17-1482

No. 18-____

IN THE

Supreme Court of the United States

ALEXSAM, INC.,

Petitioner,

v.

WILDCARD SYSTEMS, INC., EFUNDS CORPORATION, AND FIDELITY NATIONAL INFORMATION SERVICES, INC.,

Respondents.

On Petition For A Writ Of Certiorari To The United States Court Of Appeals For The Federal Circuit

PETITION FOR A WRIT OF CERTIORARI

JACQUELINE K. BURT
Heninger Garrison Davis, LLC
3621 Vinings Slope
Suite 4320
Atlanta, Georgia 30339
Telephone: (404) 996-0861
jburt@hgdlawfirm.com

Counsel for Petitioner Alexsam, Inc.

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QUESTIONS PRESENTED

Petitioner filed a state law Breach of Contract claim in State Court in Florida against Respondents for the breach of a patent license agreement. In response, Respondents filed a counterclaim for invalidity of the licensed patents in which they identified only a clause in the agreement as the basis for their counterclaim. In that context, the Questions Presented are:

1) Was there an independent basis for Respondents' assertion of an invalidity counterclaim sufficient to invoke federal subject matter jurisdiction over petitioner's state law claim for breach of the patent license agreement?

2) Under *Gunn v. Minton*, where is the line drawn for federal jurisdiction for a state law Breach of Contract claim for the breach of a patent license?

PARTIES TO THE PROCEEDING

Petitioner Alexsam, Inc. ("Alexsam") was the plaintiff and appellant in the proceedings below.

Respondents Wildcard Systems, Inc., eFunds Corporation, and Fidelity National Information Services, Inc. ("Respondents") were the defendants and appellees below.

CORPORATE DISCLOSURE STATEMENT PURSUANT TO RULE 29.6

Alexsam, Inc. has no corporate parents, affiliates and/or subsidiaries. Alexsam, Inc. is a Texas corporation which is not publicly held. No publicly-held company owns ten percent or more of the stock of Alexsam, Inc.

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PETITION FOR *WRIT OF CERTIORARI*

Petitioner Alexsam, Inc. (hereinafter, "Alexsam" or "Petitioner") respectfully petitions for a *writ of certiorari* to review the judgment of the United States Court of Appeals for the Federal Circuit in the case below which affirmed without opinion the Judgment of the District Court for the Southern District of Florida and the 11th Circuit Court of Appeals.

JURISDICTION

Cases Below:

The Order of the District Court for the Southern District of Florida denying Alexsam's Motions to Dismiss and for Remand in the matter of *Alexsam, Inc. v. Wildcard Systems, Inc., eFunds Corporation, and Fidelity National Information Services, Inc.* (Case No. 10:15-cv-61736-BLOOM/Valle) was issued on November 20, 2015 (DE 51) and is not reported. The Final Judgment was issued on August 2, 2016 (DE 159).

The 11th Circuit Court of Appeal's Order Transferring Alexsam's appeal (Case No. 16-15829-CC) to the Federal Circuit Court of Appeals was issued on February 21, 2017 and is unreported.

The Federal Circuit Court of Appeal's *per curiam* judgment pursuant to Fed. Cir. R. 36 (Case No. 2017-1682) was issued on January 9, 2018 and is reported at 708 Fed. Appx. 680.

Jurisdiction To Hear Appeal:

The Federal Circuit Court of Appeals issued its Fed. Cir. R. 36 *per curiam* judgment on January 9, 2018. This Court has jurisdiction to review on a *writ of certiorari* of the judgment under 28 U.S.C. §1254(1).

APPLICABLE LAW

28 U.S.C. §1338(a)

The district courts shall have original jurisdiction of any civil action arising under any Act of Congress relating to patents, plant variety protection, copyrights and trademarks. No State court shall have jurisdiction over any claim for relief arising under any Act of Congress relating to patents, plant variety protection, or copyrights. For purposes of this subsection, the term "State" includes any State of the United States, the District of Columbia, the Commonwealth of Puerto Rico, the United States Virgin Islands, American Samoa, Guam, and the Northern Mariana Islands.

28 U.S.C. §1454

(a) IN GENERAL. -A civil action in which any party asserts a claim for relief arising under any Act of Congress relating to patents, plant variety protection, or copyrights may be removed to the district court of the United States for the district and division embracing the place where the action is pending.

(b) SPECIAL RULES. -The removal of an action under this section shall be made in accordance with section 1446, except that if the removal is based solely on this section—

(1) the action may be removed by any party; and

(2) the time limitations contained in section 1446(b) may be extended at any time for cause shown.

(c) CLARIFICATION OF JURISDICTION IN CERTAIN CASES. -The court to which a civil action is removed under this section is not precluded from hearing and determining any claim in the civil action because the State court from which the civil action is removed did not have jurisdiction over that claim.

(d) REMAND. -If a civil action is removed solely under this section, the district court—

(1) shall remand all claims that are neither a basis for removal under subsection (a) nor within the original or supplemental jurisdiction of the district court under any Act of Congress; and

(2) may, under the circumstances specified in section 1367(c), remand any claims within the supplemental jurisdiction of the district court under section 1367.

INTRODUCTION

A breach of contract claim under state law presumptively belongs in state court (absent diversity of the parties with damages above the threshold amount). Here, simply because the contract at issue related to patents, the District Court and by affirmance, the 11th Circuit and the Federal Circuit, turned this presumption on its head. Petitioner Alexsam, Inc. (hereinafter, "Alexsam" or "Petitioner"), seeking to enforce its rights under a Settlement and License Agreement (hereinafter, "SLA") entered into to settle prior litigation, filed suit in Florida State Court seeking past due royalties from Wildcard Systems, Inc. and eFunds Corporation as well as the

company that purchased the two companies, Fidelity National Information Services, Inc. (hereinafter, "Respondents"). However, this suit did not go as planned. Without an independent basis, Respondents asserted counterclaims for non-infringement, invalidity, and no breach in their Answer, and then removed the case to the district court for the Southern District of Florida.

Alexsam immediately moved to dismiss the unsupported counterclaims and for remand. Although the non-infringement and no breach counterclaims were dismissed as redundant with respect to affirmative defenses that had been raised, the District Court refused to dismiss the invalidity counterclaim and denied Alexsam's motion for remand. This despite finding that the other counterclaims were redundant.

The court below never questioned whether there was a basis for Respondents' invalidity counterclaim. The District Court accepted the unsupported assertion that Alexsam's breach of contract claim allowed the underlying patent issues to rise to the level of a claim. Without explanation, the Federal Circuit affirmed this view (after having been passed the case by the 11th Circuit). In so doing, the courts below each ignored this Court's analytical scheme set forth in *Gunn v. Minton*. If allowed to stand, these decisions doom settlement agreements for patents which include a running royalty as part of the settlement. No patent holder in his or her right mind would now enter into such an agreement knowing that the licensee could stop paying, wait to be sued, and then renew its assault on the validity of the patents covered by the license. As some companies are not

able or willing to enter into a fully-paid-up license, the decisions below likely will stifle the negotiation of patent licenses. More important is that blurring, if not obviating. the line that separates a breach of contract claim brought in state court under state law from a federal dispute over patent rights undermines the "balance of federal and state judicial responsibilities." *Gunn v. Minton*, 568 U.S. 251, 255 (2013). This is bad for patent holders and for the judicial system.

STATEMENT OF THE CASE

How did this case end up before this Court? This was a state law breach of contract case, filed in state court in Florida, to recover royalties. Alexsam pled with specificity the obligations that the Respondents failed to fulfill. The Respondents, seeing an opportunity to make a "federal case" out of their refusal to pay royalties owed, raised defenses to patent infringement claims as counterclaims under the Declaratory Judgment Act. On that basis, the Respondents removed the case to federal court in the Southern District of Florida. However, at no point following the execution of the SLA did Alexsam ever threaten Respondents with allegations of patent infringement. The issues here, therefore, are whether Respondents had any basis to raise patent counterclaims and whether the courts below had subject matter jurisdiction to hear them. The reason this is important for patent owners is that the viability of patent licenses that involve running royalties could be wiped out. More importantly, the decisions of the courts below fly in the face of this Court's analytical

scheme for federal jurisdiction as laid out in *Gunn* and in *Christianson v. Colt Industries Operating Corp.*, 486 U.S. 800, 808-811 (1988)

There are only two places to look for federal jurisdiction here. The first is within Alexsam's Complaint, to which the SLA was attached. This analysis is governed by the "Well-Pleaded Complaint Rule." The District Court properly concluded that the claims in Alexsam's Complaint did not arise under federal law. The second place to look for federal jurisdiction is within Respondents' pleadings. Pleading requirements under the Declaratory Judgment Act generally do not allow a defendant to bootstrap their way into federal court by pointing back to the claims lodged against them. Recently, accused patent infringers have been permitted to raise patent-related claims as counterclaims and, therefore, to remove such cases to federal court. However, any claim must be supported by the facts. Here, Respondents merely pointed back to Alexsam's Complaint for their jurisdictional basis. The District Court agreed, in effect reversing its conclusion that Respondents' counterclaims did not arise under federal law. Yet the only patent-related hook was that the SLA contained a provision that if the patents are held to be invalid, the SLA says it will terminate early. In essence, Respondents and the District Court pointed to the SLA, not to the patent laws, to find federal jurisdiction. This ignores the requirement of an independent factual basis for patent counterclaims, which is the sole basis for federal jurisdiction under 28 U.S.C. §1454.

The District Court compounded the jurisdictional confusion in several ways. First, in response to

Alexsam's Motions to Dismiss and for Remand, the District Court dismissed Respondents' non-infringement counterclaim as redundant while allowing Respondents' invalidity counterclaim to proceed. On that basis, remand was denied. Second, the District Court dismissed Respondents' invalidity counterclaim after Alexsam's breach of contract claim was dismissed. The stated reason was that the counterclaim was no longer viable because it was raised in response to the breach of contract claims. In other words, the District Court essentially admitted that the SLA was the only basis for the invalidity counterclaim, which, consequently, implicitly calls into question the correctness of the District Court's "arising under" analysis.

Alexsam appealed to the 11th Circuit Court of Appeals, asserting that the District Court's jurisdictional determinations were wrong. The 11th Circuit summarily and uncritically passed the case along to the Federal Circuit Court of Appeals because, in summary, it was a patent case. The Federal Circuit, ignoring the jurisdictional question, affirmed the District Court's erroneous decision without opinion. It is easy to conclude from these decisions that no case for breach of a patent license may remain in a state court if the party accused of breach does not want it there. If all patent licenses inherently arise under the patent laws, this raises the possibility that such a case cannot even be brought in a state court. However, as this Court set forth in *Gunn*, this should not be the rule.

BACKGROUND

Alexsam owns two patents: United States Patent No. 6,000,608 entitled "Multifunction Card System"

("the '608 Patent") and No. 6,189,787 entitled "Multifunctional Card System" ("the '787 Patent") (collectively, the "Alexsam Patents"). The Alexsam Patents were licensed by the Respondents under the SLA.

The Prior Litigation

In 2003, Alexsam filed suit in the Eastern District of Texas against Wildcard and a number of other parties for infringement of claims of Alexsam's Patents. While awaiting the court's claim construction order, Alexsam and Wildcard (along with eFunds who had just purchased Wildcard) executed the SLA on July 7, 2005. AppxS019-033. The SLA's central goal was to resolve the litigation through a license to the Alexsam Patents in exchange for royalty payments. Id. (Whereas clauses).

Pursuant to the SLA, Alexsam gave up its right to sue Wildcard or its Affiliates for infringement of the Alexsam Patents. Id. (¶ 2). Both parties released all claims that were brought or could have been brought in the Prior Litigation. Id. (¶ 9). The Parties were to "dismiss with prejudice all claims and counterclaims that were or could have been asserted in the Lawsuit against one another." Id. (¶ 15). And, the SLA set forth Wildcard's payment obligations. Id. (¶¶ 3, 4, 6, 7). As a consequence of the SLA, Alexsam filed a stipulated motion to dismiss Wildcard from the Prior Litigation (DE 42-1, Exhibit D.) The Stipulation requested that Alexsam's claims and all claims that Wildcard raised or could have raised be dismissed with prejudice. (Id.) The District Court granted the Stipulation as proposed. (DE 42-1, Exhibit E.)

The Dispute Over What The SLA Covers.

Respondents initially performed their obligations under the SLA. However, in 2008, Alexsam sought to discuss with FIS, who had purchased Wildcard and e Funds, additional products that Alexsam felt should be covered by the SLA. Counsel for Respondents denied any breach of the SLA in several subsequent communications. Thereafter, over the next five and a half (5½) years, up until Alexsam filed suit, Respondents continued to behave as though the SLA was not terminated. Respondents made no mention that they believed that the SLA was terminated up until Alexsam filed suit in 2015.

Respondents' Partial Performance.

Respondents made periodic payments to Alexsam pursuant to the SLA following the claimed termination starting in January 2011 and continuing until 2015. In 2015, Alexsam concluded that Respondents were not making the proper payments under the SLA, and litigation was initiated.

LITIGATION BELOW

On June 12, 2015, Alexsam filed its Complaint in Florida state court against Respondents to recover royalties owed under the SLA. See AppxS008-045. Alexsam asserted state law causes of action for Breach of Contract and Breach Of The Covenant Of Good Faith And Fair Dealing. See AppxS013-015.

Respondents answered (AppxS046-082) and raised Declaratory Judgment counterclaims for (I) Non-infringement of the Patents, (II) Invalidity of the Patents, and (III) No Breach of the License Agreement. See AppxS071-078. Contemporaneously therewith, Respondents filed a notice of removal to the

United States District Court for the Southern District of Florida, based on Counterclaims I and II. See Appx0033-0041.

In response, Alexsam filed motions to dismiss the counterclaims and for remand of the case back to Florida state court. (DE 18, DE 19.) After full briefing (DE 37, DE 38; DE42, DE48), the District Court dismissed Counterclaims I and III, allowed Counterclaim II, the invalidity counterclaim, to survive, and denied Alexsam's motions to dismiss and for remand. See Appx0003-0024. In allowing the invalidity counterclaim (II), the District court stated that because the SLA "contemplates a basis for negating the [SLA]" an actual controversy existed as to Respondents' invalidity claim. See Appx0015

Respondents subsequently filed a Motion for Partial Summary Judgment ("Respondents' MSJ") based on the premise that the SLA terminated in December 2009. (DE 74.) The District Court granted that motion and dismissed both of Alexsam's causes of action, leaving only Respondents' counterclaim for invalidity. (DE 106.) Alexsam then filed its own motion for partial summary judgment on Respondents' invalidity counterclaim ("Alexsam's MSJ") and argued that it should be dismissed based on the doctrine of *res judicata*. (DE 117.) The District Court granted Alexsam's MSJ on the alternate basis that since the SLA terminated, the invalidity counterclaim no longer had an independent basis for existence. See AppxS001-007.

After reviewing the record, the District *Court sua sponte* entered a Final Judgment in favor of Respondents based on their Motion for Partial Summary Judgment. See Appx0025-0026. On

August 30, 2016, Alexsam timely filed a Notice of Appeal to the 11th Circuit Court of Appeals. See Appx0027-0029. On February 17, 2017 upon motion of the Respondents, the 11th Circuit Court of Appeals transferred the appeal to Federal Circuit Court of Appeals. See Appx0030-0032. After briefing and oral argument, the Federal Circuit issued a *per curiam* affirmance without opinion. See Appx0001-0002.

REASONS FOR GRANTING THE PETITION

The Federal Circuit improperly assumed federal subject matter jurisdiction in this case, which if allowed to stand will foreclose patent licensors from asserting state law claims for breach of contract or from enforcing their licenses in state court. The Federal Circuit's ratification of the District Court's assumption of federal subject matter jurisdiction is at odds with fundamental elements of jurisdictional analysis and against this Court's precedent.

I. THE COURTS BELOW DID NOT HAVE JURISDICTION OVER ANY PARTY'S CLAIMS.

This Court has recognized that appellate courts have a duty to evaluate whether the courts below properly exercised jurisdiction as part of their own obligation to evaluate appellate jurisdiction. "And if the record discloses that the lower court was without jurisdiction this court will notice the defect, although the parties make no contention concerning it. [When the lower federal court] lack[s] jurisdiction, we have jurisdiction on appeal, not of the merits but merely for the purpose of correcting the error of the lower court in entertaining the suit." *Bender v. Williamsport Area*

School Dist., 475 U.S. 534, 541 (1986) (citing *United States v. Corrick*, 298 U.S. 435, 440 (1936); alterations original). The courts below in this case each accepted jurisdiction without identifying a proper claim for doing so.

Federal courts have broad but circumscribed jurisdiction. See *Gunn*, 568 U.S. at 254. Federal question jurisdiction is evaluated based on the claims as pled, not theories. *Christianson,* 486 U.S. at 808-811. Although considerations of judicial economy may be important in determining how scarce judicial resources are allocated, the fundamental requirements of standing and subject matter jurisdiction are more important. This Court has instructed federal courts to carefully balance the interests of state and federal courts and to be careful not to "construe federal jurisdictional statutes more expansively than their language, most fairly read, requires." *Merrill Lynch, Pierce, Fenner & Smith Inc. v. Manning*, 578 U.S. __, 136 S.Ct. 1562, 1573, 194 L.Ed.2d 671 (2016).

Simply stated, neither party in this case pled a federal claim. The District Court properly determined that Alexsam's claims did not arise under federal law and that two of Respondents' counterclaims also were without foundation. It was Respondents' counterclaim for invalidity of Alexsam's Patents that tripped up the District Court. The District Court did not find any independent basis to support Respondents' invalidity counterclaim because the Respondents did not provide one. Instead, both the Respondents and the District Court pointed to a provision in the SLA that provides that it would terminate early if the claims of the Alexsam Patents

were found to be invalid. On this basis alone, Respondents were permitted to remain in federal court. This ran afoul of this Court's jurisdictional guidance provided in *Gunn v. Minton,* and the 11th Circuit and Federal Circuit Courts of Appeal allowed this error, in derogation of their duty to carefully evaluate jurisdiction. See *Bender*, 475 U.S. at 541.

If the rulings of the courts below are allowed to stand, then every claim for breach of a patent license automatically will belong in federal court and cannot be brought in state court because of inherent patent issues, even if the accused breaching party does not raise them. This Court has made it quite clear that this view is incorrect. See *Gunn*, 568 U.S. at 258-265; *Luckett v. Delpark*, 270 U.S. 496, 502 (1926). Implicit in the rulings of the courts below is that state courts are unable to handle patent issues ancillary to breach of contract cases; this Court has rejected that contention. See e.g. *Gunn*, 568 U.S. at 260-261; see also *Empire Healthchoice Assur., Inc. v. McVeigh*, 547 U.S. 677, 701 (2006) (State courts are competent to interpret federal law). Moreover, Respondents' *per se* rule that state courts cannot hear cases involving breach of a patent license (even if the claims raised do not involve patent-related issues) would significantly impact the "balance of federal and state judicial responsibilities." See *Gunn*, 568 U.S. at 264 (quoting *Grable & Sons Metal Products, Inc. v. Darue Engineering & Mfg.,* 545 U.S. 308, 314 (2005)). Finally, a key consideration is that it was Respondents' decision to insert invalidity into the case. Therefore, any hypothetical effects of allowing this case to proceed in state court beyond this case would be attributable to Respondents' defenses, not to Alexsam's breach of contract claim.

The District Court erred when it did not dismiss Respondents' counterclaim of invalidity, and, as a result, refused to remand this case back to state court where it belongs. See Appx0003-0024. This was reversible error that both the 11th Circuit and the Federal Circuit refused to address (see Appx0030-0032 and Appx0001-0002), despite this Court's carefully-crafted guidance and warnings in *Gunn* concerning when to decline to hear certain cases.

A. FEDERAL SUBJECT MATTER JURISDICTION DID NOT ARISE FROM PETITIONER'S BREACH OF CONTRACT CLAIM.

It has been long understood that "'[a] case does not arise under the patent laws' merely because questions of patent law may arise in the course of interpreting a contract .... The fact that an issue of patent law may be relevant in the interpretation of a contractual dispute 'cannot possibly convert a suit for breach of contract into one "arising under" the patent laws as required to render the jurisdiction of the district court based on section 1338.' (Citations omitted.)." *Regents of University of Minnesota v. Glaxo Wellcome, Inc.*, 44 F.Supp.2d 998, 1005-1006 (D. Minn. 1999); see also, *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257, 262 (1979) ("Commercial agreements traditionally are the domain of state law. State law is not displaced merely because the contract relates to intellectual property which may or may not be patentable"); *Goldman v. Citigroup Global Markets Inc.*, 834 F.3d 242, 258 (3d Cir. 2016) (rejecting federal jurisdiction where cause of action was a commonplace state law contract dispute). In other words, just because a contract relates to a patent does not mean that a subsequent dispute "arises under" the patent laws.

Federal district courts are authorized to exercise original jurisdiction in all civil actions arising under the Constitution, laws, or treaties of the United States pursuant to 28 U.S.C. §1331, and in all civil actions "arising under any Act of Congress relating to patents," under 28 U.S.C. §1338(a). "Arising under" jurisdiction may be found to exist either when a federal law creates the cause of action or when a state law claim necessarily raises a disputed and substantial federal issue. See *Gunn*, 568 U.S. at 257-258. "Arising under" jurisdiction extends to "those cases in which a well-pleaded complaint establishes either that federal patent law creates the cause of action or that the plaintiff's right to relief necessarily depends on resolution of a substantial question of federal patent law, in that patent law is a necessary element of one of the well-pleaded claims." *Christianson,* 486 U.S. at 808-809.

1. Petitioner's State Law Claim Did Not "Arise Under" Federal Law.

For a state law claim to "arise under" federal law requires that a federal issue be raised, disputed, substantial, and one which may be determined by the federal court without upsetting the balance between federal and state court judicial roles. See *Grable & Sons Metal Products, Inc.*, 545 U.S. at 314; *MDS (Canada) Inc. v. Rad Source Technologies, Inc.*, 720 F.3d 833, 842 (11th Cir. 2013). It is not the nature of the analysis required to establish breach of contract that determines jurisdiction, it is the nature of the "cause of action" that is asserted that provides the basis for standing to raise a claim or a counterclaim. See *Laboratory Corp. of America Holdings v.*

Metabolite Laboratories, Inc., 599 F.3d 1277, 1282 (Fed. Cir. 2010).

That Alexsam's breach of contract claim does not arise under federal law is substantiated by this Court's case law going back to 1850. The general rule is that a claim for breach of a patent license does not arise under the patent laws for purposes of federal jurisdiction. See *Luckett*, 270 U.S. at 502 ("It is a general rule that a suit by a patentee for royalties under a license or assignment granted by him, or for any remedy in respect of a contract permitting use of the patent, is not a suit under the patent laws of the United States, and cannot be maintained in a federal court as such." citing *Wilson v. Sandford*, 51 U.S. 99 (1850)).

Just because an analysis of the claims of patents may be necessary to determine the coverage of a contract does not mean that "infringement" is at issue. Also, that "claim scope" may be necessary to interpret coverage under the SLA does not mean that Respondents could be liable for infringement. The District Court recognized this (see Appx0016-0017) but erred in denying Alexsam's motion to dismiss, and the appellate courts below ratified the District Court's error.

2. The Well-Pleaded Complaint Rule Governs The Jurisdictional Analysis.

The Well-Pleaded Complaint Rule rules out federal question jurisdiction based on Alexsam's contract-related claims. See *Wawrzynski v. H.J. Heinz Co.*, 728 F.3d 1374, 1379-1380 (Fed. Cir. 2013) (plaintiff is the master of its complaint and can choose to have its claims heard in state court; citing *Caterpillar Inc. v.*

Williams, 482 U.S. 386, 398–399 (1987)). The Well-Pleaded Complaint Rule requires that a federal question be raised in the Complaint for any federal court to have subject matter jurisdiction to hear it; patent claims raised in counterclaims, whether they are legitimate or not, are irrelevant for purposes of the Well-Pleaded Complaint Rule analysis. See *ARCO Envtl. Remediation, L.L.C. v. Dep't Of Health & Envtl. Quality Of The State Of Montana,* 213 F.3d 1108, 1113 (9th Cir. 2000) ("Put simply, the existence of federal jurisdiction depends solely on the plaintiff's claims for relief and not on anticipated defenses to those claims."); see also, *Blab T.V. of Mobile, Inc. v. Comcast Cable Communications, Inc.*, 182 F.3d 851, 854 (11th Cir. 1999) ("the plaintiff's properly pleaded complaint governs the jurisdictional determination."); *Christianson*, 486 U.S. at 808-809

In *Goldman*, the Third Circuit concluded that "the party asserting jurisdiction must satisfy the 'well-pleaded complaint rule,' which mandates that the grounds for jurisdiction be clear on the face of the pleading that initiates the case." *Goldman*, 834 F.3d at 249 (citing *Franchise Tax Bd. of State of Cal. v. Constr. Laborers Vacation Tr. for S. Cal.*, 463 U.S. 1, 9–11 (1983)). In that case, the Third Circuit found no substantial federal issue existed where, "at bottom," the case was "a common-place state law contract dispute." Id. at 258. The Third Circuit also found that "[e]xpanding federal question jurisdiction to contractual disputes...runs the risk of 'disturbing [the] congressionally approved balance of federal and state judicial responsibilities.'" Id. at 257 (quoting *Grable & Sons Metal Products, Inc.*, 545 U.S. at 314).

To find federal question jurisdiction in Alexsam's state law breach of contract claims "would turn the well-pleaded complaint rule on its head, making [Alexsam] the 'master of nothing.'" *Wawrzynski*, 728 F.3d at 1381 (quoting *Caterpillar Inc.*, 482 U.S. at 399). Respondents' insistence that federal question jurisdiction exists under 28 U.S.C. §1338(a) or 28 U.S.C. §1441 is not supported by the facts or the law. Federal question jurisdiction must be based on the claims as pled, not by defenses raised or by a speculative interpretation of the plaintiff's motives. See *Laboratory Corp. of America Holdings*, 599 F.3d at 1282; *ARCO Envtl. Remediation, L.L.C.*, 213 F.3d at 1113; *Blab T.V. of Mobile, Inc.*, 182 F.3d at 854. This Court has recognized that "arising under" jurisdiction for state law claims is a "special and small category." See *Gunn*, 568 U.S. at 258.

3. A Licensee Does Not Have An Automatic Right To Relitigate Invalidity When Its Performance Under The License Is Challenged.

This Court's holding in the *MedImmune* case says nothing about giving licensees automatic grounds to raise invalidity in response to a breach of contract claim. *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118, 137 (2007). Similarly, the *Medtronic* case does not stand for the principle that when a licensee breaches explicit terms of the license, it can simply attempt to invalidate the patents without an independent basis. This Court has held that "when a licensee seeks a declaratory judgment against a patentee to establish that there is no infringement, the burden of proving infringement remains with the patentee." *Medtronic, Inc. v. Mirowski Family*

Ventures, LLC, 571 U.S. __, 134 S.Ct. 843, 846, 187 L.Ed.2d 703 (2014). This Court's decision in *Lear v. Atkins*, 395 U.S. 653, 674 (1969) allows a license holder to avoid royalties if it can prove that the underlying patents are invalid. However, the circumstances in *Lear* are quite different from the case at bar, in particular because, in *Lear*, the license holder had an independent basis to raise invalidity.

This Court has not addressed what a patent license holder can raise as a counterclaim simply because it was sued for breach of the license. See *MedImmune, Inc.*, 549 U.S. at 124. This Court's precedent indicates that a licensee should not be able to challenge the validity of the patents as of right under all circumstances. By allowing Respondents' invalidity counterclaim to implicate federal subject matter jurisdiction, the Federal Circuit ignored this Court's precedent and expanded federal subject matter jurisdiction for patent licensees across the country. This Court

B. FEDERAL SUBJECT MATTER JURISDICTION DID NOT ARISE FROM RESPONDENTS' COUNTERCLAIM FOR INVALIDITY.

An analysis of the denial of Alexsam's Motions to Dismiss and for Remand must start with the obligation of the party invoking federal jurisdiction (here, Respondents) to establish their standing to do so. See *Lujan v. Defenders of Wildlife*, 504 U.S. 555, 561 (1992). While Respondents simply assumed that they had established the right to be heard in federal court because they raised patent invalidity as a counterclaim, Alexsam has challenged that position from the start of the case. Remarkably, the Federal Circuit did not meaningfully analyze the question of

whether removal jurisdiction is available when invalidity is asserted as a counterclaim to a breach of a patent license claim. This is understandable given that a breach of contract case filed in state court under state law typically does not find its way to federal court. And for good reason. Typically, such a case does not arise under federal law, and therefore, no subject matter jurisdiction exists. That is the case here, and a careful analysis of whether the District Court had jurisdiction to hear this case was and is necessary. See *Bender,* 475 U.S. at 541. A careful analysis of the case law concludes that it did not.

By rejecting Respondents' counterclaims as duplicative of their affirmative defenses (see Appx0016-0017), the District Court correctly recognized that there was no independent basis for raising patent-related counterclaims to support jurisdiction under the Declaratory Judgment Act at the time Respondents filed their Answer. However, the District Court ignored its conclusion by exercising jurisdiction over the case and denying Alexsam's motions to dismiss and for remand, and the 11th Circuit and the Federal Circuit perpetuated the District Court's misstep.

1. The Declaratory Judgment Act Does Not Confer Jurisdiction By Itself.

The Declaratory Judgment Act states in relevant part that "[i]n a case of actual controversy within its jurisdiction ... any court of the United States ... may declare the rights and other legal relations of any interested party seeking such declaration, whether or not further relief is or could be sought." *MedImmune, Inc.*, 549 U.S. at 126-127; 28 U.S.C. §2201(a). The phrase "case of actual controversy" refers to the "case"

or "controversy" language of Article III, Section 2 of the U.S. Constitution and plays a critical role in circumscribing the power of the Federal Courts. Id.; *Allen v. Wright*, 468 U. S. 737, 750 (1984); *DaimlerChrysler Corp. v. Cuno*, 547 U.S. 332, 341-342 (2006). "Article III of the Constitution limits the 'judicial power' of the United States to the resolution of 'cases' and 'controversies.'" *Cepheid v. Roche Molecular Sys., Inc.*, 2013 WL 184125, *5 (N.D. Cal. Jan. 17, 2013) (quoting *Valley Forge Christian College v. Americans United for Separation of Church & State, Inc.*, 454 U.S. 464, 471 (1982)). The "purpose of the Declaratory Judgment Act [is] to enable a person caught in controversy to obtain resolution of the dispute, instead of being forced to await the initiative of the antagonist." *Genentech, Inc. v. Eli Lilly & Co.*, 998 F.2d 931, 937 (Fed. Cir. 1993), abrogated in part by, *Wilton v. Seven Falls Co.*, 515 U.S. 277, 289–290 (1995).

The Declaratory Judgment Act does not expand federal subject matter jurisdiction by itself but must be supported by an independent jurisdictional basis. *Medtronic, Inc.*, 134 S.Ct. at 848. The burden to show that declaratory judgment jurisdiction exists at the time of filing is on the party asserting it. See *Jang v. Boston Scientific Corp.*, 767 F.3d 1334, 1338 (Fed. Cir. 2014) ("the Federal Circuit's exclusive appellate jurisdiction is predicated on the cause of action and the basis of the facts as they existed at the time the complaint or any compulsory counterclaim was filed."); *Matthews Intern. Corp. v. Biosafe Engineering, LLC*, 695 F.3d 1322, 1331 (Fed. Cir. 2012) (citing *Grupo Dataflux v. Atlas Global Grp.*, L.P., 541 U.S. 567, 570-571 (2004)). Finally, with respect to counterclaims, whether the declaratory

action serves a useful purpose must be considered. *Medmarc Cas. Ins. Co. v. Pineiro & Byrd, PLLC*, 783 F.Supp.2d 1214, 1217 (S.D. Fla. 2011).

The District Court correctly rejected Respondents' counterclaims as duplicative of their affirmative defenses that served no purpose. See Appx0016-0017. More importantly, the District Court correctly recognized that there was no independent basis for raising patent-related counterclaims to support jurisdiction under the Declaratory Judgment Act at the time Respondents filed their Answer. See *Medtronic, Inc.*, 134 S.Ct. at 848. Unfortunately, the District Court did not act accordingly; it reversed field and denied Alexsam's motion to dismiss, and the 11th Circuit and the Federal Circuit tagged right along in affirming that decision

2. Respondents' Invalidity Defense Did Not Rise To The Level Required For A Counterclaim.

There was no basis for Respondents to raise patent-related counterclaims, because there was no basis to believe that infringement claims were possible. See *SanDisk Corp. v. STMicroelectronics, Inc.*, 480 F.3d 1372, 1380-1381 (Fed. Cir. 2007) (There is no Declaratory Judgment jurisdiction without an affirmative act of the patentee). In addition to the fact that Respondents were covered by the terms of the SLA (see AppxS019-033), the doctrine of *res judicata* prevented Alexsam from raising infringement because that claim was asserted and relinquished in the Prior Litigation. See *General Talking Pictures Corp. v. Western Electric Co.*, 304 U.S. 175, 181 (1938) ("mere licensee under a nonexclusive license, amounting to no more than 'a mere waiver of the right to sue.'")

(citing *De Forest Co. v. United States*, 273 U.S. 236, 242 (1927)); see also *TransCore, LP v. Electronic Transaction Consultants Corp.*, 563 F.3d 1271, 1275-1276 (Fed. Cir. 2009) (Because a patent grant only gives the patentee the right to exclude others from practicing the invention, a patent license is essentially a covenant not to sue in exchange for consideration).

Respondents should also have been barred from raising invalidity, because it too was raised and relinquished in the Prior Litigation. Id.; see also, *Pleming v. Universal-Rundle Corp.*, 142 F.3d 1354, 1356 (11th Cir. 1998) (*Res judicata* "bars a subsequent claim when a court of competent jurisdiction entered a final judgment on the merits of the same cause of action in a prior lawsuit between the same parties."). And further, by entering into the SLA, Alexsam agreed to forebear raising infringement against Respondents. Therefore, there was no basis for Respondents to assert invalidity as a counterclaim because there was no threat of infringement claims asserted by Alexsam. See *Commil USA, LLC v. Cisco Systems, Inc.*, 575 U.S. __, 135 S.Ct. 1920, 1929, 191 L.Ed.2d 883 (2015) ("invalidity is not a defense to infringement, it is a defense to liability.")

Since Respondents' invalidity defense did not arise under the patent laws, there was no independent basis to qualify it as a counterclaim. The District Court recognized this, at least in word, but not in deed (see Appx0016-0017); it denied Alexsam's motion to dismiss for lack of subject matter jurisdiction. See Appx0023. Respondents lacked standing to raise patent-related defenses as counterclaims under the Patent Laws, because they were not sued for infringement. In the context of patent infringement,

the Federal Circuit has recognized that "[s]tanding is a jurisdictional issue that implicates the case-or-controversy requirement of Article III." *Drone Technologies, Inc. v. Parrot S.A.*, 838 F.3d 1283, 1292 (Fed. Cir. 2016) (citing *Lujan*, 504 U.S. at 560 and *Samsung Elecs. Co. v. Rambus, Inc.*, 523 F.3d 1374, 1378 (Fed. Cir. 2008)). "To establish standing under Article III, a plaintiff must demonstrate, *inter alia*, that it has suffered an 'injury in fact.' 'Constitutional injury in fact' occurs when a party infringes a patent in violation of a party's exclusionary rights." Id. (citations omitted). Alexsam did not accuse Respondents of infringement in its Complaint; therefore, there was no "injury in fact" that would support a counterclaim for invalidity.

3. 28 U.S.C. §1454(a) Was Not Properly Implicated Here.

Although a defendant generally cannot create federal jurisdiction, 28 U.S.C. §1454 allows a defendant to seek removal based on patent-related counterclaims. Specifically, "[a] civil action in which any party asserts a claim for relief arising under any Act of Congress relating to patents ... may be removed to the district court of the United States ...." 28 U.S.C. §1454(a) (emphasis added); see *Masimo Corp. v. Mindray DS USA, Inc.*, Case No. 14–0405 (SDW)(SCM). 2015 WL 93759, *3 (D. N.J. Jan. 7, 2015). The important distinction from the general removal statute is that the "any party" language provides that defenses and counterclaims raising, for the first time, issues of patent infringement or invalidity can serve as a basis for removal jurisdiction. See *Busch v. Jakov Dulcich & Sons LLC*, Case No. 15–CV–00384–LHK, 2015 WL 3792898, *5 (N.D. Cal.

June 17, 2015) (remanding case to state court). However, Section 1454 still requires a finding that the claims and defenses arise under the patent laws and are otherwise permissible. That was not the case here.

The hallmark of a compulsory counterclaim is that it will be lost if not raised. See *Montgomery Ward Dev. Corp. v. Juster*, 932 F.2d 1378, 1380-1382 (11th Cir. 1991). Respondents' invalidity counterclaim did not have to be raised here. Respondents' counterclaims arose out of the SLA, not the patent laws, so the applicability of 28 U.S.C. §1338(a) is in question. Therefore, removal jurisdiction under 28 U.S.C. §1454(a) was also not proper.

Even if Respondents' counterclaim provided a proper basis for removal, remand under 28 U.S.C. §1454(d) for Alexsam's state law claims was still an option which the District Court declined to exercise. See Appx0017-0020. The District Court also mischaracterized the invalidity counterclaim as compulsory and improperly concluded that Alexsam's claim for breach of contract did not predominate over the invalidity counterclaim. See *Parker v. Scrap Metal Processors, Inc.*, 468 F.3d 733, 744 (11th Cir. 2006) ("A federal court will find substantial predominance when it appears that a state claim constitutes the real body of a case, to which the federal claim is only an appendage." (quotation and citations omitted)). Here, prevailing on the invalidity counterclaim would not eliminate the need to evaluate coverage under the SLA (see *Studiengesellschaft Kohle, M.B.H. v. Shell Oil Co.*, 112 F.3d 1561, 1567-1568 (Fed. Cir. 1997)). In other words, it would not predominate over the breach claim. See e.g.

TransCardiac Therapeutics, Inc. v. Yoganathan, 85 F.Supp.3d 1351, 1356-1357 (N.D. Ga. 2014). The courts below failed to recognize this.

II. THE DECISIONS BELOW ARE AT ODDS WITH THIS COURT'S PRECEDENT RELATIVE TO WHEN FEDERAL COURTS HAVE SUBJECT MATTER JURISDICTION OVER A STATE LAW CLAIM.

"The requirement that jurisdiction be established as a threshold matter 'spring[s] from the nature and limits of the judicial power of the United States' and is 'inflexible and without exception.'" *Steel Co. v. Citizens for a Better Env't,* 523 U.S. 83, 94-95 (1998) (quoting *Mansfield, C. & L.M.R. Co. v. Swan,* 111 U.S. 379, 382 (1884). The 11th Circuit has recognized that it must assure that federal jurisdiction is appropriate: "As a threshold matter, we have a special obligation to satisfy ourselves not only that we have jurisdiction over this appeal, but also that the district court had jurisdiction over the various counts of [the] complaint." *Tamiami Partners, Ltd. v. Miccosukee Tribe Of Indians Of Florida,* 177 F.3d 1212, 1221 (11th Cir. 1999) (citing *Steel Co.,* 523 U.S. at 94-95); see also *In re Sure-Snap Corp.,* 983 F.2d 1015, 1017 (11th Cir. 1993) (conclusions of law subject to complete and independent review). The Federal Circuit has also recognized this obligation: "The district court's conclusion that it possessed subject matter jurisdiction is a question of law subject to complete and independent (*de novo*) review." *Trayco, Inc. v. U.S.,* 994 F. 2d 832. 835 (Fed. Cir. 1993); see also, *Tialino v. MSPB,* 676 Fed. Appx. 974, 977 (Fed. Cir. 2017), *Transamerica Ins. Corp. v. U.S.,* 973 F.2d

1572, 1576 (Fed. Cir. 1992) (*de novo* review. Yet, neither appellate court got it right here.

A. THE JURISDICTIONAL ANALYSES BELOW WERE WRONG.

In its ruling on Alexsam's Motion to Dismiss, the District Court determined that because the SLA "contemplates a basis for negating the [SLA], ... an actual controversy exists as to [Respondents'] patent invalidity claims." Appx0015. The Court then found an independent jurisdictional basis to support Respondents' Declaratory Judgment counterclaim for invalidity because it arose under the patent laws. Id. As a result, the District Court determined that Respondents' "invalidity counterclaim as well as its patent-related affirmative defenses, including non-infringement, require the Court to determine whether the Licensed Patents are valid" and that remand to State Court was not appropriate. Appx0020. However, the District Court appears to have recognized that because it "explicitly linked its jurisdiction to determine [Respondent]s' invalidity counterclaim to a provision in the SLA," there was no longer a basis to "retain jurisdiction." AppxS006. Therefore, the District Court recognized that there was no independent basis to assert jurisdiction in the first place, but the 11th Circuit and the Federal Circuit ignored that conclusion and allowed Respondents to bootstrap federal subject matter jurisdiction.

The 11th Circuit's conclusion on this issue was straightforward: "Because the Respondents have asserted a compulsory counterclaim that arises under federal patent law, the Federal Circuit has exclusive jurisdiction over this action. 28 U.S.C. §1295(a)(1)." Appx0032. However, this conclusion ignores key

jurisdictional principles. The 11th Circuit provided two reasons for its position. First, it found that a "logical relationship" existed between the counterclaim and the SLA because a provision of the SLA addressed invalidity under certain circumstances. Appx0031. However, this conclusion appears to apply the 11th Circuit's test, not the three tests that the Federal Circuit uses to evaluate jurisdiction. See *In re: Rearden LLC*, 841 F.3d 1327, 1332 (Fed. Cir. 2016); see also, *Nasalok Coating Corp. v. Nylok Corp.*, 522 F.3d 1320, 1325-1326 (Fed. Cir. 2008). Second, the 11th Circuit concluded that Respondents' invalidity counterclaim "arises, at least in part, under patent law." Appx0032. This conclusion completely skips over the requirement of standing to raise invalidity as a claim. In other words, the 11th Circuit appears to have bootstrapped federal jurisdiction, much in the same way that the District Court accepted and retained jurisdiction. Both were in error on this issue.

The Federal Circuit's one-word affirmance provides no insight, other than to ratify the confusing decision of the District Court and/or the 11th Circuit.

B. THE PROPER ANALYSIS SHOULD HAVE APPLIED FLORIDA LAW.

The courts below should have looked to Florida law to evaluate whether Respondents' invalidity counterclaim could be considered compulsory in response to Alexsam's breach of contract claim. "A counterclaim is compulsory when it arises out of the same transaction or occurrence as the claim it is countering." *Blasland, Bouck & Lee, Inc. v. City of North Miami*, 283 F.3d 1286, 1301 (11th Cir. 2002) (citing *Londono v. Turkey Creek, Inc.*, 609 So.2d 14, 19

(Fla. 1992)). The Eleventh Circuit has recognized that Florida's four-part "transaction or occurrence" test to determine whether a counterclaim is compulsory is to be "given a 'broad, realistic interpretation.'" *Montgomery Ward Dev. Corp.*, 932 F.2d at 1381 (citation omitted). The four factors (for which an affirmative answer for each makes the counterclaim compulsory) are:

(1) Are the issues of fact and law raised by the claim and counterclaim largely the same?

(2) Would res judicata bar the subsequent suit on defendant's claim absent the compulsory counterclaim rule?

(3) Will substantially the same evidence support or refute plaintiff's claim as well as defendant's counterclaim?

(4) Is there any logical relation between the claim and the counterclaim? Id.

Respondents' invalidity counterclaim did not meet the test to be deemed compulsory. Specifically, it did not meet factors 1, 3 or 4 above. As to factors 1 and 3, whether Respondents paid for covered transactions is completely independent of whether the patents are invalid, and if Respondents (or a third party) had demonstrated that all claims of the patents are invalid, this would have only cut off (but not eliminated) damages. This would not have changed the determination of whether Respondents breached the SLA prior to filing the invalidity counterclaim. See e.g. *Studiengesellschaft Kohle, M.B.H.*, 112 F.3d at 1567-1568. Therefore, as the issues of fact and law raised by the claim and the counterclaim are not

largely the same, and the same evidence would not support or refute Alexsam's claim and Respondents' counterclaim, factors 1 and 3 above do not apply.

With respect to the fourth factor in the test, the 11th Circuit has determined that Florida follows the following definition: "A claim has a logical relationship to the original claim if it arises out of the same aggregate of operative facts as the original claim in two senses: (1) that the same aggregate of operative facts serves as the basis of both claims; or (2) that the aggregate core of facts upon which the original claim rests activates additional legal rights in a party defendant that would otherwise remain dormant." *Montgomery Ward Dev. Corp.*, 932 F.2d at 1381 (citations omitted); see also, *Londono*, 609 So.2d at 20. Neither of these two definitions applied here because invalidity was only a defense to liability for breach under the SLA. See *Commil USA, LLC*, 135 S.Ct. at 1929. Alexsam claimed that Respondents were in breach of the terms of the SLA. Invalidity of the patents is unrelated to whether or not Respondents were in breach (i.e. had not paid royalties that were owed under the terms of the SLA). See *Callaway Land & Cattle Co., Inc. v. Banyon Lakes C. Corp.*, 831 So.2d 204, 207 (Fla. 4th DCA 2002). At best, invalidity could have limited the amount of royalties owed, but it was unrelated to whether Respondents failed to pay royalties owed prior to the date on which they answered. Under Florida law, invalidity could not be considered a compulsory counterclaim under the circumstances of this case, and the District Court erred in determining that it could.

Respondents' invalidity counterclaim was also redundant with respect to their invalidity

counterclaim, and the District Court should have dismissed it as such just as it dismissed Respondents' other redundant claims. See Appx0016-0017. The District Court, the 11th Circuit, and the Federal Circuit did not address the primary issue of whether the defense of invalidity actually met the criteria set forth by the Supreme Court, nor did they analyze Respondents' invalidity defense to determine whether it met the "substantiality requirement" factors set forth by Florida law. See *Adventure Outdoors, Inc. v. Bloomberg*, 552 F.3d 1290, 1299-1300 (11th Cir. 2008).

C. THE 11TH CIRCUIT AND THE FEDERAL CIRCUIT IGNORED THEIR OWN RECENT DECISIONS

The terse transfer decision from the 11th Circuit and the summary affirmance of the Federal Circuit represent a kind of backsliding on their parts with respect to their interpretation of this Court's guidance in *Gunn*, which put on the brakes with respect to the reach of federal courts where patents are involved. Despite a long line of cases in which the mere presence of a patent in the background was not enough to arise under federal law, the Federal Circuit found jurisdiction when a patent-related issue was present. *Gunn* reminded federal courts where the line was when it comes to what kinds of cases could be handled by state courts, even if patent-related issues were involved.

The Federal Circuit appears to have pulled back from its recent cases decided since the *Gunn* decision was issued. The Federal Circuit ignored its recent decision in *First Data Corp.* in which the question of whether infringement claims could even be brought was deemed premature and, therefore, ruled that the district court properly determined that it did not have

jurisdiction over state law breach of contract claims. See *First Data Corporation v. Inselberg*, 870 F.3d 1367, 1375 (Fed. Cir. 2017) (citing *Texas v. U.S.*, 523 U.S. 296, 300 (1998) and *Thomas v. Union Carbide Agric. Prods. Co.*, 473 U.S. 568, 580-581 (1985)). Similarly, the Federal Circuit ignored its decisions *Forrester Envtl. Servs., Inc. v. Wheelabrator Techs., Inc.*, 715 F.3d 1329 (Fed. Cir. 2013), *Semiconductor Energy Laboratory Co., Ltd. v. Nagata*, 706 F.3d 1365 (Fed. Cir. 2013), *Krauser v. BioHorizons, Inc.*, 753 F.3d 1263 (Fed. Cir. 2014), and *NeuroRepair, Inc. v. The Nath Law Group*, 781 F.3d 1340 (Fed. Cir. 2015), each of which carefully analyzed a claim that invoked federal jurisdiction and found it wanting. Finally, the Federal Circuit recently transferred an appeal of Walker Process monopolization claim under § 2 of the Sherman Act and §§ 4 and 6 of the Clayton Act based on the alleged fraudulent prosecution of a patent to the 5th Circuit, noting that "[s]omething more is required to raise a substantial issue of patent law sufficient to invoke our jurisdiction." *Xitronix Corp. v. KLA-Tencor Corp.*, 882 F.3d 1075, 1078 (Fed. Cir. 2018).

In addition to ignoring this Court's *Gunn* decision and several decisions by the Federal Circuit, the 11th Circuit also ignored its own recent decision. In *MDS (Canada) Inc.*, the 11th Circuit addressed essentially the same issue here, namely whether a patent question underlying a breach of contract action should be transferred to the Federal Circuit. The 11th Circuit said no, noting that "(t)o hold that all questions of patent infringement are substantial questions of federal law for the purposes of federal patent jurisdiction would sweep a number of state-law

claims into federal court." *MDS (Canada) Inc.*, 720 F.3d at 843.

The courts below apparently forgot the requirement to look at what claims a Declaratory Judgment defendant could have brought as part of the required jurisdictional review, even though this issue was recently front and center. See *Industrial Models, Inc. v. SNF, Inc.*, Appeal Nos. 2017-1173, 2017-1173, 2017 U.S. App. LEXIS 22223, *6-*7 (Fed. Cir. Nov.7, 2017). In so doing, the courts below appear to have forgotten this Court's admonition in *Medimmune* to ensure that "the facts alleged, under all the circumstances, show that there is a substantial controversy, between parties having adverse legal interests, of sufficient immediacy and reality to warrant the issuance of a declaratory judgment." *MedImmune, Inc.*, 549 U.S. at 127. Here, because of the existence of the license that arose from the Prior Litigation, Alexsam could not sue Respondents for infringement, negating any basis for patent-related causes of action. That invalidity could be grounds for terminating the SLA means that such a defense emanates from the SLA as part of Alexsam's breach claim, not a hypothetical patent infringement claim under the patent laws. That difference is jurisdictionally significant, and that difference matters here.

The District Court accepted jurisdiction improperly and, as a result, issued decisions it should not have. The 11th Circuit and the Federal Circuit summarily and improperly ratified those decisions. In so doing, the courts below appear to have forgotten this Court's admonition that "[t]he limits upon federal jurisdiction, whether imposed by the Constitution or

by Congress, must be neither disregarded nor evaded." *Owen Equip. & Erection Co. v. Kroger*, 437 U.S. 365, 374 (1978). They have ignored this Court's admonition that only a "special and small category of cases" brought under state law will qualify for "arising under" jurisdiction. See *Gunn*, 568 U.S. at 258 (quoting *Empire Healthchoice Assurance, Inc.*, 547 U.S. at 699).

III. THE DECISIONS BELOW TAKE AWAY A PATENT LICENSOR'S ABILITY TO ENFORCE THE LICENSE WITHOUT HAVING TO RE-LITIGATE PATENT INFRINGEMENT.

Aside from ignoring the jurisdictional requirements established in *Gunn* that are the cornerstone of the limited jurisdiction of federal courts, the decisions of the courts below open the door for patent licensees to choose not to meet their contractual obligations with impunity. If that is allowed to happen, the patent license which provides for a running royalty would become undesirable because of the risk that the licensee will not pay, forcing the licensor to re-litigate that which they had already negotiated. As this Court has noted, sometimes a running royalty is preferable to a lump sum fully-payed up license:

> As compared to lump-sum fees, royalty plans both draw out payments over time and tie those payments, in each month or year covered, to a product's commercial success. ... A more extended payment period, coupled (as it presumably would be) with a lower rate, may bring the price the patent holder seeks within the range

> of a cash-strapped licensee. (Anyone who has bought a product on installment can relate.) ... Or such an extended term may better allocate the risks and rewards associated with commercializing inventions—most notably, when years of development work stand between licensing a patent and bringing a product to market.

Kimble v. Marvel Entm't, LLC, 576 U.S. __, 135 S. Ct. 2401, 2408, 192 L. Ed. 2d 463, 470 (2015). To allow rulings of the Courts below to stand risks sending the message that running royalties are not an option. The result will likely be that some potential licensees will be priced out of the market for the technology embodied in the licensed patents that they might need. It also promotes litigation over negotiation. This Court has warned about the danger of "adopting changes that disrupt the settled expectations of the inventing community." *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 535 U.S. 722, 739 (2002) (citing *Warner-Jenkinson v Hilton Davis Chemical Co.* 520 U.S. 17, 28 (1997)). The uncritical acceptance of Respondents' invalidity counterclaim, raised solely to defeat Alexsam's choice of venue, risks removing an important option for patent holders and potential licenses. The Federal Circuit's ruling below runs afoul of this Court's jurisdictional guidance as laid out in *Gunn*; this is why the Federal Circuit's decision should not stand.

CONCLUSION

For the foregoing reasons, this Court should grant Alexsam's petition for a *writ of certiorari*.

Respectfully submitted,

s/ Jacqueline K. Burt
Jacqueline K. Burt
HENINGER GARRISON DAVIS, LLC
3621 Vinings Slope
Suite 4320
Atlanta, Georgia 30339
Telephone: (404) 996-0861
jburt@hgdlawfirm.com

Of Counsel:
W. Lee Gresham
HENINGER GARRISON DAVIS, LLC
2224 1st Avenue North
Birmingham, Alabama 35203
Telephone: (205) 327-9128
lee@hgdlawfirm.com