CASE NOTE

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Can Federal Courts Exercise Jurisdiction over State Law Malpractice Claims Arising out of Patent Law Disputes?

CONTENTS

I. INTRODUCTION

Under 28 U.S.C. § 1338, federal courts generally have original jurisdiction over cases arising under federal civil law.[1] Specifically, under 28 U.S.C. § 1338(a), federal courts have jurisdiction over cases brought under federal patent laws.[2] As with any legal proceeding, the potential for legal malpractice as it relates to patent issues (e.g., proper patent filing) is very real.[3] However, unlike patent law proceedings, legal malpractice is

1. *See* Minton v. Gunn, 355 S.W.3d 634, 640 (Tex. 2011) ("Congress has provided federal courts jurisdiction over civil actions generally 'arising under' federal law . . . ."), *rev'd*, 133 S. Ct. 1059 (2013).

2. 28 U.S.C. § 1338(a) (Supp. V 2011).

3. *See, e.g.*, *Minton*, 355 S.W.3d at 638–39 (demonstrating a potential outcome of patent litigation).

governed by state law.[4] When the two causes of action are intertwined, federal and state courts are presented with the issue of which court possesses proper jurisdiction.[5] Some argue federal courts can properly exercise jurisdiction over these legal malpractice claims because they are "a necessary, disputed, and substantial element"[6] of the underlying federal cause of action regarding the patent issue; others argue these actions are more properly brought in state court and, therefore, federal courts should cease exercising jurisdiction over these state law malpractice claims because the patent issues are merely incidental to the malpractice issue.[7] State law advocates believe this improper exercise of jurisdiction upsets the balance between state and federal courts.[8]

In *Gunn v. Minton*,[9] the Supreme Court of the United States considered the issue after granting certiorari on a Texas case.[10] The Texas Supreme Court concluded the patent issue involved a substantial element of the malpractice claim and thus was beyond the jurisdiction of state courts.[11] The U.S. Supreme Court reversed and held state courts do have jurisdiction over these intertwined causes of action.[12] The different approaches and conclusions of the two courts offer an elucidating investigation of federal patent law jurisdiction with regard to coinciding legal malpractice claims.

II. BACKGROUND

In the 1990s, Vernon Minton "began developing the Texas Computer Exchange Network (TEXCEN)."[13] This software was designed to provide investment technology that was traditionally only used by investment experts to individual financial investors.[14] After proving the commercial

4. *See, e.g.*, *50 State Survey of Legal Malpractice Law*, A.B.A., http://apps.americanbar.org/litigation/committees/professional/malpractice_survey.html (last visited Apr. 7, 2013) (listing a collection of articles related to each state's claims and defenses related to legal malpractice cases).

5. *See, e.g.*, *Minton*, 355 S.W.3d at 636 (considering whether federal courts have exclusive jurisdiction over a state-based legal malpractice claim that resulted from a patent litigation suit).

6. *Id.* at 647.

7. 28 U.S.C. § 1338 (Supp. V 2011).

8. *Compare Minton*, 355 S.W.3d at 636 (finding exercise of exclusive federal jurisdiction is proper in this case), *with id.* at 647–55 (Guzman, J., dissenting) (disagreeing with the majority's factual analysis on three of the four determinative factors).

9. Gunn v. Minton, 133 S. Ct. 1059 (2013).

10. Minton v. Gunn, 355 S.W.3d 634 (Tex. 2011), *rev'd*, 133 S. Ct. 1059 (2013).

11. *Id.* at 648.

12. *Gunn*, 133 S. Ct. at 1068–69.

13. *Minton*, 355 S.W.3d at 636.

14. *See id.* at 637 ("Minton developed the TEXCEN software to allow financial investors to

viability of his software to R.M. Stark & Co., a New York corporation and "member of the National Association of Securities Dealers, Inc.," Minton leased the TEXCEN software to Stark.[15] However, Minton failed to disclose to Stark that the lease was for experimental purposes.[16] Over a year later, "Minton filed a provisional patent application," covering software with features very similar to the TEXCEN software that he previously leased to Stark.[17] The United States Patent and Trademark Office granted this patent application on January 11, 2000.[18]

Subsequent to the patent grant, Minton filed suit "against NASD and The NASDAQ Stock Market, Inc. in the United States District Court for the Eastern District of Texas" alleging patent infringement.[19] Minton's attorneys had no knowledge of Minton's lease of the TEXCEN software when he filed suit.[20] NASD and NASDAQ moved for summary judgment, arguing the similarity between the TEXCEN software and the patented software implicated the "on-sale bar" under § 102(b) of the U.S. Patent Act.[21] Summary judgment was ultimately granted in favor of NASD and NASDAQ, and Minton's patent was declared invalid.[22]

Following the district court's decision, "Minton asked his attorneys to consider a new defense to the on-sale bar—the experimental use exception. Under the experimental use exception, a patent will not be invalidated by the on-sale bar if the purpose for which the patented invention was sold was primarily experimental rather than commercial."[23] Minton filed a motion for reconsideration arguing this exception and obtained new counsel to brief the claim;[24] however, the district court denied Minton's motion for reconsideration.[25] Minton then appealed to the United States Court of Appeals for the Federal Circuit, which affirmed the lower court's

'open[] brokerage accounts and execut[e] trades' at their convenience 'with all the investment technology the experts enjoy.'" (alterations in original)).

15. *Id.*

16. *Id.*

17. *See id.* (noting Minton's application to patent a highly similar software system).

18. *Id.*

19. *Id.* (citing Minton v. Nat'l Ass'n of Sec. Dealers, Inc., 226 F. Supp. 2d 845, 852 (E.D. Tex. 2002)).

20. *Id.*

21. *See id.* (describing the "on-sale bar" that invalidates patents when the subject invention is sold within one year of the date of the patent application (citing 35 U.S.C. § 102(b) (2006))).

22. *Id.*

23. *Id.* at 637–38.

24. *Id.* at 638.

25. *Id.*

denial because the exception was not timely asserted at trial.[26]

As a result, Minton filed a legal malpractice suit in state court against a number of attorneys, including Gunn.[27] Minton alleged, among other claims, that the failure to timely brief and plead the experimental use exception cost him the opportunity to win his patent suit.[28] The trial court granted Gunn's no-evidence motions for summary judgment and motions to dismiss resulting in a take-nothing judgment.[29] Minton then filed an appeal.[30]

Shortly after Minton filed his appeal, the United States Court of Appeals for the Federal Circuit decided *Air Measurement Technologies, Inc. v. Akin Gump Strauss Hauer & Feld, L.L.P.*[31] This case held "establishing patent infringement is a necessary element of a [state] malpractice claim stemming from alleged mishandling of . . . earlier patent litigation, the issue is substantial and contested, and federal resolution of the issue was intended by Congress," and thus, federal courts possess exclusive "arising under" jurisdiction of the malpractice claim.[32]

Relying on *Air Measurement Technologies, Inc.*, Minton argued for dismissal of his state appeal for lack of subject matter jurisdiction because the underlying malpractice suit fell "under exclusive federal patent law jurisdiction."[33] The appellate court held it had subject matter jurisdiction over the dispute, denied Minton's motion to dismiss, and affirmed the trial court's judgment.[34] Before addressing the substance of the case, the Texas Supreme Court was charged with reviewing the appellate court's holding on the jurisdictional issue.[35]

26. *Id.*

27. *Id.* The opinion lists the following parties as respondents: "Jerry W. Gunn, individually; Williams Squire & Wren, L.L.P.; James E. Wren, individually; Slusser & Frost, L.L.P.; William C. Slusser, individually; Slusser Wilson & Partridge, L.L.P.; and Michael E. Wilson, individually (collectively 'Gunn')." *Id.*

28. *Id.*

29. *Id.* at 638–39.

30. *Id.*

31. Air Measurement Techs., Inc. v. Akin Gump Strauss Hauer & Feld, L.L.P., 504 F.3d 1262 (Fed. Cir. 2007).

32. *Minton*, 355 S.W.3d at 639 (quoting *Air Measurement Techs., Inc.*, 504 F.3d at 1273).

33. *Id.*

34. *Id.* (citing Minton v. Gunn, 301 S.W.3d 702, 709, 715 (Tex. App.—Fort Worth 2009, pet. granted)).

35. *See id.* ("Before we can reach the merits of Minton's claim, we must first determine whether we possess subject-matter jurisdiction to consider this appeal.").

III. TEXAS SUPREME COURT'S ANALYSIS

In determining whether the state appellate court could properly exercise subject matter jurisdiction over Minton's suit, the Texas Supreme Court began its analysis by noting, "[F]ederal courts [have] jurisdiction over civil actions generally 'arising under' federal law and also over actions specifically 'arising under' any federal law relating to patents."[36] As such, federal courts exercise federal question jurisdiction if the state law claim implicates a significant federal issue (e.g., a patent claim).[37] In making this determination, the Texas Supreme Court outlined four factors to determine whether federal jurisdiction exists: "(1) resolving a federal issue is necessary to resolution of the state law claim; (2) the federal issue is actually disputed; (3) the federal issue is substantial; and (4) federal jurisdiction will not disturb the balance of federal and state judicial responsibilities."[38]

The court began its four-factor analysis by determining whether the experimental use exception was a necessary component to the determination of Minton's state-law malpractice claim.[39] The court noted because Minton only pled one theory in support of his malpractice claim, he had no alternative to establish his attorney's alleged malpractice.[40] Additionally, the court recognized "a determination of whether Minton would have won his underlying federal patent infringement action necessarily requires a consideration of the legal and factual viability of the

36. *Id.* at 640 (citing 28 U.S.C. §§ 1331, 1331(a) (2006)).

37. *Id.* (citing Grable & Sons Metal Prods., Inc. v. Darue Eng'g & Mfg., 545 U.S. 308, 312 (2005)). The Texas Supreme Court, in analyzing a federal patent issue, noted the United States Supreme Court had previously

> [C]onstrued § 1338(a)'s "arising under" language to extend federal jurisdiction to any case "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." Whether a patent issue presented in a state-based action is substantial enough to trigger federal jurisdiction under § 1338(a) "must be determined from what necessarily appears in the plaintiff's [well-pleaded complaint] . . . unaided by anything alleged in anticipation or avoidance of defenses which it is thought the defendant may interpose."

Id. (citations omitted) (quoting Christianson v. Colt Indus. Operating Corp., 486 U.S. 800, 808–09 (1988)).

38. *See id.* at 640–41 (quoting Singh v. Duane Morris L.L.P., 538 F.3d 334, 338 (5th Cir. 2008)) (describing the "Grable Test"). These factors were developed in *Grable & Sons Metal Products, Inc. v. Darue Engineering & Manufacturing*, 545 U.S. 308 (2005).

39. *See Minton*, 355 S.W.3d at 642 ("The first prong of the *Grable* test requires that the applicability of the experimental use exception to the on-sale bar be a necessary component to the determination of Minton's state-based legal malpractice claim.").

40. *Id.*

experimental use defense."[41] As such, the court found the first factor was met because the federal issue was necessary to resolving the state law claim.[42]

The court proceeded to the second factor and found little difficulty in holding the viability of the experimental use exception was in dispute.[43] Accordingly, the court found the second factor was satisfied.[44]

Under the third prong, the court examined whether the experimental use exception was a substantial part of Minton's state law legal malpractice claim.[45] Here, the supreme court disagreed with the appellate court and held the exception comprised a substantial part of Minton's state law legal malpractice claim.[46] In so doing, the court relied on several federal cases that determined federal issues as substantial "when the determination of the patent issue establishes the success or failure of an overlying state law claim."[47] Because the court determined Minton's success or failure turned on the viability of the experimental use exception, it reasoned a substantial federal issue existed; this determination satisfied the third factor outlined by the court.[48]

The court then evaluated the final and most important factor: whether a determination of the "viability of the experimental use exception" was a question federal courts could evaluate without "upsetting the balance between federal and state judicial responsibilities."[49] Ultimately, the court determined this requirement was satisfied, reasoning that "when the validity of a patent is questioned, even if within the context of a state-based legal malpractice claim, the federal government and patent litigants have an interest in the uniform application of patent law by courts well-versed in that subject matter."[50]

After applying the four factors to the facts of the case, the Texas Supreme Court determined federal courts held exclusive jurisdiction over

41. *Id.* (citing *Grable & Sons Metal Prods., Inc.*, 545 U.S. at 314–15; Alexander v. Turtur & Assocs., 146 S.W.3d 113, 117 (Tex. 2004); Air Measurement Techs., Inc. v. Akin Gump Strauss Hauer & Feld, L.L.P., 504 F.3d 1262, 1270 (Fed. Cir. 2007)).

42. *See id.* (deciding the "first *Grable* prong is satisfied").

43. *See id.* at 642–43 ("For obvious reasons, the legal and factual viability of the experimental use exception is clearly in dispute.").

44. *Id.* at 643.

45. *Id.*

46. *Id.*

47. *See id.* at 643–44 (reviewing several federal cases in weighing the court's third prong analysis).

48. *See id.* at 644 (finding the third prong was satisfied).

49. *Id.*

50. *Id.* at 646.

Minton's state law legal malpractice claim.[51] While the court determined federal courts held exclusive federal jurisdiction in this case, it noted this jurisdiction rested solely on the specific facts of the case and the ruling may therefore have limited application.[52] Additionally, the court clarified all four factors must be realized for federal courts to hold exclusive jurisdiction in similar situations.[53]

IV. UNITED STATES SUPREME COURT'S ANALYSIS

Following the Texas Supreme Court's decision, the Supreme Court of the United States granted certiorari in order to settle the issue.[54] The Court began its analysis by reiterating "'[f]ederal courts are courts of limited jurisdiction,' possessing 'only that power authorized by Constitution and statute.'"[55] Specifically, the Court noted that under 28 U.S.C § 1331, federal district courts exercise original jurisdiction over "all civil actions arising under the Constitution, laws, or treaties of the United States"[56] and similarly, "over 'any civil action arising under any Act of Congress relating to patents.'"[57] Based on these two statutes, the relevant inquiry to determine jurisdiction is whether the case "arose" under federal patent law.[58] For statutory purposes, a case arises under federal law in two different situations: (1) when federal law directly establishes the cause of action asserted,[59] and (2) when the "state-law claim necessarily raise[s] a stated federal issue, actually disputed and substantial, which a federal forum may entertain without disturbing any congressionally approved

51. *Id.*

52. *Id.*

53. *See id.* ("In the future . . . any state litigant asserting a legal malpractice action to recover for damages resulting from his patent attorney's negligence in patent prosecution or litigation must also satisfy all four elements of the *Grable* test to place his claim under exclusive federal jurisdiction."). *But see id.* (declaring the holding should only apply to the facts of the subject case).

54. Minton v. Gunn, 355 S.W.3d 634 (Tex. 2011), *cert. granted*, 133 S. Ct. 420 (Oct. 5, 2012) (No. 11-1118).

55. Gunn v. Minton, 133 S. Ct. 1059, 1064 (2013) (quoting Kokkonen v. Guardian Life Ins. Co. of Am., 511 U.S. 375, 377 (1994)).

56. *Id.* (quoting 28 U.S.C. § 1331 (2006)).

57. *Id.* (quoting 28 U.S.C. § 1338(a) (Supp. V 2011)).

58. *See id.* (extending federal jurisdiction to civil actions "arising under any Act of Congress relating to patents" (quoting 28 U.S.C. § 1331 (2006))). The Court also noted that for the sake of linguistic consistency, "arising under" has been interpreted identically in § 1331 and § 1338 of the United States Code. *Id.*

59. *Id.* The Court noted Minton's original patent infringement case arose under federal law because it was specifically authorized under 35 U.S.C. §§ 271, 278. *Id.* (citing 35 U.S.C. §§ 271, 278 (2006)).

balance of federal and state judicial responsibilities."[60] The Court conducted its analysis under the latter scenario.[61]

Similar to the Texas Supreme Court, the Court applied the four-factor test from *Grable & Sons Metal Products, Inc. v. Darue Engineering & Manufacturing*[62] to determine if federal jurisdiction could be properly exercised over Minton's state-law malpractice claim.[63] The Court first looked at whether the federal patent question was necessary to Minton's state-law malpractice claim.[64] The Court held that it was indeed necessary because Minton's malpractice claim could only succeed if his federal patent infringement case could have succeeded.[65] It follows that the application of federal patent law to Minton's case was necessary.[66]

The Court also found the second factor—that the federal issue was actually disputed—was easily satisfied as the federal issue was the central point of the dispute.[67]

However, under the third factor, the Court found Minton's argument foundered.[68] The Court noted the federal issue was "not substantial in the relevant sense."[69] It is not enough for the federal issue to be simply significant to the parties of the particular suit.[70] Rather, "[t]he substantiality inquiry under *Grable* looks instead to the importance of the issue to the federal system as a whole."[71] In Minton's case, the federal issue was not substantial.

> Because of the backward-looking nature of a legal malpractice claim, the question is posed in a merely hypothetical sense: *If* Minton's lawyers had

60. *Id.* (quoting Grable & Sons Metal Prods., Inc. v. Darue Eng'g & Mfg., 545 U.S. 308, 314 (2005)).

61. *Id.* at 1065.

62. Grable & Sons Metal Prods., Inc. v. Darue Eng'g & Mfg., 545 U.S. 308 (2005).

63. *Gunn*, 133 S. Ct. 1059, 1065 (2013) (citing *Grable & Sons Metal Prods., Inc.*, 545 U.S. at 313–14). The Court held federal courts can exercise jurisdiction over state law claims if the federal law issue is: "(1) necessarily raised, (2) actually disputed, (3) substantial, and (4) capable of resolution in federal court without disrupting the federal-state balance approved by Congress." *Id.* It is important to note that all four factors must be satisfied for federal jurisdiction to lie. *Id.*

64. *See id.* (beginning with the necessity of the patent question to the underlying cause of action).

65. *Id.* (citing Minton v. Gunn, 355 S.W.3d 634, 639 (Tex. 2011)).

66. *Id.*

67. *Id.*

68. *Id.* at 1066.

69. *Id.*

70. *See id.* ("[This] will *always* be true when the state claim 'necessarily raise[s]' a disputed federal issue, as *Grable* separately requires.").

71. *Id.*

> raised a timely experimental-use argument, would the result in the patent infringement proceeding have been different? No matter how the state courts resolve that hypothetical "case within a case," it will not change the real-world result of the prior federal patent litigation. Minton's patent will remain invalid.[72]

The Court also disposed of concerns that allowing state courts to decide these issues would undermine the development of uniform patent laws, stating, "Congress ensured such uniformity by vesting exclusive jurisdiction over actual patent cases in the federal district courts and exclusive appellate jurisdiction in the Federal Circuit."[73] The Court recognized that in non-hypothetical cases, the state court "case-within-a-case" precedent on patent matters is not binding on federal courts.[74] The Court also recognized even in a state case-within-a-case that asks what would have hypothetically occurred in a prior federal proceeding, state courts would rely heavily on pertinent federal precedents in answering the question because it is precisely those precedents that would have been applied in the prior federal proceeding had the issue been presented.[75] Concerns about patent issues being presented for the first time in state courts rather than federal courts were similarly dismissed: "If the question arises frequently, it will soon be resolved within the federal system, laying to rest any contrary state court precedent; if it does not arise frequently, it is unlikely to implicate substantial federal interests."[76]

Minton also argued a state court decision can have an "effect on other patents through issue preclusion,"[77] but the Court noted it was unclear whether this assertion had merit.[78] First, the Court looked at the Patent and Trademark Office's Manual of Patent Examining Procedure, which provided that res judicata was proper grounds for rejecting a patent "'only when the earlier decision was a decision of the Board of Appeals' or certain federal reviewing courts, giving no indication that state court decisions would have preclusive effect."[79] Additionally, the Court noted Minton

72. *Id.* at 1066–67.

73. *Id.* at 1067.

74. *Id.* (citing Tafflin v. Levitt, 493 U.S. 455, 465 (1990)).

75. *See id.* (noting "state courts can be expected to hew closely to the pertinent federal precedents" in approaching the question).

76. *Id.*

77. *Id.* (citing Respondent's Brief on the Merits at 33–36, *Gunn*, 133 S. Ct. 1059 (No. 11-1118), 2012 WL 6693502, at *35).

78. *Id.*

79. *Id.* (citing DEPT. OF COM., PATENT AND TRADEMARK OFFICE, MANUAL OF PATENT EXAMINING PROCEDURE § 706.03(w) (8th ed. 2012)).

was unable to identify any case to support his argument.[80] Finally, the Court, assuming arguendo some preclusive effect, determined the results would be limited to the specific parties and patents before the state court, which is insufficient to establish federal jurisdiction.[81]

The Court also rejected the notion that "federal courts' greater familiarity with patent law means that legal malpractice cases like this one belong in federal court."[82] The Court recognized "the possibility that a state court will incorrectly resolve a state claim is not, by itself, enough to trigger the federal courts' exclusive patent jurisdiction, even if the potential error finds its root in a misunderstanding of patent law."[83] What is required is a demonstration that the issue is "significant to the federal system as a whole."[84]

Based on these concerns, the Court found the fourth *Grable* factor, "the balance of federal and state judicial responsibilities," was also not met.[85] While federal courts maintain jurisdiction over substantial federal issues, state courts "have 'a special responsibility for maintaining standards among members of the licensed professions.'"[86] As such, there is 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."[87]

V. CONCLUSION

While malpractice claims are state-law causes of action, federal courts have previously exercised jurisdiction over them when they seemingly implicated federal patent laws.[88] The Texas Supreme Court recently decided this expansion of federal jurisdiction was proper in *Minton v. Gunn*.[89] However, the United States Supreme Court disagreed and

80. *See id.* ("In fact, Minton has not identified any case finding such a preclusive effect based on a state court decision.").

81. *Id.* at 1067–68.

82. *Id.* at 1068.

83. *Id.*

84. *Id.* (citing Grable & Sons Metal Prods., Inc. v. Darue Eng'g & Mfg., 545 U.S. 308, 314 (2005)).

85. *Id.* at 1063 (internal quotation marks omitted).

86. *Id.* at 1068 (quoting Ohralik v. Ohio State Bar Ass'n, 436 U.S. 447, 460 (1978)).

87. *Id.*

88. *See, e.g.*, USPPS, Ltd. v. Avery Dennison Corp., 647 F.3d 274, 282 (5th Cir. 2011) (finding exercise of exclusive federal jurisdiction of a state-law malpractice claim related to patent law litigation was proper).

89. Minton v. Gunn, 355 S.W.3d 634, 647 (Tex. 2011), *rev'd*, 133 S. Ct. 1059 (2013).

unanimously reversed the decision.[90] The Court, in holding state courts should exercise jurisdiction over these malpractice claims, stated:

> [A]lthough the state courts must answer a question of patent law to resolve Minton's legal malpractice claim, their answer will have no broader effects. It will not stand as binding precedent for any future patent claim; it will not even affect the validity of Minton's patent. Accordingly, there is no "serious federal interest in claiming the advantages thought to be inherent in a federal forum."[91]

While the Court recognized these cases may raise federal patent law issues, it noted these types of cases are unlikely to have the requisite significance for the federal system to establish jurisdiction.[92] Accordingly, "state legal malpractice claims based on underlying patent matters will rarely, if ever, arise under federal patent law for purposes of § 1338(a)."[93]

90. *Gunn*, 133 S. Ct. at 1068.

91. *Id.* (citations omitted) (quoting Grable & Sons Metal Prods., Inc. v. Darue Eng'g & Mfg., 545 U.S. 308, 313 (2005)).

92. *Id.* at 1065.

93. *Id.*