

Attorney Malpractice Claims Regarding Patents Must be Heard in Federal Court

By Jonathan C. Scott

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According to the Federal Circuit, a state-law claim that an attorney committed legal malpractice in connection with patent prosecution or patent litigation must be heard in federal court even when there is no diversity jurisdiction and all the claims are based on state law. The decision may impact malpractice claims in other areas as well, given the court's pronouncement that "a federal court ought to be able to hear claims recognized under state law that nonetheless turn on substantial questions of federal law."

INTRODUCTION

In a case of first impression, the United States Court of Appeals for the Federal Circuit has held that a legal malpractice case involving patent prosecution and patent litigation issues arises under federal law and must be heard in a federal court. In *Air Measurement Technologies, Inc. v. Akin Gump Strauss Hauer & Feld, L.L.P.*, 2007 WL 2983660 (Fed. Cir. 2007), the court determined that when establishing patent infringement is a necessary element of a claim, federal jurisdiction exists. In the wake of *Air Measurement*, an entire class of legal malpractice cases has been transformed into "federal question" cases. The decision may be used in the future to argue that other legal malpractice cases turning on questions of federal law must also be heard in federal court.

ALLEGED MALPRACTICE INVOLVING PATENT PROSECUTION AND PATENT LITIGATION

Louis Stumberg and James Fulton developed technology for a safety device that could be used by firemen and other emergency personnel. This device, when integrated into self-contained breathing apparatuses ("SCBA"), measures temperature, calculates the user's remaining airtime, and computes how long the user can safely remain in a fire environment or other hazardous situation. The device also includes an alarm that goes off if the wearer is motionless for a particular period of time. Stumberg and Fulton formed Air Measurement Technologies, Inc. and North-South Corporation to develop, license, and market the safety device. In 1989, they hired patent attorney Gary Hamilton to secure patent protection for the safety device and

related technology. Hamilton then practiced law with Akin Gump.

Some years later, Air Measurement filed six patent infringement suits in federal court against SCBA manufacturers. All six suits settled without a judicial determination of infringement, invalidity, or unenforceability of Air Measurement's patents. During the course of the cases, Air Measurement hired new counsel, who claimed to have discovered various errors Hamilton allegedly made during the patent prosecution and the six infringement cases.

THE TEXAS LEGAL MALPRACTICE CLAIMS

In May of 2003, Air Measurement, a Texas company, North-South Corporation, and Louis Herbert Stumberg filed suit against Hamilton and several law firms in a Texas state court alleging state-law causes of action for legal malpractice, negligence, negligent misrepresentation, and breach of fiduciary duty. Air Measurement alleged that Akin Gump's errors forced it to settle the prior cases far below the fair market value of the patents because the defendants in the prior cases were able to raise invalidity and unenforceability defenses that would not have existed without attorney error. All of the parties to the litigation were Texas residents, and no federal law claims were raised in the pleadings.

Akin Gump removed the case to federal court, contending that the resolution of Air Measurement's suit required the resolution of a substantial question of patent law. Akin Gump also filed a counterclaim seeking a declaration of invalidity of the patents and a declaration that the patents were not invalid or unenforceable by reason of attorney conduct. The United States District Court for the Western District of Texas denied various motions to remand and certified the following question for interlocutory appeal to the Federal Circuit: "whether a Texas state-law legal malpractice claim arising out of underlying patent prosecution and patent litigation necessarily raises a question of federal patent law, actually disputed and substantial, that a federal forum may entertain without disturbing any congressionally approved balance of federal and state judicial responsibilities."

THE FEDERAL CIRCUIT'S RULING

The Federal Circuit concluded that “the patent infringement question is a necessary element of [Air Measurement’s] malpractice claim and raises a substantial, contested question of patent law that Congress intended for resolution in federal court...” 42 U.S.C. § 1338(a) provides the federal district courts with jurisdiction over “any civil action arising under any Act of Congress relating to patents, plant variety protection, copyrights and trademarks. Such jurisdiction shall be exclusive of the courts of the states in patent, plant variety protection and copyright cases.” In *Christianson v. Colt Indus. Operating Corp.*, 486 U.S. 800 (1988), the United States Supreme Court established a two-part test for determining whether a federal court has exclusive jurisdiction over a case under section 1338(a). Exclusive federal jurisdiction exists if a well-pleaded complaint establishes either (1) that federal patent law creates the cause of action or (2) a plaintiff’s right to relief necessarily depends on resolution of a substantial question of federal patent law. Because Air Measurement’s claims were entirely grounded in state law, the Federal Circuit focused on the second prong of the *Christianson* test and analyzed whether patent law was a necessary element of Air Measurement’s legal malpractice claim.

The court limited its analysis to the allegations in the complaint, noting that “a claim does not arise under the patent laws if a patent issue appears only in a defense to that claim.” To prevail on its Texas state-law claims for legal malpractice, Air Measurement would have to demonstrate that (1) an attorney owed it a duty stemming from the attorney-client relationship, (2) the attorney breached that duty, (3) the breach proximately caused Air Measurement’s injuries, and (4) Air Measurement suffered damages as a result of the injuries. In particular, because Air Measurement’s malpractice claim was based, in part, on unsuccessful prior litigation, Air Measurement would have to establish that it would have prevailed in the prior litigation but for Akin Gump’s negligence that compromised the litigation. Under Texas law, this is called the “case within a case” requirement of the proximate cause element of malpractice. The court found that because Air Measurement needed to establish that the underlying suit would have been won but for the attorney’s breach of duty, the “case within a case” requirement “is necessarily a component of the plaintiff’s burden on cause in fact.”

The Federal Circuit determined that “because the underlying suit here is a patent infringement

action against SCBA defendants, the district court will have to adjudicate, hypothetically, the merits of the infringement claim.” Given that “proof of patent infringement is necessary” to demonstrate that Air Measurement would have prevailed in the prior litigation, the court held that “patent infringement is a ‘necessary element’” of Air Measurement’s legal malpractice claim and therefore presents a substantial question of patent law that confers exclusive jurisdiction on the federal courts under section 1338(a). In explaining this conclusion, the court stated that “we would consider it illogical for the Western District of Texas to have jurisdiction under § 1338 to hear the underlying infringement suit and for us then to determine that the same court does not have jurisdiction under § 1338 to hear the same substantial patent question in the ‘case within a case’ context of a state malpractice claim.” According to the court, this result is consistent with “the commonsense notion that a federal court ought to be able to hear claims recognized under state law that nonetheless turn on substantial questions of federal law”

POTENTIAL APPLICABILITY IN OTHER TYPES OF MALPRACTICE CASES

The implications of the court’s holding may be significant. In support of its decision, the court cited its prior decision in *Additive Controls & Measurement Systems, Inc. v. Flowdata, Inc.*, 986 F.2d 476, 477 (Fed. Cir. 1993). In that case, the plaintiff filed a business disparagement claim in Texas state court based on allegations that the defendant had warned the plaintiff’s that the plaintiff’s product infringed the defendant’s patent. After the defendant removed the case to federal court, the Federal Circuit held that the plaintiff’s state-law business disparagement claim arose under federal patent law. To prevail, the plaintiff would have to demonstrate the falsity of the defendant’s statement that the plaintiff’s products infringe defendant’s patent. Because the plaintiff would have to prove non-infringement, plaintiff’s “right to relief necessarily depends upon resolution of a substantial question of patent law, in that proof relating to patent infringement is a necessary element of [plaintiff’s] business disparagement claim.” *Id.* at 478.

Given the court’s prior decision in *Additive Controls*, the Federal Circuit appears to be receptive to a contention that whenever a state-law claim turns on a question of federal patent law, federal jurisdiction exists. The decision could also lead to different types of legal malpractice cases ending up in federal court when the alleged malpractice turns on other questions of federal law, such as securities fraud, admiralty, ERISA, or Medicare claims.

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