

RE: Minton v. Gunn: U.S. Supreme Court Set to Decide Whether State-Based Legal Malpractice Claims that Require the Application of Federal Patent Law are Exclusively Under the Jurisdiction of the Federal Courts.

The U.S. Supreme Court recently agreed to hear Minton v. Gunn, 355 S.W.3d 634 (Tex. 2011) – a case that concerns whether federal courts have *exclusive* subject-matter jurisdiction over state-based legal malpractice claims that require the application of federal patent law to the underlying issues. In Minton, the Texas Supreme Court held in the affirmative and thus found that state courts did *not* have subject-matter jurisdiction over such claims. Oral argument in the U.S. Supreme Court case is scheduled for **January 16, 2013**. From an insurer’s perspective, it appears preferable that the U.S. Supreme Court will uphold the Texas Court’s decision requiring that such legal malpractice claims only be adjudicated in federal courts. The Texas Court was split (5-3), however, and the outcome is far from certain.

1. The Underlying Infringement Action

Minton owned a patent related to a software 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 the 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. Under the on-sale bar, 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.” 35 U.S.C. § 102(b). 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 patent infringement litigation. Gunn, in turn, challenged the causation element of Minton’s malpractice claim *inter alia* asserting that Gunn was not obligated 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 state court 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.

The Court applied the test established by the Supreme Court 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 exclusive federal question jurisdiction exists. 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. Applying these factors, the Texas Court of Appeals, by 5-3 majority, found that Minton satisfied all four elements of the Grable test.

The dissent found to the contrary and held that the last three elements of the Grable test were not met. The dissent stated that: (1) a federal issue was not in dispute as there was not a dispute on the meaning of the "experimental use exception;" (2) the federal issue is not substantial for three reasons the Supreme Court has outlined: (a) the determination is one of fact — not law; (b) it will not result in precedent that controls numerous other cases; and (c) it involves federal common law, not a federal statute; and (3) that the majority's holding upsets the balance between federal and state as legal malpractice is traditionally a state matter.

3. Practical Application/Impact

The U.S. Supreme Court has schedule oral argument for January 16, 2013. The Supreme Court's decision will determine to what extent legal malpractice actions stemming from patent matters are exclusively under the jurisdiction of Federal Courts.

From an insurer's perspective, it appears preferable that the Court will uphold the Texas decision requiring that legal malpractice cases involving underlying patent issues only be adjudicated in Federal Court. 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. There is also an advantage in having Courts that preside over complicated patent issues regularly examine the underlying patent matter, as they are more familiar with some of the complicated nuances of patent law.

This is an evolving area of law with ramifications on legal malpractice defendants and insurers alike. We will closely follow developments in connection with the pending appeal. In the meantime, if you need further information or clarification with regard to the foregoing, please do not hesitate to contact us.