

FINANCIAL SERVICES LITIGATION

ALERT

MAY
2013IN THE CROSSHAIRS: DISTRICT COURTS UTILIZE *GUNN*
TO DISMISS PATENT-RELATED LEGAL MALPRACTICE
CLAIMS FOR LACK OF SUBJECT MATTER JURISDICTIONBy *Stephen J. Shapiro*

In an opinion and order dated May 7, 2013, the Honorable Mitchell S. Goldberg of the U.S. District Court for the Eastern District of Pennsylvania dismissed for lack of subject matter jurisdiction a legal malpractice action alleging that a law firm and one of its lawyers (the “Law Firm”) violated certain regulations governing lawyers who practice before the U.S. Patent and Trademark Office (the “USPTO”). In so doing, Judge Goldberg became the latest district court judge to rely upon the recent U.S. Supreme Court decision in *Gunn v. Minton* to conclude that the federal courts do not possess subject matter jurisdiction to hear legal malpractice actions relating to patent cases.

Lice Lifters, LLC v. Barrack, No. 12-5777 (E.D. Pa.) involved a dispute between Ilene Steinberg and Michele Barrack, each a 50 percent owner of Lice Lifters, a company that provides lice removal services.¹ When they formed Lice Lifters, Steinberg and Barrack entered into an Operating Agreement pursuant to which Steinberg agreed to contribute to the company certain intellectual property; namely, a topical solution and process that Steinberg had developed for the removal of lice. Lice Lifters hired the Law Firm

to provide the company with various legal services. Among other things, the Law Firm pursued an application in the USPTO to obtain a patent on the intellectual property.

During the two years following the formation of Lice Lifters, the relationship between Steinberg and Barrack deteriorated to the point where Barrack, in her own name and on behalf of the company, initiated a lawsuit against Steinberg in state court. The suit alleged that Steinberg had breached the Operating Agreement and violated her fiduciary duties to the company. The Law Firm represented both Lice Lifters and Barrack in the state court action.

In response, Steinberg, in her own name and on behalf of Lice Lifters, sued Barrack and the Law Firm in federal court. The suit alleged, among other claims, that Barrack had infringed Lice Lifters’ copyrights and trademarks and breached the Operating Agreement. With respect to the Law Firm, Steinberg claimed that, in the proceeding in the USPTO to obtain a patent on the invention that Steinberg had assigned to Lice Lifters, the Law Firm was representing Steinberg and, therefore, owed her a fiduciary duty.² Steinberg alleged that the Law Firm breached that fiduciary duty by representing Barrack in Barrack’s state court lawsuit against Steinberg.

After Steinberg and Barrack settled their disputes out of court, Steinberg moved to amend her complaint to state a single claim for breach of fiduciary duty against the Law Firm. The Law Firm opposed the motion to amend, arguing, among other things, that the amendment would be futile because the federal court lacked

1. Schnader Harrison Segal & Lewis LLP was counsel for the Law Firm in the Lice Lifters case.

2. The Law Firm denied that it represented Steinberg in the USPTO and, therefore, disputed that it owed Steinberg a fiduciary duty. To the contrary, the Law Firm explained that, although Steinberg was identified as the inventor of the intellectual property in the patent application it was pursuing in the USPTO, the Law Firm’s client was Lice Lifters, the assignee of the intellectual property, not Steinberg. The Court never reached this issue.

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jurisdiction over Steinberg's sole claim — a state law legal malpractice claim between non-diverse parties.

In response, Steinberg argued that her malpractice claim was based on the Law Firm's alleged violation of federal law; namely, provisions of the Code of Federal Regulations ("CFR") that set forth the standards of conduct for lawyers who practice before the USPTO. Specifically, Steinberg cited to 37 C.F.R. § 10.66, which provides that:

(a) A practitioner shall decline proffered employment if the exercise of the practitioner's independent professional judgment in behalf of a client will be or is likely to be adversely affected by the acceptance of the proffered employment, or if it would be likely to involve the practitioner in representing differing interests [and] (b) A practitioner shall not continue multiple employment if the exercise of the practitioner's independent professional judgment in behalf of a client will be or is likely to be adversely affected by the practitioner's representation of another client, or if it would be likely to involve the practitioner in representing differing interests...

According to Steinberg, the Law Firm violated these CFR provisions by accepting a representation adverse to her (the state court action) while concurrently representing her in the USPTO. Therefore, argued Steinberg, her claim involved a question of federal law over which the court had subject matter jurisdiction.

While Steinberg's motion for leave to amend her complaint was pending, the U.S. Supreme Court issued its unanimous decision in *Gunn v. Minton*, No. 11-1118, 2013 U.S. LEXIS 1612 (Feb. 20, 2013). In *Gunn*, the owner of a patent brought a malpractice action against the lawyers he hired to pursue an infringement suit. The patent owner claimed that, due to his former lawyers' alleged malpractice, his infringement claim was dismissed and his patent was invalidated. By the time the *Gunn* case reached the Supreme Court, the sole issue before the Court was "whether a state law claim alleging legal malpractice in the handling of a patent case must be brought in federal court" pursuant to 28

U.S.C. § 1331, which provides the federal courts with jurisdiction over actions arising under the laws of the United States, and 28 U.S.C. § 1338(a), which provides the federal courts with exclusive jurisdiction over claims relating to patents.

The Court in *Gunn* began its analysis by recognizing that the federal courts have original jurisdiction over a "special and small category" of claims that, although founded in state law, are nevertheless deemed to "arise under" federal law for purposes of 28 U.S.C. §§ 1331 and 1338(a). Specifically, "federal jurisdiction over a state law claim will lie if 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."

Applying those factors to the claim before it, the *Gunn* Court held that the federal issue in the case — whether the patent owner would have prevailed on his infringement claim but for the alleged malpractice of his counsel — was not "substantial" because it was of no importance to the federal patent law system as a whole. The Court also held that resolution of the claim by a federal court would disrupt the federal-state balance because the states have an especially strong interest in regulating the lawyers and other professionals they license. Indeed, based on its analysis in the *Gunn* case, the Court was comfortable predicting that "state legal malpractice claims based on underlying patent matters will rarely, if ever, arise under federal patent law for purposes of § 1338(a)."

Judge Goldberg had no difficulty concluding that, under the rationale of the *Gunn* Court, the federal courts did not have jurisdiction to hear Steinberg's malpractice claim against the Law Firm. Judge Goldberg held that "the federal issue implicated by Steinberg's state law claim for breach of fiduciary duty is not a 'substantial' one [because] the provisions of the CFR relied upon by Plaintiff merely incorporate common state-law duties that an attorney owes to a client." Judge Goldberg also held that resolution of Steinberg's claims would not be of importance to the

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federal patent law system as a whole because “to the extent resolution of a federal issue will be required, the inquiry would be fact-specific and relevant only to the parties.” Having concluded that the court lacked subject matter jurisdiction, Judge Goldberg dismissed Steinberg’s claims against the Law Firm.

Judge Goldberg’s opinion added to a growing body of post-*Gunn* rulings that have dismissed for lack of subject matter jurisdiction malpractice actions against patent attorneys. For instance, in *Acess International, Inc. v. Baker Botts, L.L.P.*, No. 10-cv-1383 (N.D. Tex. Apr. 12, 2013), the court dismissed for lack of subject matter jurisdiction claims that a law firm violated the USPTO’s ethics rules by obtaining patents on similar technology for two different clients. The court noted that “to find federal jurisdiction merely because the plaintiff can allege a violation of a USPTO Rule (that will in most cases be a violation of a similar state rule) would effectively eliminate the Supreme Court’s holding in *Gunn* and circumvent state jurisdiction.” See also *Patriot Universal Holding, LLC v. McConnell*, No. 12-C-0907, 2013 U.S. Dist. LEXIS 49596 (E.D. Wis. Apr. 5, 2013) (holding that, in light of *Gunn*, the district court lacked subject matter jurisdiction over plaintiff’s claim that its former law firm breached its fiduciary duties to plaintiff by assisting plaintiff’s competitors with patent matters); *Cold Spring Harbor Laboratory v. Ropes & Gray LLP*, No. 11-cv-10128

(D. Mass. Mar. 14, 2013) (holding that *Gunn* required dismissal for lack of subject matter jurisdiction of legal malpractice claim based on patent issues); *Gerawan Farming, Inc. v. Townsend Townsend and Crew LLP*, No. 10-cv-2011, 2013 U.S. Dist. LEXIS 32586 (E.D. Cal. Mar. 8, 2013) (relying on *Gunn* to remand patent malpractice action to state court). ♦

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