JMBM Jeffer Mangels Butler & Marmaro LLP

YOUR VISION IS OUR FOCUS

Removal Of Non-Diversity-Based Malpractice Claims To Federal Court -- A New Approach?

by Amy Lerner Hill, Brian W. Kasell & Rod S. Berman

This article was published in Andrews' Professional Liability Litigation Reporter, May 27, 2009

According to attorneys Amy Lerner Hill, Brian Kasell and Rod Berman of Jeffer Mangels Butler & Marmaro, patent-related malpractice claims are being placed into federal courts with increasing frequency. The authors discuss the roots of this trend and its impact on professional malpractice claims.

There appears to be a new tool, especially in the patent context, for placing state law malpractice claims into a federal court venue, either by direct federal filing by a plaintiff or removal by a defendant, thereby allowing litigants to take advantage of the expertise found in federal courts regarding federal law issues.

This is particularly important given the complex and often esoteric nature of the substantive legal issues that can arise in legal malpractice cases that involve areas such as patent, copyright and trademark law.

Legal malpractice claims, which are typically based on state tort law and are generally heard in state courts, often involve resolution of substantive questions of law in the legal field that was the subject of the underlying dispute in which the alleged malpractice took place. For example, a legal malpractice claim stemming from a patent infringement lawsuit would normally require resolution of substantive questions of patent law.

Despite this circumstance, federal district courts, as a rule, do not entertain legal malpractice suits in the absence of diversity jurisdiction. This can lead to state courts' having to decide complex legal issues in areas where they lack, or have limited, expertise. This situation, however, may now be poised to undergo a significant change.

In two concurrently decided cases of first impression, the U.S. Court of Appeals for the Federal Circuit recently established that federal courts have exclusive subject matter jurisdiction over state law legal malpractice claims that implicate a substantial question of patent law. In doing so, the Federal Circuit departed from the long-standing rule that, absent diversity jurisdiction, legal malpractice claims should be heard in state courts.

Moreover, the Federal Circuit's twin decisions appear to open the door for other non-diversity-based malpractice claims to be heard in federal court, at least insofar as the underlying case giving rise to the malpractice claim was one in which federal courts could have exercised subject matter jurisdiction in the first instance.

1900 Avenue of the Stars, 7th Floor
Los Angeles, California 90067
310.203.8080—(fax) 310.203.0567

Two Embarcadero Center, 5th Floor
San Francisco, California 94111
415.398.8080—(fax) 415.398.5584

3 Park Plaza, Suite 1100
Irvine, California 92614
949.623.7200—(fax) 949.623.7202

Removal Of Non-Diversity-Based Malpractice Claims To Federal Court -- A New Approach?

by Amy Lerner Hill, Brian W. Kasell & Rod S. Berman

On the other hand, at least one federal circuit court has declined to follow the Federal Circuit's lead and has refused to find subject matter jurisdiction over a legal malpractice case involving issues of trademark law. It remains to be seen how this apparent dichotomy will be resolved, as well as whether the Federal Circuit's approach to subject matter jurisdiction over legal malpractice claims will be extended to other areas of substantive law in which federal courts are empowered to exercise non-diversity subject matter jurisdiction.

Federal District Courts' Subject Matter Jurisdiction

There are multiple possible benefits of having a case heard in a federal district court instead of a state court that should be considered before filing an action. For example, defendants will often prefer federal court jury trials because they require a unanimous jury verdict, whereas the majority of states do not. *See, e.g.*, Cal. Const. art. I, § 16; Cal. Code Civ. Proc. § 618 (only three-fourths unanimity required for a jury verdict in civil trials). *See* also Michael H. Glasser, *Letting the Supermajority Rule: Non-unanimous Jury Verdicts in Criminal Trials*, 24 Fla. St. U. L. Rev. 659, 671 (1997) (more than 30 states allow non-unanimous jury verdicts in civil trials).

There is also a perception that, in many jurisdictions, the juries in federal court are better and more qualified to render verdicts than those in state courts. Further, summary judgment is often easier to obtain in federal court proceedings than in state court, and there may be fewer procedural hoops to jump through in federal court actions.

Also, when it comes to issues of federal law, federal court judges tend to be more qualified than state court judges either because the law in question is one over which the federal courts have exclusive jurisdiction (*e.g.,* patent and copyright law) or because the federal courts tend to hear cases more frequently in a particular area of law than the state courts (*e.g.,* trademark law).

However, unlike state courts, which are courts of "general" jurisdiction (*i.e.*, generally able to hear all types of cases, except where federal courts have "exclusive" jurisdiction), federal courts are courts of "limited" jurisdiction and may properly exercise subject matter jurisdiction only over limited types of cases. The main types are diversity cases and federal question cases.

Diversity jurisdiction refers to situations where a federal district court may exercise subject matter jurisdiction over a civil case because the parties are "diverse" in citizenship, which generally means they are citizens of different states or countries, and there is a certain minimum amount of money at issue (presently $75,000). *See* 28 U.S.C. § 1332.

Thus, diversity will allow cases asserting claims based in state law, such as negligence, legal malpractice and other common-law torts, to be heard in federal court when, absent diversity, such cases must generally be heard in state court.

Removal Of Non-Diversity-Based Malpractice Claims To Federal Court -- A New Approach?

by Amy Lerner Hill, Brian W. Kasell & Rod S. Berman

Cases involving questions of federal law may generally be heard by federal district courts under federal question jurisdiction, which refers to the situation in which a federal district court may exercise subject matter jurisdiction over a civil case because a party has properly alleged a claim arising under federal law. *See* 28 U.S.C. § 1331 ("The district courts shall have original jurisdiction of all civil actions arising under the Constitution, laws, or treaties of the United States.").

In the case of patents, federal district courts have exclusive jurisdiction. 28 U.S.C. § 1338(a) (district courts' jurisdiction over civil actions arising under any Act of Congress relating to patents "shall be exclusive of the courts of the states"). Similarly, the Federal Circuit has exclusive appellate jurisdiction over all appeals from a final decision of a district court if the district court's jurisdiction "was based, in whole or in part, on" 28 U.S.C. § 1338. 28 U.S.C. § 1295(a)(1).

Legal Malpractice Claims: Generally Governed by State Law, But Can Involve Federal Law

Absent diversity, legal malpractice claims are typically heard in state courts because they are based on state tort law, not federal law. Nonetheless, malpractice cases can implicate federal law when the underlying case that triggers the malpractice claim involves federal law.

For example, under California law, for a legal malpractice action arising from a prior civil proceeding, a plaintiff must prove:

- The duty of the attorney to use such skill, prudence and diligence as members of his or her profession commonly possess and exercise;
- A breach of that duty;
- A proximate causal connection between the breach and the resulting injury; and
- Actual loss or damage resulting from the attorney's negligence.

Coscia v. McKenna & Cuneo, 25 Cal. 4th 1194, 1199 (Cal. 2001).

This standard requires a plaintiff to establish that, "but for the alleged malpractice, it is more likely than not the plaintiff would have obtained a more favorable result." *Viner v. Sweet*, 30 Cal. 4th 1232, 1244 (2003). Thus, the legal issues from the underlying case will necessarily be a part of a legal malpractice claim based on that case.

Accordingly, if the underlying case involved claims of patent infringement (or, for that matter, trademark or copyright infringement), a malpractice claim based on the underlying case could very well turn on determinations on substantive issues of patent law (or trademark or copyright law).

Given the specialized nature of certain areas of the law, having state courts handle legal malpractice claims in those areas is somewhat problematic. For example, in the world of patent law, highly complex and demanding legal

Removal Of Non-Diversity-Based Malpractice Claims To Federal Court -- A New Approach?

by Amy Lerner Hill, Brian W. Kasell & Rod S. Berman

analyses are required in many areas that are potential sources for a malpractice claim.

Questions of prosecution history estoppel, infringement under the doctrine of equivalents, the recapture doctrine and patent invalidity under 35 U.S.C. § 102(e) often involve complex analyses that would undoubtedly go beyond the typical inquiries handled by most state courts. The same is true for other areas of the law, such as copyrights and trademarks.

Despite these circumstances, federal courts, absent diversity, typically do not choose to exercise subject matter jurisdiction over legal malpractice claims, even when the underlying case involves claims under federal patent law. *See, e.g.*, *Commonwealth Film Processing v. Moss & Rocovich,* 778 F. Supp. 283 (W.D. Va. 1991) (no federal jurisdiction in malpractice action against patent attorney based on attorney's lack of adequate knowledge of patent law); *Voight v. Kraft,* 342 F. Supp. 821 (D. Idaho 1972) (no federal jurisdiction in malpractice action against patent attorneys who allegedly gave improper advice on the patentability of plaintiff's device).

Even state courts reach similar conclusions when faced with legal malpractice cases that likely depend on the determination of substantial issues of patent law. *See, e.g., New Tek Mfg. v. Beehner,* 702 N.W.2d 336 (Neb. 2005) (Nebraska Supreme Court found no federal court jurisdiction even though the malpractice action required an extensive *Markman* patent claim construction hearing).

The Federal Circuit Takes a Different Approach

Breaking with prior precedent, the Federal Circuit has recently ruled in two companion cases of first impression that malpractice claims against patent lawyers must be brought in federal court. These rulings extend federal jurisdiction to an area that has traditionally been the exclusive province of state courts.

In *Air Measurement Technologies v. Akin Gump Strauss Hauer & Feld,* 504 F.3d 1262 (Fed. Cir. 2007), the Federal Circuit held that the federal courts have exclusive jurisdiction over a malpractice case alleging certain errors by counsel in patent prosecution and litigation. In the second case, *Immunocept v. Fulbright & Jaworski,* 504 F.3d 1281 (Fed. Cir. 2007), the court found exclusive federal jurisdiction over a malpractice case alleging attorney error in patent claim drafting.

In the first case plaintiff Air Measurement Technologies filed its malpractice complaint in state court, and the defendants removed the case to federal court. AMT had developed technology to protect firefighters and other emergency personnel by monitoring oxygen levels in a self-contained breathing apparatus. The company sued its patent attorney, alleging he had made various mistakes in the prosecution of AMT's patent and related litigation. All the claims were based on Texas law.

Based on existing law AMT alleged that the federal court lacked subject matter jurisdiction.

Removal Of Non-Diversity-Based Malpractice Claims To Federal Court -- A New Approach?

by Amy Lerner Hill, Brian W. Kasell & Rod S. Berman

The District Court, however, allowed the case to proceed. On appeal, the Federal Circuit found that there was federal jurisdiction: "We hold that at least where, as here, establishing patent infringement is a necessary element of a malpractice claim stemming from alleged mishandling of patent prosecution and earlier patent litigation, the issue is substantial and contested, and federal resolution of the issue was intended by Congress, there is 'arising under' jurisdiction under [28 U.S.C.] § 1338." *Air Measurement,* 504 F.3d at 1273.

In finding jurisdiction under Section 1338, the Federal Circuit relied, in part, on its conclusion that an essential element in proving malpractice was proof that the plaintiff would have prevailed in the prior litigation but for the malpractice: "Because proof of patent infringement is necessary to show AMT would have prevailed in the prior litigation, patent infringement is a 'necessary element' of AMT's malpractice claim and therefore apparently presents a substantial question of patent law conferring Section 1338 jurisdiction." *Id.* at 1269.

In the second case, *Immunocept*, the malpractice plaintiff retained patent counsel to secure patent protection for "large pore hemofiltration" technology to treat sepsis, shock and other medical conditions. After the patent issued, and during due diligence that occurred as part of negotiations with a third party regarding investments in commercialization of the patented technology, the third party's patent counsel discovered a fatal flaw in the patent directly caused by the way in which plaintiff's patent counsel had drafted the patent claims.

Immunocept sued its patent counsel in federal court for malpractice, alleging Section 1338 as the sole basis for jurisdiction. The defendant law firm successfully moved for summary judgment, alleging that the plaintiff's claim was barred by the statute of limitations and that the damages sought were overly speculative.

On appeal the Federal Circuit ordered the parties to file briefs on the question of federal court jurisdiction over Immunocept's malpractice case. Although the parties agreed that jurisdiction was proper, the Federal Circuit nonetheless decided to address the jurisdiction issue based on its "inherent jurisdiction" to determine its jurisdiction over an appeal. *Immunocept*, 504 F.3d at 1284.

The Federal Circuit noted that Immunocept's claim was based on the notion that, but for the defendant's malpractice, the claims of its patent would have had a broader scope than they actually had. Accordingly, the court concluded that the plaintiff could not prevail in its case without addressing the issue of claim scope.

Finally, the Federal Circuit found that claim scope determinations were precisely the type of "substantial questions of patent law" that support the exercise of subject matter jurisdiction under Section 1338: "Because patent claim scope defines the scope of patent protection ... we surely consider claim scope to be a substantial question of patent law. [Just a]s a determination

Removal Of Non-Diversity-Based Malpractice Claims To Federal Court -- A New Approach?
by Amy Lerner Hill, Brian W. Kasell & Rod S. Berman

of patent infringement serves as the basis of Section 1338 jurisdiction over related state law claims, so does a determination of claim scope." *Id*. at 1285.

Thus, as in *Air Measurement*, where the Federal Circuit found subject matter jurisdiction over a state law malpractice claim when the claim required a determination of patent infringement, in *Immunocept* he it found jurisdiction when the malpractice claim required determination of claim scope issues. *Id.* ("After all, claim scope determination is the first step of a patent infringement analysis.").

The Impact of Grable

It is important to note that in both *Air Measurement* and *Immunocept*, the Federal Circuit expressly addressed the considerations raised in *Grable & Sons Metal Products v. Darue Engineering & Manufacturing*, 545 U.S. 308 (2005). Grable, while not dealing directly with federal court jurisdiction over legal malpractice claims, dealt with the topic of federal court jurisdiction over state law claims under the "arising under" language found in 28 U.S.C. § 1331 (*i.e.*, the "federal question" jurisdiction statute).

Because the phrase "arising under" has the same meaning in Section 1338 as it does in Section 1331, see *Christianson v. Colt Industries Operating Corp.*, 486 U.S. 800, 808-09 (1988), the Federal Circuit was obliged to address the standards articulated in *Grable*.

In *Grable* the Supreme Court grappled with the "arising under" language and ultimately formulated a standard that restricts the circumstances under which a federal district court may rely on Section 1331 (or Section 1338) to find subject matter jurisdiction over state law claims. Generally speaking, the Grable test for "arising under" jurisdiction involves determining whether a state law claim necessarily raises a federal law issue that is actually disputed and substantial and that a federal forum may "entertain without disturbing any congressionally approved balance of federal and state judicial responsibilities." *Grable*, 545 U.S. at 314.

Thus, principles of federalism and balancing state and federal judicial responsibilities were grafted onto the jurisdictional inquiry. The Federal Circuit addressed these issues in *Air Measurement* and *Immunocept* and concluded that subject matter jurisdiction over the state law malpractice claims at issue was proper. See *Air Measurement*, 504 F.3d at 1271-73; *Immunocept,* 504 F.3d at 1284-86.

The 5th Circuit Does Not Follow Suit

Despite the analysis and holdings in *Air Measurement* and *Immunocept*, when faced with a similar issue involving a legal malpractice claim based on an underlying trademark case, the 5th U.S. Circuit Court of Appeals declined to follow the Federal Circuit's lead.

The 5th Circuit's decision in *Singh v. Duane Morris LLP*, 538 F.3d 334 (5th Cir. 2008), indicates that, under *Grable*, courts have

Removal Of Non-Diversity-Based Malpractice Claims To Federal Court -- A New Approach?

by Amy Lerner Hill, Brian W. Kasell & Rod S. Berman

considerable leeway in their determinations as to whether subject matter jurisdiction will be exercised over state law claims of legal malpractice.

In *Singh* plaintiff Robin Singh was represented by the defendant law firm in a trademark infringement suit in federal court in which Singh asserted infringement claims based on his alleged rights in the Testmasters trademark. The trademark was used in connection with Singh's TestMasters company, which provided goods and services for preparing students for the Law School Admission Test.

At trial a jury found that Singh's TestMasters mark was descriptive but that he had introduced sufficient evidence to establish that the mark had acquired "secondary meaning" and was entitled to trademark protection. *Singh*, 538 F.3d at 336.

On appeal, however, the 5th Circuit reversed, finding that Singh had presented insufficient evidence at trial to establish secondary meaning. Singh then filed an action in Texas state court against his law firm, alleging malpractice based on the firm's failure to introduce at trial available evidence that allegedly would have successfully established secondary meaning.

The law firm removed the case to federal district court, which retained the case under Sections 1331 and 1338 despite Singh's motion to remand for lack of jurisdiction. *Id*. at 336-37. The District Court then granted, on collateral estoppel grounds, the defendant law firm's summary judgment motion to dismiss Singh's malpractice claims. *Id.*

On appeal, the 5th Circuit looked only at the jurisdiction issue. First, it noted that federal question jurisdiction can only exist when "a well-pleaded complaint establishes either that federal law creates the cause of action or that the plaintiff's right to relief necessarily depends on resolution of a substantial question of federal law." Id. at 337-38 (quoting *Franchise Tax Bd. v. Laborers Vacation Trust*, 463 U.S. 1, 27-28 [1983]).

However, the appeals court also found that the mere fact that a claim "necessarily depends on resolution of a substantial question of federal law" is not enough to confer federal question jurisdiction over a state law claim for relief. Rather, it looked to the Supreme Court's Grable standard to conduct a more "nuanced" analysis of the issue. *Id.* at 338.

Under the *Grable* standard the 5th Circuit found that the central issue to the malpractice claim -- whether the defendant law firm introduced sufficient evidence of secondary meaning -- was more a factual inquiry than a legal one and that, accordingly, the federal issue raised by that inquiry did not implicate a substantial federal interest and was not a substantial enough question of federal law to support federal question jurisdiction.

Moreover, under the federalism principles articulated in the *Grable* standard, the appeals

Removal Of Non-Diversity-Based Malpractice Claims To Federal Court -- A New Approach?
by Amy Lerner Hill, Brian W. Kasell & Rod S. Berman

court also found that "federal jurisdiction over this state law malpractice claim would upend the balance between federal and state judicial responsibilities." *Id.* at 339. The 5th Circuit therefore vacated the lower court's decision granting summary judgment and dismissed the case for lack of jurisdiction, concluding that "[federal] jurisdiction does not extend to malpractice claims involving trademark suits like this one." *Id.* at 340.

Thus, on quite similar facts (albeit a different area of substantive law) the Singh court declined to follow the *Air Measurement* and *Immunocept* cases. However, the 5th Circuit noted the Federal Circuit's decisions and left open the possibility that legal malpractice cases stemming from patent disputes could support federal question jurisdiction: "It is possible that the federal interest in patent cases is sufficiently more substantial, such that it might justify federal jurisdiction." *Id.*

What's Next?

In light of the apparent dichotomy between the Federal Circuit and 5th Circuit conclusions on the issue of federal jurisdiction over state law legal malpractice claims based on patent and trademark issues, it is too early to tell how federal courts will deal with this issue in the context of other areas of the law. However, because of the language of Section 1338, one area of natural inquiry is that of copyright law.

As with patent and trademark law, federal district courts have, under Section 1338, "original jurisdiction" over cases "arising under any act of Congress relating to ... copyrights." This would suggest that legal malpractice claims implicating copyright law would be particularly susceptible to one of the conclusions adopted by the Federal and 5th circuits.

Which conclusion would apply is problematic. Nonetheless, some indication may be gleaned from the 5th Circuit's comment that it is possible the "federal interest in patent cases is sufficiently more substantial [than in trademark cases]." *Id.*

One explanation for such a greater federal interest in patent cases may be that federal courts have exclusive jurisdiction in patent cases, whereas they have only *original* jurisdiction in trademark cases (meaning there is no prohibition on bringing a trademark infringement action in state court). *See* 28 U.S.C. § 1338(a).

Similarly, federal courts have exclusive jurisdiction in copyright cases. *Id.* Accordingly, the "more substantial federal interest" in patent cases suggested by the 5th Circuit in *Singh* may be translated to copyrights as well, thereby implying that the Federal Circuit's conclusion on jurisdiction should be applicable to copyright-related legal malpractice claims.

Along the same lines, for areas of the law where the federal courts exercise original, as opposed to exclusive, jurisdiction, *see, e.g.,* 28 U.S.C. § 1337 (certain cases involving commerce and antitrust regulations), 28 U.S.C. § 1343 (certain cases relating to civil rights and elective franchise), 28 U.S.C. § 1358 (eminent domain

Removal Of Non-Diversity-Based Malpractice Claims To Federal Court -- A New Approach?
by Amy Lerner Hill, Brian W. Kasell & Rod S. Berman

cases), the federal court's "interest" may be less substantial, thereby implying that the 5th Circuit's conclusion on the issue of jurisdiction over state law malpractice claims may be more applicable.

Only time and additional court rulings will shed additional light on this issue. In the meantime, it appears we may see state law malpractice claims placed into a federal court venue, particularly in the patent context.

Amy Lerner Hill is an associate in the litigation department at Jeffer Mangels Butler & Marmaro in Los Angeles. Her practice emphasizes general and intellectual property litigation in both state and federal Courts. Amy can be reached at AKL@JMBM.com or 310.712.6834.

Brian Kasell, a partner in the firm's litigation department, is a registered patent attorney and specializes in patent, trademark, trade secret and unfair-competition litigation. Brian can be reached at BKasell@JMBM.com or 310.785.5330.

Rod Berman is the chairman of the firm's intellectual property department and focuses on patent, trademark, copyright and unfair-competition responsibilities. Rod's practice includes counseling, litigation, opinions, licensing and prosecution. Rod can be reached at RBerman@JMBM.com or 310.201.3517.