

Keywords: federal jurisdiction; state law claims; questions of patent law

General: A plaintiff's state claim may arise under federal patent law, if the question of law turns on issues of infringement, validity, and enforceability; and if there is a real prospect of inconsistent judgments between state and federal courts. However, a state claim does not arise under federal patent law, if the prospect of a potential federal-state conflict is “purely hypothetical.”

Forrester Environmental Services Inc. v. Wheelabrator Technologies Inc.

106 U.S.P.Q.2d 1842 (Fed. Cir. 2013)

Decided May 16, 2013

I. **Facts**

Forrester and Wheelabrator are competitors in the municipal and industrial waste treatment industry. Both Wheelabrator and Forrester develop treatment systems that prevent heavy metals from potentially leaching into sources of drinking water. Both have obtained several U.S. patents related to their respective systems.

In 2001, Wheelabrator entered into an exclusive field-of-use license agreement with Bio Max, a Taiwanese company. The terms of the license granted Bio Max an exclusive license and the right to utilize and sublicense WESPHix[®], one of Wheelabrator's treatment systems, anywhere in Taiwan. Bio Max sublicensed WESPHix[®] to Kobin, another Taiwanese company, for use at Kobin's plant in Taipei, Taiwan. Wheelabrator and Bio Max were to receive royalties from Kobin.

In 2004, Forrester learned that Kobin was dissatisfied with WESPHix[®], developed an alternative system (FESI-BOND), and licensed it to Kobin for use at Kobin's Taipei plant. In November 2006, Kobin, under pressure from Wheelabrator, stopped purchasing FESI-BOND from Forrester and entered into a new WESPHix[®] sublicense with Wheelabrator. On February 23, 2010, Forrester filed suit against Wheelabrator in the Superior Court of the State of New Hampshire. Forrester's complaint alleged four causes of action under a theory of unfair competition under New Hampshire state law. Forrester alleged that Kobin met with Wheelabrator in Hampton, New Hampshire in June 2007, and that Wheelabrator stated to Kobin that Wheelabrator's patents and WESPHix[®] technology covered FESI-BOND. The claim of U.S. patent coverage was allegedly false. Forrester further contended that Kobin terminated its business with Forrester by reason of Wheelabrator's false statements and representations.

Wheelabrator removed the case to the United States District Court for the District of New Hampshire, arguing that Forrester could only recover if it prevailed on a substantial question of U.S. patent law. Forrester argued that the district court lacked subject-matter jurisdiction. The district court granted summary judgment for Wheelabrator. Forrester appealed.

II. Issue

Does a cause of action created by state law concerning U.S. patent rights raise a substantial question of federal patent law when the alleged patent-related conduct occurred entirely outside the U.S.?

III. Discussion

No. According to the Federal Circuit in *Forrester*, a plaintiff's claim may arise under federal patent law, if the question of law turns on issues of infringement, validity, and enforceability **and** if there is a real prospect of inconsistent judgments between state and federal courts. Wheelabrator's allegedly inaccurate statements regarding its patent rights concerned conduct taking place entirely in Taiwan. The use of a patented process outside the United States is not an act of patent infringement. Therefore, Wheelabrator's statements did not concern activities that could infringe U.S. patent rights.

While the importation into the United States of a product produced by a U.S. patented process can constitute infringement, the court found no indication that any product was being imported into the U.S. Therefore, the court concluded that because there is no prospect of a future U.S. infringement suit arising out of Kobin's use of WESPHix[®] or FESI-BOND in Taiwan, there is no prospect of inconsistent judgments between state and federal courts. Furthermore, since all three patents at issue had already expired, future use in the U.S. would not lead to an infringement suit regarding those patents. Thus, the court held that *Forrester's* complaint did not raise a substantial question of federal patent law.

From a procedural standpoint, the Federal Circuit's holding revealed that the New Hampshire federal district court did not have jurisdiction under 28 U.S.C § 1338 to hear the case. As a consequence, Wheelabrator's removal of the case from the state court to the New Hampshire federal court was held improper. 28 U.S.C § 1338 gives federal district courts original jurisdiction over "any civil action arising under any Act of Congress relating to patents." According to the Supreme Court, a claim may "aris[e] under" the patent laws even where patent law did not create the cause of action, provided that the "well-pleaded complaint establishes ... that the plaintiff's right to relief necessarily depends on resolution of a substantial question of federal patent law." Thus, even a cause of action created by state law may "aris[e] under" federal patent law within the meaning of 28 U.S.C. § 1338 if it involves a patent law issue that 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.

In deciding *Forrester*, the Federal Circuit noted that while some claims may raise substantial questions of patent law, those questions may not be "substantial in the relevant sense." The court distinguished the Supreme Court's recent decision in *Gunn v. Minton*, 133 S. Ct. 1059 (2013) from two other Federal Circuit decisions. In *Gunn*, the Court held that a legal malpractice claim rarely, if ever, involves a substantial question of patent law. By contrast, the Federal Circuit has held that

disparagement claims for false statements about U.S. patent rights did involve substantial questions of patent law—reasoning that if decided under state law, the disparagement claims “could result in inconsistent judgments between state and federal courts.” Furthermore, inconsistent judgments in disparagement cases could interfere with a party’s ability to enforce legally protected interests against future misconduct under the federal patent laws—contravening Congress’ intent.

However, the *Gunn* Court characterized a legal malpractice claim as a “purely backward-looking” claim, where the question is posed in a merely hypothetical sense” and that “[n]o 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.” Moreover, the *Gunn* Court also reasoned that in the event of a potential federal-state conflict regarding legal malpractice claims, the state interest in regulating lawyer competence is sufficient to outweigh even the most substantial question raised under federal patent law.

In *Forrester*, the Federal Circuit concluded that Forrester’s claim, when analyzed under *Gunn*, did not raise a substantial question of patent law in the relevant sense—labeling any potential federal-state conflict as purely “hypothetical.” As such, the court reasoned that federal jurisdiction requirements under 28 U.S.C. § 1338 were not met, and that removal from state court to the federal district court was improper.

Wheelabrator made two arguments in support of removal. First, Wheelabrator asserted that claim construction would have a potential preclusive effect in future litigation involving the patents. The Federal Circuit rejected this argument, noting that the Supreme Court rejected a similar argument in *Gunn* because such “fact-bound and situation-specific effects” are not sufficient to establish federal “arising under” jurisdiction. Second, Wheelabrator argued that Forrester’s state claim might be preempted by federal law. The court also rejected this argument—explaining that because federal preemption is ordinarily a defense that does not appear on the face of the complaint, it does not authorize removal to federal court.

IV. Conclusion

The Federal Circuit concluded that Wheelabrator’s jurisdictional arguments were without merit, stating that “even if the allegations contained in Forrester’s complaint necessarily raise a question of patent law, the patent law issues are not ‘substantial in the relevant sense’ under *Gunn*.” The court vacated the judgment and remanded the case, with instructions for the district court to remand the case to New Hampshire state court. *Forrester*, in a sense, partially clarifies the meaning of the “substantial” element in the judicial interpretation of 28 U.S.C. § 1338. To raise a substantial question of patent law, a patent-related issue must be both substantial and relevant. *Forrester* suggests that, in the Federal Circuit’s view, a plaintiff’s claim may arise under federal patent law, if the question of law turns on issues of infringement, validity, and enforceability **and** if there is a real prospect of inconsistent judgments between state and federal courts.