissing its state law fraud claim against defendants, a law firm and one of its attorneys. The district court dismissed the client's complaint as untimely filed. The court also issued an order, the effect of which would have been to limit the client's available damages had its complaint been timely filed.

This case concerns the client's invention of a light emitting diode (LED) electronic billboard. To protect its ability to develop and market its invention, the client retained defendant attorney, who was then with a different firm, to prepare and file a patent application. On January 9, 2002, the attorney filed U.S. Patent Application No. 10/045,096 ("the '096 application"). In May 2003, the U.S. Patent and Trademark Office (USPTO) informed the attorney that the client's application contained multiple inventions. The USPTO then asked the client to restrict the '096 application to one of four inventions. On May 5, 2003, the attorney elected to pursue certain claims and withdrew the remaining claims. It appears undisputed that both the attorney and the client intended that the withdrawn claims would be timely pursued via one or more divisional applications, which would presumably benefit from the '096 application's filing date. However, that is not how the story unfolded.

On July 10, 2003, the USPTO published the '096 application. This publication would later create serious problems due to the printed publication rule of 35 U.S.C. §102(b). On August 13, 2003, the attorney submitted a divisional application to the USPTO ("the '916 divisional application"). However, he made two mistakes that left the that application incomplete.

Attorneys

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It was not until June 22, 2004, that the USPTO issued a notice of incomplete nonprovisional application stating that the '916 divisional application was missing the required specification and thus had not yet been granted a filing date. By this time, the attorney had left his prior law firm and was practicing at defendant law firm, with the client as a client. Defendants took no action for several weeks, and the one-year anniversary of the '096 application's publication passed on July 10, 2004. As a result, the client's own '096 application became prior art against the '916 divisional application under 35 U.S.C. §102(b). The USPTO later denied the client's petition to grant it the benefit of an earlier filing date, and all claims in the '916 divisional application were thus lost. This was a devastating outcome for the client.

The client claimed that defendants then actively misled it. Finally, in November 2005, the client fired defendants and sued them in California state court. The California state court dismissed the client's claims for lack of subject matter jurisdiction. *See Immunocept, LLC v. Fulbright & Jaworski, LLP,* 504 F.3d 1281 (Fed. Cir. 2007) and *Air Measurement Technologies, Inc. v. Akin Gump Strauss Hauer & Feld, L.L.P.,* 504 F.3d 1262 (Fed. Cir. 2007). The client filed a complaint in federal court in California on the day of the state court dismissal. In June 2008, the client filed an amended complaint that included all previous claims and added a claim for fraud. Over the next two years, the district court dismissed all of the client's claims except its fraud claim as barred by California's one-year statute of limitations governing legal malpractice actions. The client did not appeal those rulings.

As to the fraud claim, the district court ultimately granted defendants' summary judgment motion on the basis that the client had notice of its fraud claim more than three years before filing its federal lawsuit, and the claim was thus time-barred. The client appealed.

The Federal Circuit first had to determine if it had jurisdiction over the appeal. It ultimately concluded that because the underlying question was whether the client would have been able to achieve patent protection for its invention absent the alleged malpractice, there was a substantial question of patent law presented that conferred jurisdiction to the district court under 28 U.S.C. §1338(a).

The court went on to hold that the district court erred in dismissing the complaint because under California equitable tolling law, the state law fraud claim was timely filed in the district court. The court also held that the district court erred in summarily limiting the client's claimed damages, and the court remanded the case for trial on the fraud claim.

In a concurring opinion, Judge O'Malley stated that although she agreed that current case law compelled the court to exercise jurisdiction over this appeal, she believed the Federal Circuit should reconsider that case law *en banc* for the reasons detailed in her dissent from the denial of rehearing *en banc* in *Byrne v. Wood, Herron & Evans, LLP,* 676 F.3d 1024 (Fed. Cir. 2012).

Significance of Opinion

This decision is yet another recent case—although this one by the Federal Circuit—which addresses the issue of whether federal courts have exclusive jurisdiction over state law legal malpractice claims simply because they arise out of some type of patent prosecution or patent infringement litigation. Although the Federal Circuit again held there was a substantial question of patent law presented that conferred jurisdiction to the district court, the concurring opinion recommends this issue be reconsidered by the Federal Circuit *en banc*.

For further information, please contact Terrence P. McAvoy.

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