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The Jurisdictional Power of the "Case-Within-A-Case" Doctrine in Patent Legal Malpractice Litigation

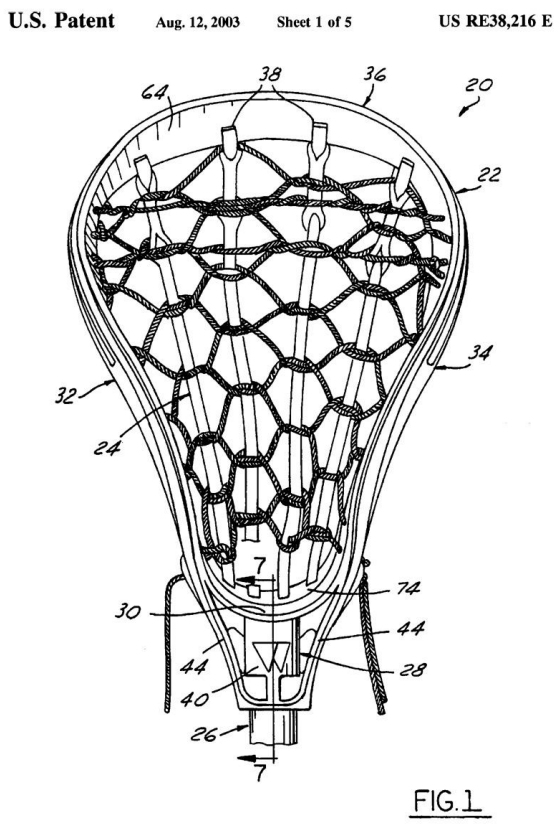

FIG. 1

The Federal Circuit's recent precedential decision, *Warrior Sports, Inc. v. Dickenson Wright, P.L.L.C.* (issued on January 11, 2011), demonstrates (once again) the sheer power and ability of the "case-within-in-case" doctrine to jurisdictionally transform a state law malpractice claim into a case arising under federal patent law.

In an unusual twist, the *Warrior Sports* plaintiff and defendants agreed that the federal court could exercise federal question jurisdiction over the patent legal malpractice claim. But the federal court judge (the Hon. Gerald E. Rosen from the Eastern District of Michigan) was not convinced. He issued a show cause order requiring the plaintiff to establish why the state law claim should not be dismissed for lack of federal subject matter jurisdiction.

The state law malpractice claim arose out of alleged administrative and litigation errors that occurred with respect to a reissued patent for a "Scooped Lacrosse Head" (U.S. Patent No. RE 38,216). As recited in the district court's order dismissing the case, plaintiff claimed that defendants "(1) failed to pay a maintenance fee

resulting the lapse of Warrior's patent, (2) forced Warrior to settle previous litigation on terms Warrior considers unfavorable, (3) failed to timely effectuate the reinstatement of Warrior's patent, and (4) committed sundry other breaches of their professional duties, the precise contours of which breaches are not altogether clear from the Complaint."

The District Court Decisions Denying Federal Court Jurisdiction

The district court judge was not persuaded that the malpractice allegations required the court to address "actually disputed and substantial" questions of federal patent law. Judge Rosen distinguished the Federal Circuit's precedent in the following important passage:

> In this case, unlike Immunocept and Air Measurement, Warrior's claim that Defendants' negligence caused Warrior to settle under less favorable terms, lose profits and lose royalties on the lapsed patent, does not necessarily require a court to engage in claim construction, evaluate the viability of underlying patent litigation, or determine if others are infringing the patent in question.

Based on his reading of Michigan law, Judge Rosen did not view the "suit-within-a-suit" doctrine (as it is also sometimes called) as requiring a full-blown analysis of patent-related proximate causation issues, *i.e.*, whether but for the attorney's alleged malpractice, the plaintiff would have been successful in the underlying patent lawsuit.

In the course of denying defendants' subsequent motion for reconsideration, Judge Rosen further explained his reasoning justifying avoidance of a more complex patent "case within a case" analysis:

> The underlying patent issues--including inequitable conduct, claim construction and infringement--may well be complex. Nevertheless, they remain only a sub-inquiry,incidental to Plaintiff's primary allegations against the defendant attorneys. Moreover, those primary allegation revolve exclusively around missed filing deadlines, failure to communicate and professional negligence. As such, even if the allegation touch upon patent issues or require assessment of underlying patent disputes, they hardly raise substantial issues of federal law. In light of the foregoing, the Court cannot see how it may adjudicate this case without disturbing the congressionally approved balance of federal and state judicial responsibilities.

Judge Rosen's dismissal of the Warrior Sport's patent legal malpractice claim rests on the general principle that federal statutes regulating the jurisdiction of federal courts must be narrowly construed. He did not accept the parties' proposition "that the Federal Circuit's decisions with respect to its own subject jurisdiction over state-law claims are binding on this Court" and indeed was openly critical of them:

> While the Federal Circuit appears to have no reservations about exercising its power over underlying patent issues as leverage to reach purely state-law causes

> of action [citing the Touchcom, Air Measurement and Immunocept cases], this Court remains wary of such an open-ended analysis of federal question jurisdiction. Simply put: there is no "'single, precise, all-embracing' test for jurisdiction over federal issues embedded in state-law claims between non-diverse parties." [Citing Supreme Court cases.] In Touchcom, Air Measurement and Immunocept, the Federal Circuit appears to impose precisely such an all-embracing test, effectively aggregating ever greater swaths of state-law claims into its jurisdictional sweep. Yet, this alone cannot render its decisions with respect to subject matter jurisdiction binding on this Court.

While Judge Rosen's views regarding subject matter jurisdiction were ultimately rejected by the Federal Circuit, his views will resonate with those in the bench and bar who believe that the Federal Circuit's desire and willingness to review patent legal malpractice claims represents a jurisdictional land grab of sorts.

The Federal Court Has No Difficulties in Exercising Jurisdiction Over a State Law Patent Legal Malpractice Claim

When the Federal Circuit's *Warrior Sports* decision is read against the backdrop of the district court's dismissal and denial of reconsideration orders, the strong rebuke it represents becomes clear.

In a direct fashion, the Federal Circuit panel (Judges Newmon, Bryson and Prost) held that even a watered-down version of "case-within-a-case" element of a legal malpractice claim controlled by Michigan law raised substantial and disputed issues of patent law. A key case quotation that sums up the *Warrior Sports* holding as follows:

> Warrior's theory under its first malpractice claim is that but for the availability of the inequitable conduct defense that was attributable to its attorneys' conduct, it would not have settled its meritorious infringement action against [the accused infringer], and that the availability of the inequitable conduct defense forced Warrior to settle for much less than the true value of the claim. As part of its prima facie case, Warrior must prove that it suffered a compensable loss that was proximately caused by appellant's negligence. If the accused products do not infringe the '216 patent, then the availability of the inequitable conduct defense did not proximately cause any harm to Warrior. That is, to prove the proximate cause and injury elements of its tort claim, Michigan law requires Warrior to show that it would have prevailed on its infringement claim against [the accused infringer] and would have been entitled to an award of damages as a result.

The *Warrior Sports* holding thus requires patent malpractice plaintiffs to essentially (re)try their underlying infringement case as a prerequisite for satisfying the classic proximate causation and fact of damage elements of a state law malpractice tort claim.

While federal district courts may be reluctant to revisit underlying patent infringement, invalidity and unenforceability issues in order to assess the merits of patent legal malpractice claim, the

Federal Circuit's line of case precedents from *Air Measurement* through *Warrior Sports* is clearly insisting on a more rigorous evaluation of a patent's true worth. Proximate cause and damage analysis shortcuts are not acceptable--especially when a malpractice plaintiff's damages are predicated on an "impaired settlement value" claim theory.

Engaging in a full-blown patent "case-within-a-case" analysis obviously is an expensive undertaking. But imposing that requirement does have the curative effect of preventing malpractice plaintiffs from isolating alleged attorney errors and arguing (in hindsight) that they--and not other inadequacies in the subject patent--are the real reason why a patent claim had to be settled on less than favorable terms.

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