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Vol. V, No.4 APRIL 2013

KEY IDEAS:

"ARISING UNDER" JURISDICTION PUT ASUNDER? SUPREME COURT ADDS STROKES TO "JACKSON POLLOCK" CANVAS

The "unruly" arising-under doctrine of federal jurisdiction is in a state of "general confusion," according to the U.S. Supreme Court. The Court recently addressed whether a state-law claim alleging legal malpractice in the handling of a patent case was subject to federal jurisdiction.[1]

In surveying the law, the Court admitted that it was not painting on a "blank canvas," but rather one that looked like "Jackson Pollock got to [it] first."[2] The Court concluded, "[S]tate legal malpractice claims based on underlying patent matters will *rarely, if ever, arise under federal patent law* of purposes of § 1338(1)."[3] The Court thus limited prior, more expansive, Federal Circuit precedent and provided insight into jurisdiction for other cases indirectly involving patent issues.

Jurisdictional Statutes

Title 28 U.S.C. § 1338(a) provides that "district courts shall have original jurisdiction of any civil action arising under any Act of Congress relating to patents. . . ." and declares "[s]uch jurisdiction shall be exclusive of the states . . . . "

Section 1295(a)(1) grants the Federal Circuit exclusive jurisdiction over "an appeal from a final decision of a district court of the United States . . . if the jurisdiction of that court was based, in whole or in part, on [28 U.S.C.] section 1338. . ."[4]

Thus, the critical jurisdictional issue in patent-related cases for district courts and the Federal Circuit is whether the case "arises under" a federal patent statute.[5]

"Arising Under" Jurisdiction

For more than a century, the U.S. Supreme Court has recognized that "'[t]he Federal courts have exclusive jurisdiction of all cases *arising under* the patent laws, but *not* of all questions in which a patent may be the subject-matter of the controversy.'"[6]

A patent-related case can "arise under" federal law in two ways. First, a case arises under federal law when that law creates the cause of action asserted.[7] This "creation" test accounts for the vast majority of suits that arise under federal law.[8] For example, federal jurisdiction in

Prepared by:

PETER STRAND
Washington, D.C.
(202) 783-8400
pstrand@shb.com

Peter is a partner in the Firm's Intellectual Property & Technology Litigation Practice. He holds an LLM in intellectual property law from the University of Houston School of Law.

1 *Gunn v. Minton*, __ U.S. __, 133 S. Ct. 1059, 1062 (2012).
2 *Id.*
3 *Id.* at 1065 (emphasis added).
4 28 U.S.C. § 1295(a)(1).
5 *See Christianson v. Colt Indus. Operating Corp.*, 486 U.S. 800, 807 (1988).
6 *Gunn v. Minton*, 133 S. Ct. at 1068 (*quoting New Marshall Engine Co. v. Marshall Engine Co.*, 223 U.S. 473, 478 (1912)) (emphasis added).
7 *Id.* at 1064 (*citing Am. Well Works Co. v. Layne & Bowler Co.*, 241 U.S. 257, 260 (1916)("A suit arises under the law that creates the cause of action.")).
8 *Id.* at 1064.

a garden-variety patent-infringement case is created by 35 U.S.C. § 281[9] in conjunction with 28 U.S.C. § 1338(a).

Second, where a claim originates under state rather than federal law, there is a "special and small category" of cases affected by arising-under jurisdiction.[10] That "slim category" of "arising-under" jurisdiction cases meets a four-part test set forth in *Grable & Sons Metal Products, Inc. v. Darue Engineering & Manufacturing*: "[I]f 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."[11]

In such rare cases, the question the court must ask is, "Does the 'state-law claim 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?'"[12] When all four requirements are met, federal jurisdiction exists.[13] Examples of patent-related claims based on state law may include legal-malpractice actions and breach-of-contract actions.

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Importantly, recognizing the demands of "linguistic consistency," the Court has interpreted the phrase "arising under" in the context of both 28 U.S.C. § 1331[14] and 28 U.S.C. § 1338(a) identically and says that precedents under both sections are interchangeable.[15]

Importantly, recognizing the demands of "linguistic consistency," the Court has interpreted the phrase "arising under" in the context of both 28 U.S.C. § 1331 and 28 U.S.C. § 1338(a) identically and says that precedents under both sections are interchangeable.

Whether a claim arises under patent law is determined by the "well-pleaded complaint" rule, which says that jurisdiction must be determined from what appears in plaintiff's complaint, "'unaided by anything alleged in anticipation of defenses which defendant may interpose.'"[16] Thus, a claim does not arise under federal law if a patent issue appears only in a defense to that claim[17] or as a counterclaim.[18]

Gunn v. Minton

Failed Infringement Case

Gunn v. Minton began as a failed patent-infringement action. State-law legal-malpractice claims generally involve four elements: (1) a duty stemming from an attorney-client relationship; (2) the attorney's breach of that duty; (3) the breach proximately causing injury to the plaintiff/client; and (4) damages.[19] Such claims often stem from unsuccessful prior litigation. The plaintiff argues that an alternate outcome would have been achieved had the claimant prevailed on a patent-related issue in the hypothetical patent-law "case within a case."[20] The malpractice action focuses on the underlying patent issue embedded in the case within a case.

Minton procured a patent and, represented by Gunn and others, sued the National Association of Securities Dealers, Inc. (NASD) for infringement in federal court. The district court ultimately

9 ("A patentee shall have remedy by civil action for infringement of his patent.").
10 *Gunn v. Minton,* 133 S. Ct. at 1064 (*citing Empire Health-Choice Assurance, Inc. v. McVeigh,* 547 U.S. 677, 699 (2006)).
11 *Id.* at 1065 (*citing Grable & Sons Metal Prods., Inc. v. Darue Eng'g & Mfg.,* 545 U.S. 308, 314 (2005)).
12 *Id.* (*citing Grable & Sons Metal Prods., Inc.,* 545 U.S. at 314).
13 *Id.*
14 (District courts have original jurisdiction in "all civil actions arising under the Constitution, laws, or treaties of the United States.").
15 *Gunn v. Minton,* 133 S. Ct. at 1064 (*citing Christianson v. Colt Indus. Operating Corp.,* 486 U.S. 800, 808-09 (1988)).
16 *See Christianson,* 486 U.S. at 809 (1988) (*citing Franchise Tax Bd. of Cal. v. Constr. Laborers Vacation Trust,* 463 U.S. 1, 10 (1983)).
17 *Thompson v. Microsoft Corp.,* 471 F.3d 1288, 1292 (Fed. Cir. 2006).
18 *Holmes Group, Inc. v. Vornado Air Circulation Sys.,* 535 U.S. 826, 831 (2002).
19 *See Air Measurement Tech., Inc. v. Akin Gump Strauss & Feld, L.L.P.,* 504 F.3d 1262, 1268-69 (Fed. Cir. 2007).
20 *Id.* at 1269.

granted summary judgment based on the one-year on-sale bar[21] and declared Minton's patent invalid.[22] The district court also denied Minton's motion for reconsideration, where he argued for the first time that the "experimental use" exception to the on-sale bar applied.[23]

The Federal Circuit subsequently affirmed the district court's ruling that Minton had waived the experimental-use argument.[24]

Malpractice Case

On appeal, Minton argued for the first time that the Texas court lacked jurisdiction because his malpractice claim "arose under" federal patent law.

Based on the failed patent-infringement litigation, Minton sued his attorneys for legal malpractice in Texas state court, alleging that their failure to raise the experimental-use defense in time cost him the lawsuit and rendered his patent invalid.[25] The Texas trial court granted the attorney-defendants' motion for summary judgment on the ground that the experimental-use argument would have failed, even if timely raised.[26]

On appeal, Minton argued for the first time that the Texas court lacked jurisdiction because his malpractice claim "arose under" federal patent law.[27] Rejecting Minton's jurisdiction argument, the Texas Court of Appeals held that federal jurisdiction was not triggered and, turning to the merits, affirmed the trial court's determination that Minton had failed to establish the experimental-use exception.[28]

Then, the Texas Supreme Court muddied the canvas by reversing the court of appeals.[29] In doing so, the Texas Supreme Court relied heavily on two Federal Circuit cases–*Air Measurement Technologies, Inc. v. Akin Gump Strauss Hauer & Feld, L.L.P.,*[30] and *Immunocept, LLC v. Fulbright & Jaworski, L.L.P.*[31] The Texas Supreme Court decided that Minton's claim involved a "substantial federal issue" because "the success of Minton's malpractice claim is reliant upon the viability of the experimental use exception as a defense to the on-sale bar."[32]

The U.S. Supreme Court granted certiorari.[33]

U.S. Supreme Court Opinion

The U.S. Supreme Court reversed the Texas Supreme Court, applying the four-factor *Grable* inquiry in ruling that Minton's legal malpractice claim did not arise under federal patent law.

The U.S. Supreme Court reversed the Texas Supreme Court, applying the four-factor *Grable* inquiry in ruling that Minton's legal malpractice claim *did not* arise under federal patent law.[34]

- **Necessarily Raised** – The Court readily acknowledged that resolution of a federal patent question was necessary to Minton's case. The causation element of Minton's malpractice claim required a "case-within-a-case" analysis of whether the outcome of the infringement litigation *would have been different* had the experimental-use exception been raised in time. Resolution of that issue necessarily required application of patent law to the facts of Minton's case.[35]
- **Actually Disputed** – The federal issue was also "actually disputed" in that it was the central point of dispute on the merits of the case and just the sort of issue *Grable* envisioned.[36]

21 35 U.S.C. § 102(b).
22 *Minton v. Nat'l Ass'n of Sec. Dealers, Inc.*, 226 F. Supp. 2d 845, 873 (E.D. Tex. 2002).
23 *Gunn v. Minton,* 133 S. Ct. at 1062-63.
24 *Minton v. Nat'l Ass'n of Sec. Dealers, Inc.*, 336 F.3d 1373, 1379-80 (Fed. Cir. 2003).
25 *See Gunn v. Minton,* 133 S. Ct. at 1063.
26 *Minton v. Gunn,* No. 048 207288 04, 2006 WL 3542699 (Tex. Dist. Ct. Sept. 19, 2006).
27 *See Gunn v. Minton,* 133 S. Ct. at 1063.
28 *Minton v. Gunn,* 301 S.W.3d 702, 709-10, 715 (Tex. Ct. App. 2009).
29 *Minton v. Gunn,* 355 S.W.3d 634 (Tex. 2011).
30 504 F.3d 1262 (Fed. Cir. 2007).
31 504 F.3d 1281 (Fed. Cir. 2007).
32 *Minton v. Gunn,* 355 S.W.3d 634, 644 (Tex. 2011).
33 *Gunn v. Minton,* __ U.S. __, 133 S. Ct. 420 (2012).
34 *Gunn v. Minton,* __ U.S. __, 133 S. Ct. 1059 (2012).
35 *Id.* at 1065.
36 *Id.* at 1065-66.

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- **Substantial** – Minton's argument for federal jurisdiction "foundered" on the requirement that the issue in the case be "substantial." While the Texas Supreme Court focused on the importance of the issue *to the parties* before it, the substantiality inquiry under *Grable* evaluates the importance of the issue *to the federal system as a whole*.[37]

  The Court referred to *Grable*[38] and *Smith v. Kansas City Title & Trust Co.,*[39] as examples of cases involving "substantial" federal issues. In comparison, the patent issue in Minton's case carried "no such significance." Importantly, the backward-looking nature of a legal-malpractice claim means that the question posed was merely hypothetical. No matter how the state courts resolve the hypothetical issue, it will not change the "real-world" result of the prior federal patent litigation, and the patent will *always* be invalid.[40]

  The Court had no problem concluding that declining federal jurisdiction would undermine the development of a uniform body of patent law. Federal courts are not bound by state-court case-within-a-case patent rulings. In any event, state courts can be expected to hew closely to federal precedent in making such rulings.[41]

  Similarly, the Court concluded that, where a question of patent law arises frequently, it will be reviewed by the Federal Circuit soon enough. Plus, if such issues do not arise frequently, they are unlikely to implicate substantial federal interests.[42]

  The Court also rebuffed Minton's arguments that state-court rulings might affect other patents through issue preclusion[43] and the greater familiarity of federal courts with patent laws is a basis for federal jurisdiction.[44]

- **Not Disrupt Federal-State Balance** – Based on its "substantiality" analysis, the Court easily concluded that Minton's clams also failed to meet the balancing test. States alone bear the responsibility for maintaining standards among licensed professions.[45]

Conclusions

The Court's opinion in *Gunn v. Minton* clearly restricts federal jurisdiction in legal-malpractice cases involving patents, and:

- Calls into serious doubt the Federal Circuit's opinions in *Air Measurement Technologies, Inc.,*[46] and *Immunocept, LLC.*[47] Although not expressly overruled, these cases are no longer good precedent.
- Establishes that merely "hypothetical" rulings are not considered "substantial." Unless a ruling will alter a real-world result, it is very likely not substantial.
- Establishes that issues affecting only the specific parties or patent are not considered "substantial." The key inquiry is significance to the federal system as a whole, not just to the parties in-suit.
- Without establishing a bright-line, provides a strong sense that federal jurisdiction will rarely be invoked in cases where patents are only indirectly involved.

37 *Id.* at 1066, 1068.
38 545 U.S. 308 (2005) (federal notice requirements before IRS seizure in issue).
39 255 U.S. 180 (1921) (issuance of federal bonds challenged as unconstitutional).
40 *Gunn v. Minton,* 133 S. Ct. at 1066-67.
41 *Id.* at 1067.
42 *Id.*
43 *Id.* (effect of rulings limited to parties and patents before the state court).
44 *Id.* at 1068 (possibility of erroneous ruling is not enough to trigger federal jurisdiction).
45 *Id.*
46 504 F.3d 1262 (Fed. Cir. 2007).
47 504 F.3d 1281 (Fed. Cir. 2007).