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***Gunn v. Minton* Will Impact Future Patent Malpractice Cases**

Law360

January 14, 2013

On Jan. 16, 2013, the U.S. Supreme Court will revisit a question it has grappled with for almost a century — the proper scope of federal court subject matter jurisdiction over state law claims that raise embedded issues of federal law. The case, *Jerry W. Gunn et al. v. Vernon F. Minton*, No. 11-1118, is being closely watched by intellectual property lawyers, legal malpractice lawyers, and insurers writing lawyers professional liability coverage because the justices will consider whether certain state law legal malpractice claims should be heard by the federal courts because they arise out of underlying federal patent representations.

Intellectual property lawyers named as defendants in legal malpractice cases typically prefer that federal courts decide their cases, rather than state courts which have no patent law experience. In the case before the court, however, roles are reversed, with the legal malpractice plaintiff arguing for federal court jurisdiction.

Minton Files A Malpractice Claim Over a Patent Law Representation

Vernon Minton filed a federal patent infringement action against the National Association of Securities Dealers Inc. The federal district court dismissed Minton's suit on summary judgment, concluding that Minton's patent was invalid because of the "on-sale bar" doctrine, and the Federal Circuit affirmed. Minton then filed a malpractice action against his lawyers in Texas state court, alleging they had failed timely to assert that Minton had an experimental use defense to the on-sale bar rule.

Authors

Richard A. Simpson
Partner, Deputy General Counsel
202.719.7314
rsimpson@wiley.law

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In the malpractice action, Minton's former attorneys filed a motion for summary judgment arguing that Minton could not prove their alleged negligence caused his suit to be dismissed because the experimental use defense would have failed as a matter of law in the underlying patent infringement action. The state court agreed and granted Minton's former attorneys summary judgment. Minton appealed.

The Texas Supreme Court Dismisses The Malpractice Claim

After Minton filed his legal malpractice suit, two developments substantially altered the jurisdictional landscape for state law malpractice claims. First, the Supreme Court decided in *Grable & Sons Metal Products Inc. v. Darue Engineering & Manufacturing*, 545 U.S. 308 (2005) that some state-law claims are within federal court "arising under" jurisdiction if they "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." *Id.* at 312.

Second, in 2007, the Federal Circuit extended *Grable* by issuing a pair of decisions on the same day holding that state law legal malpractice claims arising out of underlying patent representations fall within the exclusive "arising under" jurisdiction of the federal district courts and the Federal Circuit. See *Air Measurement Techs. Inc. v. Akin Gump Strauss Hauer & Feld, LLP*, 504 F.3d 1262 (Fed. Cir. 2007); *Immunocept LLC v. Fulbright & Jaworski LLP*, 504 F.3d 1281 (Fed. Cir. 2007).

In light of these developments, and having lost summary judgment in the trial court, Minton argued before the Texas appellate courts that his case falls within the exclusive subject matter jurisdiction of the federal courts and therefore should be dismissed on that basis, allowing Minton to refile his lawsuit in federal district court. Ultimately, a divided Texas Supreme Court agreed with Minton's position that his state law legal malpractice claim raised a substantial embedded issue of federal patent law that should be decided by the federal courts.

Minton's former lawyers sought review from the United States Supreme Court, and on Oct. 5, 2012, the court granted certiorari to decide, "Did the Federal Circuit depart from the standard this Court articulated in *Grable & Sons Metal Products, Inc. v. Darue Eng'g & Mfg.*, 545 U.S. 308 (2005), for 'arising under' jurisdiction of the federal courts under 28 U.S.C. § 1338, when it held that state law legal malpractice claims against trial lawyers for their handling of underlying patent matters come within the exclusive jurisdiction of the federal courts? Because the Federal Circuit has exclusive jurisdiction over appeals involving patents, are state courts and federal courts strictly following the Federal Circuit's mistaken standard, thereby magnifying its jurisdictional error and sweeping broad swaths of state law claims — which involve no actual patents and have no impact on actual patent rights — into the federal courts?"

The Parties Present Competing Interpretations of *Grable*

Minton and his former lawyers agree that *Grable* supplies the standard for determining the scope of "arising

under” jurisdiction with respect to embedded issues of federal law, both for purposes of the general federal subject matter statute, 28 U.S.C. § 1331, and for purposes of the identically worded statute granting the federal courts exclusive jurisdiction over “any civil action arising under any Act of Congress relating to patents,” 28 U.S.C. § 1338.

The parties strongly disagree, however, on whether a state law legal malpractice claim can satisfy the *Grable* standard. Minton’s former lawyers argue that even if a malpractice claim requires the former client to prove a “case-within-the-case” to prevail on the proximate causation element, an embedded issue of federal patent law is nevertheless never substantial because its resolution in the malpractice context is merely a “hypothetical” exercise. Minton’s former lawyers therefore propose that the court adopt a per se rule that no legal malpractice claim can ever satisfy *Grable*.

In contrast, Minton argues that a small subset of legal malpractice claims arising out of patent representations will satisfy *Grable*’s test. This narrow subset would include cases such as Minton’s, where the core dispute between the parties was over a substantive issue of patent law that would necessarily have to be decided on its merits in the context of the legal malpractice “case-within-the-case.”

Before the Texas state court, Minton and his former attorneys disputed whether the experimental use defense would have applied to avoid the on-sale bar rule in his patent infringement action, and the state court ruled on this issue as a matter of law. Minton therefore urges the court to reaffirm *Grable*’s careful balancing test, and to apply it to legal malpractice cases in the same way it is applied in other contexts.

The Court’s Decision Will Impact Future Malpractice Claims Against IP Practitioners

It is difficult to predict how the court will rule. Indeed, shortly after the court decided *Grable*, the justices issued a 5-4 decision in which the majority concluded that a health insurer’s state-law subrogation claim to recover amounts it paid under a federal government health plan did not fall within “the slim category *Grable* exemplifies.” See *Empire HealthChoice Assur. Inc. v. McVeigh*, 547 U.S. 677 (2006) (Ginsburg, J.). We think it unlikely that the court will affirm the Federal Circuit’s sweeping interpretation of its own exclusive appellate jurisdiction over all state law legal malpractice claims arising out of patent representations.

At the same time, there is good reason for the court to refuse to adopt the per se rule proposed by Minton’s former lawyers, under which no legal malpractice case could ever meet the *Grable* standard. Precluding legal malpractice claims raising an embedded issue of patent law from being heard in federal court, other than by diversity jurisdiction, would lead to anomalous results, such as where the state court conducts a Markman hearing to construe the patent claim asserted in an underlying patent infringement action.

The better view is that the mere fact that the decision of a patent law issue in the case-within-the-case context is in one sense “hypothetical” does not mean that the patent law issue decided can never be substantial. Decisions on patent law issues in the context of the case-within-the-case are made on the merits just as they

would be in the underlying patent infringement case, and those decisions both create precedent and have real world consequences.

Should the court affirm the Texas Supreme Court's holding, intellectual property attorneys facing a legal malpractice claim arising out of an underlying patent representation may be able to take advantage of a federal forum, with any appeal being directed to the Federal Circuit. If, however, the court reverses and adopts a per se rule that no legal malpractice claim can ever meet *Grable's* standard, intellectual property attorneys will need to defend such legal malpractice claims in state courts with no patent law experience.