STATE OF MICHIGAN

COURT OF APPEALS

PETTER INVESTMENT COMPANY, d/b/a RIVEER ENVIRONMENTAL, Plaintiff/Counter-Defendant-Appellant, and MATTHEW PETTER and DOUGLAS PETTER, Plaintiffs-Appellants,	UNPUBLISHED April 9, 2013
v PRICE HENEVELD COOPER DEWITT & LITTON, L.L.P. and EUGENE J. RATH, Defendants/Counter-Plaintiffs-Appellees.	No. 309762 Kent Circuit Court LC No. 11-003293-NM

Before: STEPHENS, P.J., and HOEKSTRA and RONAYNE KRAUSE, JJ.

PER CURIAM.

In this legal malpractice action, plaintiffs appeal as of right the trial court's order granting defendants' motion for summary disposition pursuant to MCR 2.116(C)(4) for a lack of subject-matter jurisdiction. For the reasons set forth below, we reverse and remand for further proceedings consistent with this opinion.

I. BACKGROUND

This action arises out of an underlying case in which plaintiffs were represented by defendants in a patent infringement action against Hydro Engineering & Supply Co. The action was litigated before the United States District Court for the Western District of Michigan. After the district court concluded that plaintiffs infringed on Hydro's patents, the parties resolved the litigation with a settlement that was unfavorable to plaintiffs. Plaintiffs subsequently fired defendants and retained new counsel. Plaintiffs also filed a legal malpractice action against defendants in the Kent Circuit Court. Defendants moved the trial court for summary disposition under MCR 2.116(C)(4) for a lack of subject-matter jurisdiction. Defendants argued that, pursuant to 28 USC 1338(a), the Federal District Court had exclusive jurisdiction over plaintiffs' legal malpractice claim because it arose out of federal patent law. The trial court granted defendants' motion and plaintiffs appealed.

II. STANDARD OF REVIEW

We review a trial court's decision to grant summary disposition de novo. *Latham v Barton Malow Co*, 480 Mich 105, 111; 746 NW2d 868 (2008). We also review whether a court has subject-matter jurisdiction de novo. *Young v Punturo*, 270 Mich App 553, 560; 718 NW2d 366 (2006). Under MCR 2.116(C)(4), a grant of summary disposition is appropriate when the court lacks subject-matter jurisdiction.

III. ANALYSIS

A. Jurisdiction

Congress has provided that the federal courts have "original jurisdiction of any civil action arising under any Act of Congress relating to patents . . ." 28 USC 1338(a). However, legal malpractice claims are normally within the jurisdiction of state courts. See, e.g., *Coleman v Gurwin*, 443 Mich 59, 63; 503 NW2d 435 (1993); *Manzo v Petrella*, 261 Mich App 705, 712; 683 NW2d 699 (2004). Indeed, the United States Supreme Court recently held that "state legal malpractice claims based on underlying patent matters will rarely, if ever, arise under federal patent law." *Gunn v Minton*, ___ US ___; ___ S Ct ___; ___ L Ed ___ (No. 11-1118, issued February 20, 2013) (slip op, pp 6-7). Accordingly, even though 28 USC 1338(a) grants the federal courts original jurisdiction over patent matters, it "does not deprive the state courts of subject matter jurisdiction" over legal malpractice claims. *Id*., (slip op, pp 5, 13). Malpractice claims "may necessarily raise disputed questions of patent law," but "those cases are by their nature unlikely to have the sort of significance for the federal system necessary to establish jurisdiction." *Id*. (slip op, p 7).

In *Gunn*, the respondent sued the petitioner in Texas state court, claiming that the petitioner had been negligent in representing the respondent in a prior patent case. *Id*. (slip op, p 3). After the state trial court granted summary judgment to the petitioner, the respondent argued on appeal that the federal courts had exclusive jurisdiction over his malpractice claim because the federal courts have jurisdiction over the underlying patent issue. *Id*. Ultimately, the case was appealed to the United States Supreme Court, which explained that:

> [F]ederal 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. Where all four of these requirements are met . . . jurisdiction is proper because there is a serious federal interest in claiming the advantages thought to be inherent in a federal forum, which can be vindicated without disrupting Congress's intended division of labor between state and federal courts. [*Id*. (slip op, p 6) (citations and quotations omitted).]

The *Gunn* Court focused heavily on the "substantiality" prong of the above test, noting:

> [I]t is not enough that the federal issue be significant to the particular parties in the immediate suit; that will *always* be true when the state claim necessarily raises a disputed federal issue . . . . The substantiality inquiry . . . looks instead to the importance of the issue to the federal system as a whole. [*Id*. (slip op, p 8) (citations and quotations omitted).]

The Court held that "because of the backward-looking nature of a legal malpractice claim," the respondent's claim did not raise any issues sufficiently substantial to the federal system as a whole to warrant exclusive jurisdiction in the federal courts. *Id*. (slip op, p 9). In legal malpractice claims:

> [T]he question is posed in a merely hypothetical sense: *If* [the respondent's] lawyers had raised a timely experimental-use argument, would the result in the patent infringement proceeding have been different? No matter how the state courts resolve that hypothetical "case within a case," it will not change the real-world result of the prior federal patent litigation. [The respondent's] patent will remain invalid. [*Id*. (slip op, p 9).]

In this case, defendants argue that the court which hears plaintiffs' malpractice claim will have to, inter alia, determine whether defendants' original advice to plaintiffs regarding infringement was proper, and that the court will have to hear expert testimony on the standard of care in patent litigation. Accordingly, defendants argue, this case involves "substantial questions of patent law" and the federal courts have exclusive jurisdiction over plaintiffs' malpractice claim. With regard to *Gunn* specifically, defendants argue that when plaintiffs filed the instant malpractice case, "its related federal patent case was co-pending" and "[t]his state malpractice case could and likely would have changed that co-pending federal litigation." Therefore, defendants argue that *Gunn* is distinguishable from and inapplicable to the instant case because unlike in *Gunn*: "1) federal patent litigation was contemporaneous not 'prior'; and 2) the state court's determination of patent claim construction, waiver, estoppel, etc., could have had 'real-world results' in the co-pending federal litigation, including upon a third-party to this case, patent owner Hydro." We disagree with defendants.

The *Gunn* Court explicitly held that the nature of the substantiality inquiry focuses not on the importance of the federal issue to the resolution of particular case, but "to the importance of the [federal] issue to the federal system as a whole." *Gunn* ___ US ___ (slip op, p 8). Defendants offer reasons why the federal questions involved here are significant to the resolution of the instant legal malpractice case, but do not explain why the federal questions involved here are of a broader significance to the federal system as a whole. Accordingly, on their face, the reasons advanced by defendants fail to meet *Gunn*'s standard for substantiality.

More specifically, the *Gunn* Court held that no substantial issues of importance to the federal system arise when a state court addresses a federal issue hypothetically as merely one step in its broader analysis of a legal malpractice claim. *Id*. (slip op, p 9). To prevail in their legal malpractice claim against defendants, plaintiffs are required to show 1) that defendants represented them in their case against Hydro, 2) that plaintiffs were negligent in their representation in the case against Hydro, 3) that the negligence was a proximate cause of an injury, and 4) the fact an extent of the injury alleged. See *Coleman*, 443 Mich at 63.

Accordingly, in this case, just as in *Gunn*, to the extent that a Michigan state court is required to resolve substantive patent issues, it only need do so hypothetically as one step in the resolution of its ultimate inquiry: whether defendants were negligent in their representation of plaintiffs. Indeed, this case presents the precise type of "backward-looking . . . case within a case," which *Gunn* held does not raise substantial federal issues. *Gunn* ___ US ___ (slip op, p 9).

Further, we are unpersuaded by defendants' argument concerning plaintiff's separate patent litigation which was pending in the federal court at the time plaintiffs filed the instant malpractice suit. First, contrary to defendants' assertion, the legal case in which defendants represented plaintiffs is concluded. That case resulted in a settlement, and plaintiffs sued defendants for malpractice two years after that settlement. Defendants are therefore factually incorrect when they assert that unlike in *Gunn*, the federal patent litigation here was "contemporaneous not prior." Moreover, the *Gunn* Court explicitly held that "[i]n resolving . . . patent questions . . . the federal courts are . . . not bound by state court case-within-a-case patent rulings." *Id*. (slip op, p 10). Accordingly, the federal court would not have been bound by any determinations made by Michigan state courts in resolving plaintiffs' legal malpractice claim. We therefore reject defendants' assertion that resolving the malpractice claim in state court "could and likely would have changed [the] . . . federal litigation" which was pending in federal court at the time plaintiffs filed their malpractice claim.[1]

Thus, for the foregoing reasons, we conclude that the federal courts do not have exclusive jurisdiction over plaintiffs' legal malpractice claim.

B. Issue Preclusion

For similar reasons, we reject plaintiffs' argument that under the doctrine of issue preclusion the Federal District Court's determination that plaintiffs infringed on Hydro's patent is binding on the court hearing the malpractice claim. Collateral estoppel requires that for a court's decision on an issue to have a preclusive effect in future litigation, the issues must be identical, not merely similar See, e.g. *Eaton Bd of Co Rd Comm'rs v Schultz*, 205 Mich App 371, 376-377; 521 NW2d 847 (1994). The federal court's inquiry in the underlying case (whether plaintiffs infringed on Hydro's patents) is different from the state trial court's inquiry (whether defendants were negligent in representing plaintiffs). Accordingly, a conclusion that the federal court's determination in this case is not preclusive is appropriate even without reference to *Gunn*. However, our conclusion is consistent with *Gunn*, which noted that the court's inquiry in a malpractice claim was a "case within a case," separate and distinct from the substantive underlying federal issue.

[1] For the same reasons, nor will the state court's resolution of plaintiffs' malpractice claim have any effect on any related substantive patent litigation which plaintiffs may currently be pursuing in federal court.

Reversed and remanded for further proceedings consistent with this opinion. We do not retain jurisdiction. Plaintiff, as the prevailing party, may tax costs pursuant to MCR 7.115(A).

/s/ Cynthia Diane Stephens
/s/ Joel P. Hoekstra
/s/ Amy Ronayne Krause