

RE: Minton v. Gunn: U.S. Supreme Court Holds State-Based Legal Malpractice Claims that Require the Application of Federal Patent Law are Not Under the Jurisdiction of the Federal Courts.

The U.S. Supreme Court's decision in Minton v. Gunn concerned whether federal courts have exclusive subject-matter jurisdiction over state-based legal malpractice claims that require the application of federal patent law to underlying issues. The Texas Supreme Court had previously held that state courts did *not* have subject-matter jurisdiction over such claims. The U.S. Supreme Court reversed and held that such claims were not exclusive under the federal courts jurisdiction and indicated that federal courts do not have jurisdiction (absent diversity) over such matters as they do not "arise under" any act of Congress. From an insurer's perspective, this ruling will result in an increase in legal malpractice claims dealing with federal issues being brought in state courts, potentially in both the patent and non-patent context.

1. The Underlying Infringement Action

Minton owned a software patent related to a program intended to operate over a telecommunications network. Minton filed a patent infringement action against NASD and the NASDAQ Stock Market, Inc. in the United States District Court for the Eastern District of Texas. Minton v. Nat'l Ass'n of Sec. Dealers, Inc., 226 F.Supp.2d 845 (E.D.Tex. 2002). Minton's infringement suit alleged that the NASDAQ software system used in conjunction with NASD's services infringed Minton's patent. NASDAQ moved for summary judgment, alleging the patent's invalidity under the "on-sale bar" provided in § 102(b) of the U.S. Patent Act, which bar provides that a patent is invalid when the invention claimed by the patent is sold "more than one year prior to the date of the application for patent in the United States." The federal district court granted NASDAQ's motion for summary judgment and declared the patent invalid.

2. The Legal Malpractice Action

Minton filed a legal malpractice suit in state court against various attorneys (including Jerry W. Gunn, Esq.) who had originally prosecuted his patent infringement litigation in the federal district court (collectively "Gunn"). Minton alleged that Gunn's negligent failure to timely plead and brief the experimental use exception to the on-sale bar cost Minton the opportunity of winning his federal infringement litigation. Gunn challenged the causation element of Minton's malpractice claim *inter alia* asserting that Gunn was not obliged to raise the experimental use exception defense because the same was not viable in the underlying action. The Texas court agreed and granted Gunn's motion to dismiss; Minton appealed.

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., 504 F.3d 1262 (Fed. Cir. 2007). Air Measurement held that when "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. Accordingly, relying on Air Measurement, Minton argued to the Texas Court of Appeals that his malpractice suit arose under *exclusive* federal patent law jurisdiction and asked the Court of Appeals to hold that the state court lacked subject-matter jurisdiction. While the Texas Court of Appeals denied that request, on further

appeal, the Texas Supreme Court held that that exclusive federal patent law jurisdiction had been triggered and that it thus lacked subject-matter jurisdiction to consider Minton's appeal. The Court reasoned that Congress has provided federal courts jurisdiction over civil actions generally "arising under" federal law and also over actions specifically "arising under" any federal law relating to patents. Accordingly, the Court reasoned, as legal malpractice actions generally require that plaintiffs prove "a case within a case" - *i.e.* in patent matters, that the underlying patent suit would have been successful - a determination in the legal malpractice matter necessarily requires a patent determination.

3. The Supreme Court Decision

The Supreme Court applied the test established in Grable & Sons Metal Prods., Inc. v. Dame Eng'g & Mfg., 545 U.S. 308, 314, 125 S.Ct. 2363, 162 L.Ed.2d 257 (2005) to determine whether the matter "arises under" a federal statute and thus create exclusive federal question jurisdiction. Namely examining whether: (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.

The Supreme Court found that while the first two elements were met the second two were not. In rendering the unanimous decision of the Court, Chief Justice Roberts held that the question of whether the federal issue is substantial was to be reviewed not as whether it was substantial to the parties (as held by the Texas Supreme Court) but rather whether it was a substantial issue to the Federal Government. The Supreme Court held that as legal malpractice actions are necessarily "backward-looking" in nature and pose merely a hypothetical "case-within-a-case" analysis that federal patent validity was not actually at issue. In other words, regardless of a court's decision in the legal malpractice action there would be no effect on the prior federal patent litigation.

Furthermore, the Supreme Court held that the uniformity of patent law decision would not be an issue as federal courts would not be bound by state courts' "case-within-a-case" patent rulings. Additionally, it was unlikely that a patent issue would be first raised in a legal malpractice context and, therefore, presumably the state courts would be basing any decision on prior federal decisions. The Court noted that even if the issue was first raised in such a context it would eventually be decided in an actual patent case, and if it was not, then it clearly was not a substantial issue.

The Court also found that the fourth Grable element was also not met as state courts have "a special responsibility for maintaining standards among members of the licensed professions."

While the issue before the Court was whether federal courts have exclusive jurisdiction over patent matters, the Court's decision indicates that federal courts may lack subject-matter jurisdiction more generally. The statute that provides exclusive jurisdiction for patent matters to the federal courts contains identical "arising under" language as the statute that provides the applicable subject-matter jurisdiction to the federal courts. Therefore, as the Court found that the legal malpractice claims involving patent questions did not "arise under" an act of Congress related to patents, it held that federal courts do not have subject-matter jurisdiction over legal malpractice actions involving patent questions.

4. Practical Application/Impact

We have already seen the impact of this decision as Federal Judges have remanded cases to state courts for lack of subject matter jurisdiction. See Gerawan Farming, Inc. v. Townsend Townsend and Crew LLP, Slip Copy, 2013 WL 898634 (E.D.Cal., 2013) and Patriot Universal Holding, LLC v. McConnell, Slip Copy, 2013 WL 1403301 (E.D.Wis., 2013). This is consistent with our reading of the decision that not only do federal courts not have exclusive jurisdiction over such matter but that the federal courts lack subject-matter jurisdiction in general over such matters.

From an insurer's perspective, this is seemingly a negative development as it will likely result in more cases being brought before state Courts. Federal courts have numerous potential advantages, as they have heightened pleading requirements, often do not suffer the delays of state courts, and tend to be more sophisticated and attentive to legal arguments. Insurers will likely see current matters removed to state court for lack of subject-matter jurisdiction by the federal courts. This will increase costs in the immediate future related to increased litigation cost associated with the removal to state court and proceedings allowing the state court to become familiar with the matters. Additionally, the ruling will potentially result in long-term increased in costs as state court actions tend to suffer delays and tend to have less sophisticated judges, thus likely requiring additional appeals dealing with federal questions. This can be countered somewhat by careful claims handling and cost-effective defense strategies, but there is no hiding that this decision appears potentially negative to Insurers. We will monitor developments and keep you advised.

If you need further information or clarification with regard to the foregoing, please do not hesitate to contact us at ajones@fkblaw.com and/or ewbolla@fkblaw.com.