February 25, 2013

On February 20, 2013, the Supreme Court issued a decision in *Gunn v. Minton*, unanimously holding that federal courts do not have exclusive jurisdiction over state law claims alleging legal malpractice that arise out of patent cases. The Supreme Court's decision collaterally overrules recent decisions by the United States Court of Appeals for the Federal Circuit which held that federal courts had original jurisdiction over such claims. Going forward, the vast majority of state law claims alleging patent malpractice will be brought in, and remain in, state courts unless diversity jurisdiction exists between the parties.

Background

In the 1990s, Minton developed software to enable the computerized trading of securities and leased a version of the software to a securities brokerage more than one year before filing a patent application. After obtaining a patent, Minton sued the National Association of Securities Dealers and the NASDAQ Stock Market for infringement. The litigation ended with a summary judgment of invalidity. The district court concluded that Minton sold a version of his patented software in violation of the "on sale bar" provision of pre-AIA 35 U.S.C. § 102(b). In a motion for reconsideration, Minton argued for the first time that the software sale was for experimental use and therefore did not invoke the on sale bar. The district court held that Minton waived the experimental use defense by raising it too late.

Minton sued his former attorneys in Texas state court, alleging that they committed legal malpractice by failing to timely raise the experimental use defense. But the state court entered judgment against Minton after concluding that Minton offered "less than a scintilla" of evidence showing that the software sale in question actually was for experimental use. On appeal, Minton changed course and argued that the Texas State courts lacked subject matter jurisdiction over his patent malpractice claims because they arose under 28 U.S.C. § 1338(a). Section 1338(a) provides federal courts with exclusive jurisdiction over any case that arises under any Act of Congress relating to patents. The Texas Court of Appeals rejected Minton's argument, but the Texas Supreme Court reversed, concluding that the case belonged in federal court because the success of Minton's malpractice claim relied upon a question of federal patent law.

The *Gunn* Opinion

On appeal, Minton argued that his legal malpractice claim was based on an alleged error in a patent case, so it arose under federal patent law for purposes of 28 U.S.C. § 1338(a). The Supreme Court acknowledged that although Minton's state law malpractice claims did not directly arise under an Act of Congress, its precedents had identified a "special and small category" of cases in which arising under jurisdiction still lies. Relying on *Grable & Sons Metal Products, Inc. v. Darue Engineering & Mfg.*[1], Chief Justice Roberts explained that federal courts may exercise "federal jurisdiction over a state law claim if a federal 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."

The Supreme Court found that Minton's state law patent malpractice claims satisfied the first two prongs of the *Grable* test because (1) they necessarily raised a federal issue, and (2) the issue would be actually disputed by the parties. But the Court concluded that even if a malpractice claim requires the resolution of a federal patent question, it is "unlikely to have the sort of significance" to the federal system as a whole that might justify finding federal jurisdiction. The Supreme Court reasoned that any state court ruling during the case-within-a-case resolution of patent issues underlying a malpractice claim has no controlling effect on the federal

patent system or federal courts, and would not change the outcome of the underlying patent case. In other words, regardless whether Minton prevailed on his patent malpractice claim, his patent would remain invalid. The Supreme Court further emphasized that Minton's claim failed to satisfy the fourth prong of the *Grable* test, because adjudicating state law malpractice claims in federal courts risks disrupting States' long-standing, "special responsibility for maintaining standards among members of the licensed professions." Based on these observations, the Supreme Court held that Minton's state law patent malpractice claims did not arise under 35 U.S.C. § 1338(a), and therefore, the federal courts did not have jurisdiction to adjudicate them.

Takeaways

Historically, plaintiffs have asserted state law malpractice claims arising out of patent cases in state courts. The Federal Circuit's recent precedents partially reversed that trend by indicating that federal courts had *arising under* jurisdiction over state law patent malpractice claims, but *Gunn* collaterally overrules those precedents. *Gunn* reestablishes the status quo in which state law patent malpractice claims likely will be filed in, and remain in, state courts. It is important to note, however, that *Gunn* does not completely bar litigants from asserting state law patent malpractice claims in federal courts. If parties are from different States and the amount in controversy is over $75,000, a patent malpractice claim may be brought in federal district court pursuant to 28 U.S.C. § 1332(a). Similarly, a defendant facing state law claims of patent malpractice in state court could remove an action to federal court if diversity jurisdiction exists under 28 U.S.C. § 1332(a).

A copy of the Supreme Court's decision is available here: http://www.supremecourt.gov/opinions/12pdf/11-1118_b97c.pdf

Notes

1. 545 U. S. 308, 314 (2005)

Key Contacts

Orion Armon Colorado	oarmon@cooley.com +1 720 566 4119