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E-Pass Technologies, Inc. v. Moses & Singer, LLP: Legal Malpractice Case Based on Filing of Unmeritorious Claim for Patent Infringement Not Subject to Exclusive Federal Jurisdiction

Monday, November 8th, 2010

Legal malpractice defense attorneys often prefer to defend malpractice cases in federal court rather than state court. Reasons for this vary, but federal judges sometimes are perceived to be more willing than state court judges to grant dispositive motions, and are sometimes perceived to be more strict in their case management. For defense attorneys who think it would be advantageous to defend a case in federal court, the issue of subject matter jurisdiction should be considered promptly.

Diversity jurisdiction is the most common ground for removing a legal malpractice case to District Court. The other ground for removing a case–federal question jurisdiction–arises in malpractice cases involving the alleged mishandling of patent-related matters.

District courts have original jurisdiction over claims "arising under" federal laws relating to patents, copyrights and trademarks. 28 USC § 1338. This raises the question of whether a legal malpractice claim based on patent malpractice arises under federal law. Under Supreme Court case law, section 1338 jurisdiction extends to any case in which the plaintiff's right to relief necessarily depends on resolution of a substantial question of federal patent law.

In 2007, the United States Court of Appeals for the Federal Circuit (which hears appeals from any of the United States district courts where the original action included a complaint arising under the patent laws) issued two rulings addressing this issue. In *Air Measurement Technologies, Inc. v. Akin Gump Strauss Hauer & Feld, L.L.P.*, 504 F.3d 1262 (Fed. Cir. 2007), the court held that where a plaintiff must prove, as part of its case-within-a-case presentation, infringement stemming from alleged mishandling of patent prosecution or patent litigation, there is federal question jurisdiction under 28 U.S.C. § 1338. In *Immunocept, LLC v. Fulbright & Jaworski, LLP*, 504 F.3d 1281 (Fed Cir. 2007), the court similarly held that federal jurisdiction exists where a determination of claim scope is a necessary element of a patent malpractice claim. Both of these cases were appeals from the U.S. District Court from the Western District of Texas. Since the issuance of these decisions, courts have been wrestling with the issue of when it is that a state-law legal malpractice claim involving a patent issue "arises under" federal patent laws.

On November 5, 2010, the California Court of Appeal (First Appellate District, Division Three) issued a published decision in *E-Pass Technologies, Inc. v. Moses & Singer, LLP* , 189 Cal.App.4th 1140 (2010), holding that a legal malpractice case involving the pursuit of an unmeritorious patent-infringement claim did not arise under federal patent law and, therefore, was not subject to exclusive federal jurisdiction and should remain in state court.

The defendant attorneys had represented E-Pass in District Court litigation alleging patent infringement against various defendants, and lost. E-Pass then filed a legal malpractice action in California state court, alleging that

"the attorney defendants incorrectly advised E-Pass that it 'would make more money suing prospective licensees than by negotiating licenses or deals with them' and failed to appreciate and disclose to E-Pass that there was no evidence to support its infringement claims." The attorneys demurred to the complaint on the ground that the Superior Court lacked subject matter jurisdiction over the action because E-Pass's claims involved substantial issues of federal patent law. The Superior Court sustained the demurrer, but the California Court of Appeal reversed.

The Court of Appeal explained that "E-Pass must prove that a reasonable attorney would not have advised E-Pass to pursue the infringement litigation based on the evidence, or lack of evidence that was then available . . . ." The court further explained that "[i]t will be sufficient for E-Pass to prove that a reasonable attorney would have realized that under the facts before it, there was no reasonable possibility of prevailing in the federal action. Defendants need only show that a reasonable attorney would have considered there to be a sufficient likelihood of prevailing to justify the litigation and that they properly advised E-Pass of the risks of failure."

The Court of Appeal distinguished this case from other patent legal malpractice cases in which exclusive jurisdiction was found, including, for example, *Landmark Screens, LLC v. Morgan, Lewis & Bockius, LLP* (2010) 183 Cal.App.4th 238 (assessment of damages requred determination of validity of patent rights); *Lockwood v. Sheppard, Mullin, Richter & Hampton* (2009) 173 Cal.App.4th 675 (issue in case required court to "put itself in the position of a 'reasonable' patent examiner"); *Air Measurement Technologies* (cited above; plaintiff required to prove it would have prevailed in the patent infringement litigation but for the lawyer's negligence); and *Immununocept* (cited above; case required determination of the appropriate "patent claim scope").

Here, the Court of Appeal explained that it was not necessary, as it was in these other cases, "to establish the validity, invalidity or proper scope of a patent in order to establish liability or damages and causation." Rather, "the ultimate question for decision is what a reasonable attorney would have concluded under the circumstances, a question of state law properly within the jurisdiction of state courts, and not whether the federal defendants did in fact infringe E-Pass's patent." Finally, while acknowledging that the trial of the matter "will require extended testimony concerning the requirements of federal patent law," the Court of Appeal concluded that the case "does not present a question of patent law that is substantial."

It is likely that the issue of subject matter jurisdiction in patent legal malpractice cases will continue to receive ample attention by California's courts of review.