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PATENTS

Has Judge O'Malley Shown Us How to Dodge the *Gunn*?

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In a recent article in this journal, we argued that the patent bar should try to get *Gunn v. Minton* overruled legislatively and gave a qualified endorsement to H.R. 9, 114th Cong. § 9(e)1)(b) (2015), which would do that. The qualification in our endorsement of the pending legislation was that we thought it too broad. We wrote that:

> We think that it would be better if a statute were drafted that would give the federal courts jurisdiction over the types of traditional patent malpractice actions discussed herein, while leaving with the state courts jurisdiction over actions against patent attorneys for such actions as commingling (or outright theft) of client funds and the like, which have no patent-law flavor to them.[1]

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Now, however, Judge Kathleen M. O'Malley may have shown members of the patent bar how to dodge the *Gunn*, at least in the situations that are of general concern to the patent bar as a whole—as opposed to the situations that are of concern only to the specific members of the patent bar whose personal careers are at stake.

What Judge O'Malley Wrote

The case that gives us hope is *State of Vermont v. MPHJ Technology Investments*.[2] In that case, the state of Vermont had sued an entity, MPHJ, popularly referred to as a ''patent troll'' in a Vermont state court alleging violations of the Vermont Consumer Protection Act (VCPA). MPHJ had filed a plurality of counterclaims, including a counterclaim 5 alleging that the VCPA is invalid or preempted by, inter alia, the Supremacy and Patent Clauses of the U.S. Constitution and Title 35 of the U.S. Code. To vastly simplify a complex procedural history, MPHJ removed the case to the United States District Court for the District of Vermont, the district court remanded the case to the Vermont state court, and MPHJ appealed to the Federal Circuit from the district court's order of remand.

The issue that concerns us here was whether the Federal Circuit had jurisdiction over MPHJ's appeal. That depended on whether any one of MPHJ's counterclaims was a compulsory counterclaim arising under the patent laws, bringing the whole case within the Federal Circuit's jurisdiction under the America Invents Act's

[1] *Should the Patent Bar Try to Get* Gunn v. Minton *Legislatively Overruled?*, 90 Patent, Trademark and Copyright Journal 3133 (90 PTCJ 3129, 9/11/15).

[2] *Vermont v. MPHJ Tech. Invs., LLC*, 803 F.3d 635, 116 U.S.P.Q.2d 1595 (Fed. Cir. 2015) , (opinion by Judge O'Malley for a panel that also consisted of Chief Judge Prost and Judge Newman) (90 PTCJ 3339, 10/2/15).

 ISSN 0148-7965

amendment to 28 U.S.C. § 1295(a)(1). That amendment gave the Federal Circuit exclusive jurisdiction over ''. . . any civil action in which a party has asserted a compulsory counterclaim arising under, any act of Congress relating to patents. . .'' This amendment was designed to legislatively overrule *Holmes Group, Inc. v. Vornado Air Circulations Sys.*,[3] which held that ''a counterclaim—which appears as part of the defendant's answer, not as part of plaintiff's complaint—cannot serve as the basis for 'arising under' jurisdiction''. The panel of the Federal Circuit held that MPHJ's counterclaim 5 was a compulsory counterclaim arising under the patent laws. It is what the court said in reaching this conclusion that is of concern here.

First, the court held that, ''[b]ecause the concept of what constitutes a 'compulsory counterclaim' now directly impacts our jurisdiction, it is governed by Federal Circuit law, rather than by that of the regional circuits.''[4] However, because the Federal Circuit had not yet adopted a body of law governing what constitutes a compulsory counterclaim, the panel ''turn[ed] to Second Circuit law for guidance in this case,''[5] presumably adopting the Second Circuit's law on that point as its own law for use in future cases.

According to O'Malley's opinion:

> Under Second Circuit law:
>
> > Whether a counterclaim is compulsory or permissive turns on whether the counterclaim arises out of the transaction or occurrence that is the subject matter of the opposing party's claim, and this Circuit has long considered this standard met when there is a logical relationship between the counterclaim and the main claim.
>
> *Jones v. Ford Motor Credit Co.*, 358 F.3d 205, 209 (2d Cir. 2004) (internal citations and quotation marks omitted). The 'logical relationship' test does not require 'an absolute identity of factual backgrounds,' but the 'essential facts of the claims [must be] so logically connected that considerations of judicial economy and fairness dictate that all the issues be resolved in one lawsuit.' *Id.* (internal citations and quotation marks omitted); *see also id.* at 210 ('The essential facts for proving the counterclaims and the ECOA claim are not so closely related that resolving both sets of issues in one lawsuit would yield judicial efficiency.').[6]

It is our belief that most of the malpractice actions discussed in our previous article either included a counterclaim or could easily have been made to include a counterclaim that met this standard. After all, in most malpractice cases, the allegedly aggrieved former client has stopped paying its bills, and the patent firm involved has a cause of action for non-payment of bills for the very conduct that the allegedly aggrieved former client alleges was malpractice.

That, however, just leads to the next question: Would the compulsory counterclaim arise under the patent laws, as 28 U.S.C. § 1295(a)(1) requires? Obviously, many (or even most) actions for non-payment of patent attorneys' bills do not arise under the patent laws. However, the panel in *State of Vermont* held that MPHJ's counterclaim 5 *did* arise under the patent laws. In doing so, it used logic that we think would apply to at least some counterclaims for non-payment of a patent attorney's bill. Not only that, but O'Malley found support for holding that MPHJ's compulsory counterclaim arose under the patent law in, of all places, the Supreme Court's opinion in *Gunn*:

> An action 'aris[es] under' federal law: (1) where 'federal law creates the cause of action asserted,' and (2) in a 'special and small category of cases' in which arising under jurisdiction still lies' *Gunn*, 133 S. Ct. at 1064. For this second category of cases, '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.' *Id.* at 1065. * * *
>
> Because counterclaim 5 is not a cause of action created by the federal patent laws, we ask whether it falls into the 'special and small category of cases' in *Gunn*. *Gunn*, 133 S. Ct. at 1064.[7]

Judge O'Malley's opinion easily found that resolution of a federal question was ''clearly 'necessary' to MPHJ's counterclaim [5]''[8] and that the issue of federal law was ''actually disputed''.[9] We think that the federal patent law questions involved in most patent malpractice cases that would be of interest to the patent bar as a whole would similarly easily surmount those two barriers to jurisdiction.

That, however, leads us to the two more challenging barriers, ''substantiality'' and ''capab[ility] of resolution in federal court without disrupting the federal-state balance approved by Congress.'' Concerning those two barriers, O'Malley's opinion reasons as follows:

> Under *Gunn*, the 'substantiality' inquiry looks to 'the importance of the issue to the federal system as a whole' and not the significance 'to the particular parties in the immediate suit.' *Id.* at 1066 . . . . In other words, we focus on the broader significance of the federal issue and ask ourselves whether allowing state courts to resolve these cases undermines 'the development of a uniform body of [patent] law.' *Id.* at 1066-67 . . . . Counterclaim 5 also passes this test. Whether federal patent laws preempt or invalidate the VCPA as applied has considerable significance beyond the current case. A hypothetical finding that the VCPA is not invalid or preempted in state court would affect the development of a uniform body of patent law, as such a decision would be binding in Vermont, but would not be in other states with similar laws or in federal court. The facts of this case are fundamentally unlike *Gunn*, in which the Court recognized that the federal issue was a 'backward-looking . . . legal malpractice claim' that would be unlikely to have any 'preclusive effect' on future patent litigation and was, therefore, not substantial. *Id.* at 1067. As an 'as applied' challenge, counterclaim 5 depends to a certain extent on the specific fact of this case, but the resolution of this case would assist in delineating the metes and bounds of patent law and clarifying the rights and privileges afforded to patentees in pursuing patent infringement claims.[10]

O'Malley's opinion then turns to the fourth barrier, reasoning as follows:

> Finally, we find that the last prong of the *Gunn* test, ''capable of resolution in federal court without disrupting the federal-state balance,'' is satisfied. *Gunn*, 133 S. Ct. at 1065 . . . . Allowing a state court to resolve a patent law preemption question risks ''inconsistent judgments between state and federal courts.'' * * * We cannot permit such a result when Congress has vested exclusive appellate jurisdiction

[3] 535 U.S. 826, 831, 62 U.S.P.Q.2d 1801 (2002) (64 PTCJ 124, 6/7/02).
[4] 803 F.3d at 644 n.2.
[5] *Id.*
[6] *Id.* at 645.
[7] *Id.* at 646.
[8] *Id.*
[9] *Id.*
[10] *Id.*

  PTCJ ISSN 0148-7965

over patent cases in this court. We conclude that, because the requirements of § 1295(a)(1) are satisfied, we have jurisdiction over this appeal.[11]

Applying the *State of Vermont* Tests

It seems to us that the ''big'' malpractice cases (like the one against Finnegan Henderson which has attracted so much attention from the patent bar) would meet the *State of Vermont* tests. In that case, decided by the Supreme Judicial Court of Massachusetts on Dec. 23, 2015, plaintiff Chris E. Maling sued the law firm of Finnegan, Henderson, Farabow, Garrett and Dunner LLP and three of its attorneys for alleged malpractice while preparing and prosecuting patent applications relating to a screwless eyeglass hinge that Maling developed.[12] During Finnegan's representation of Maling, Finnegan (but not the same three attorneys) also represented Masunaga Optical Mfg. Co. Ltd. (hereinafter referred to as ''Masunaga'') with respect to an allegedly ''similar'' invention.[13] Finnegan obtained patents for both clients, but Maling alleged that Finnegan ''breached various duties they owed Maling by failing to disclose that it was already working for another company to obtain patents in 'same patent space' for a competitor, Masunaga, before entering into the engagement with and while performing 'same patent space' work for Maling.''[14] Maling alleged that, because Finnegan failed to disclose this dual representation, he invested ''millions of dollars'' ''for a product he could not market.''[15]

At the Massachusetts trial court, Finnegan successfully dismissed Maling's complaint under Mass. R. Civ. P. 12(b)(6). The court found that Maling and Masunaga were not directly adverse to one another and that Maling had not suggested that his representation was negatively limited by the concurrent representation of Maling and Masunaga such that a conflict of interest arose between the parties. Notably, the Boston Patent Law Association and a consortium of eleven law firms each filed an amicus brief in support of Finnegan at the Supreme Judicial Court of Massachusetts.

Although Finnegan prevailed on the merits in state court, it seems to us that federal jurisdiction over Maling's state law claim would have been available because it appears that a federal issue—whether Finnegan committed patent malpractice—was: (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.

Whether Maling was entitled to money damages turned entirely on whether Finnegan committed malpractice by concurrently representing parties with similar business interests and allegedly similar inventions. Thus, the federal issue was (1) necessarily raised, (2) actually disputed between the parties, and (3) unquestionably substantial in the context of the litigation as the issue formed the basis of Maling's entire case. Further, a hypothetical finding that Finnegan committed malpractice in Massachusetts by representing individuals with allegedly ''similar'' inventions was substantial in the context of patent law as a whole because it could dramatically affect the uniform development of patent law throughout the country. Such a decision could prevent law firms from representing clients in the same or similar technology fields (at least in Massachusetts), breeding uncertainty as to the scope of permissible patent practice throughout the rest of the federal court system.

As to the fourth prong of the *Gunn* test—the federal-state balance approved by Congress—allowing a state court to resolve substantive legal malpractice questions sounding in patent law risks inconsistent judgment between state and federal courts, where a uniform body of federal law should control. For instance, now that the Massachusetts court has held that Finnegan did not committ malpractice by representing more than one client in the same industry, broadly defined, what if a Virginia federal court deciding a malpractice action in a case in which its jurisdiction is based on diversity of citizenship says that another, unnamed patent law firm *did* commit malpractice by representing more than one client in the same industry, broadly defined? Allowing the Massachusetts state court to resolve that question would not only have risked, but certainly involved, ''inconsistent judgments between state and federal courts'' on this important issue, and we submit that is a result that the Federal Circuit ''cannot permit . . . when Congress has vested exclusive appellate jurisdiction over patent cases in . . . [it]''![16] The same can be said about any of the ''big issues'' involved in malpractice actions against members of the patent bar.

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[11] *Id.* at 646-47.

[12] *Maling v. Finnegan, Henderson, Farabow, Garrett & Dunner, LLP*, No. 2014-P-0578, SJC-11800 (Mass. Dec. 23, 2015)

[13] Interference specialists will at once note that Maling's argument was *not* that the claims in his application were to subject matter that was patentably indistinct from the subject matter claimed in Masunaga's application.

[14] Plaintiffs/Appellants' Brief and Record Appendix in SJC-11800 at 3.

[15] *Id.* at 3-4.

[16] *Id.*