

IN THE DISTRICT COURT OF APPEAL OF THE STATE OF FLORIDA  
FOURTH DISTRICT

CASE NO. 4D19-3017

POINT CONVERSIONS, LLC.,

Appellant,

v.

WPB HOTEL PARTNERS, LLC.,  
Florida Company,

Appellee.

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**REPLY BRIEF OF APPELLANT  
POINT CONVERSIONS, LLC.**

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**On Appeal of a Final Order of the Circuit Court of the  
Fifteenth Judicial Circuit in and for Palm Beach County, Florida**

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## ARGUMENT

### **I. THE TRIAL COURT ERRED IN HOLDING THAT IT DID NOT HAVE SUBJECT MATTER JURISDICTION OVER PC'S CLAIMS.<sup>1</sup>**

#### **A. The standard of review is de novo.**

The parties agree that the standard of review is de novo (AB.12). WPB has impermissibly altered the order of argument established in the Initial Brief. *See Dania Jai-Alai Palace v. Sykes*, 450 So. 2d 1114, 1122 (Fla. 1984). PC will return to its format and cite the Answer Brief as appropriate.

#### **B. The trial court has subject matter jurisdiction over PC's claims.**

WPB acknowledges that PC's Complaint alleges four state law causes of action and that each involves PC's attempt to enforce its License rights (R.8-709; AB.1-7). WPB also admits that the four state law claims sufficiently allege the elements of the causes of action, because it does not argue otherwise (AB.1-7, 8, 17-19, 22, 30). Nor could it, because failure to state a cause of action was never raised in the trial court.

Its only argument to defeat PC's claims is that the trial court lacks subject matter jurisdiction because patent issues must be determined for adjudication of PC's state law claims. This exact argument has been repeatedly rejected by controlling authorities, and only WPB's misinterpretation of the cases supports its position.

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<sup>1</sup> WPB's Answer Brief will be cited as "AB. \_\_ - \_\_" to indicate the cited pages.



**C. PC’s state law claims do not “arise under” patent law to prohibit the trial court’s subject matter jurisdiction.**

WPB’s first error is its insistence that a federal court must first rule on the validity of the patents before PC may assert its claims in state court (AB.10-11, 19-32, 34). For example, WPB contends that *Gunn v. Minton*, 568 U.S. 251 (2013), does not address state court subject matter jurisdiction over issues involving patent law (AB.10, 19-32). Yet the *Gunn* court stated:

As for more novel questions of patent law that may arise for the first time in a state court “case within a case,” they will at some point be decided by a federal court in the context of an actual patent case, with review in the Federal Circuit. If the question arises frequently, it will soon be resolved within the federal system, laying to rest any contrary state court precedent; if it does not arise frequently, it is unlikely to implicate substantial federal interests.

*Id.* at 262 (emphases supplied). Furthermore, this case involves issued patents, which are presumed valid. *See Microsoft Corp. v. i4i Ltd. Partnership*, 564 U.S. 91, 95 (2011) (citing 35 U.S.C. § 282).

While the facts of *Gunn* may involve a previous federal patent suit, that was not the “dispositive fact,” and the *Gunn* court did not limit its decision to that scenario. Instead, the court clarified that patent issues may be decided “for the first time” – or as WPB puts it “in the first instance” – in state court, because they “will not stand as binding precedent for any future patent claim” (AB.7, 10, 12, 20, 32, 34). *Id.* at 264. The Court described these decisions as “fact-bound and situation-specific” effects that are “not sufficient to establish federal arising under jurisdiction.” *Id.* at 1068 (quoting *Empire Healthcare Assur., Inc. v. McVeigh*, 547 U.S. 677, 701 (2006)).

As the *Gunn* Court emphasized, federal courts are courts of “limited jurisdiction,” and with respect to state law claims, that limited jurisdiction is over only “a special and small category,” a “slim category,” of cases that satisfy the four *Gunn* factors. *Id.* at 258. WPB misses the central holding of *Gunn* – that if the four factors are not satisfied with respect to the state court claims, then the case is not within the exclusive subject matter jurisdiction of a federal court and it remains, along with its patent issues, in state court.

And as the court explained in a case cited by WPB (AB.28), *Gunn* “spoke only to the allocation of cases between the state and federal systems.” *Xitronix Corporation v. KLA-Tencor Corporation*, 916 F.3d 429, 442 (5th Cir. 2019). “The four-factor test applied in *Gunn* was developed to sort cases between state and federal courts. . . .” *Id.* To suggest, as WPB now does, that *Gunn* does not allocate cases between state and federal courts based on the four-factor analysis, ignores its own cited authority.

WPB makes the same error regarding *Jacobs Wind Electric Company, Inc. v. Florida Department of Transportation*, 919 F.2d 726, 728 (Fed. Cir. 1990) (AB.32-33). Although the federal circuit may have affirmed dismissal of the case based on Florida’s immunity from suit, which was later changed by Congress, the court nevertheless stated:

Jacobs’ contentions that it is left without any remedy in Florida and that a Florida court cannot pass on the validity of a patent are simply wrong.

\* \* \*

Further, although a state court is without power to invalidate an issued patent, there is no limitation on the ability of a state court to decide the question of validity when properly raised in a state court proceeding.

*Id.* at 728; *see also Jacobs Wind Elec. Co., Inc. v. Department of Transp.*, 626 So. 2d 1333, 1335 (Fla. 1993).

When the case returned to Florida, the Second District, the author of *Solar Dynamics, Inc. v. Buchanan Ingersoll & Rooney, P.C.*, 211 So. 3d 294 (Fla. 2d DCA 2017), held that the “suit was founded on a breach of rights created by the patent laws, so that the circuit court was without subject matter jurisdiction.” *Jacobs Wind Elec. Co.*, 626 So. 2d at 1335. The Florida Supreme Court quashed the Second District’s decision, cautioning that “state courts may decide certain cases even though they involve federal patent law” and “Congress never intended to preclude these claims from state court review even though they involve a patent.” *Id.*

WPB also apparently fails to recognize that in *Jacobs Wind* there was no previous federal court decision on the patents at issue, because the federal court declined jurisdiction. So, again, the patent issue would be decided by the state court. The same is true in *Brown v. Andreatta*, 2018 WL 6261508, \*2-3 (M.D. Fla. 2018), where the court rejected the defendants’ argument that the plaintiff’s state law claims involved the existence of a patent dispute giving rise to federal subject matter jurisdiction. Despite its recognition that the patent issue existed and had not been resolved, the court held that it did not have subject matter jurisdiction and returned the case to state court because the patent issues were “situation-specific” and “fact-bound.” *Id.* at \*4.

The Florida Supreme Court provided the same explanation of the federal-state subject matter jurisdiction dichotomy in *Bert Lane Company v. International Industries*, 84 So. 2d 5, 7 (Fla. 1955) (quoting *Pratt v. Paris Gas Light & Coke Co.*, 168 U.S. 255 (1897)):

It is well settled that a controversy involving patent rights does not necessarily “arise under the patent laws,” so as to be within the exclusive jurisdiction of a federal court. The statute “does not deprive” the state courts of the power to determine questions arising under the patent laws, but only of assuming jurisdiction of “cases” arising under those laws.

*See also Florida Prepaid Postsecondary Educ. Expense Bd. v. College Sav. Bank*, 527 U.S. 627, 644 n.9 (1999) (“It is worth mentioning that the State of Florida provides remedies to patent owners for alleged infringement . . .,” including “a takings or conversion claim . . .”).

Contrary to WPB’s understanding, each of these cases addresses state court subject matter jurisdiction over claims involving patent issues, and none of them requires a preceding federal court patent decision. As each explains, state courts are authorized to assume subject matter jurisdiction of patent issues unless those issues “arise under the patent laws,” which requires among other factors a substantial federal interest. And as the court stated in *Xitronix Corporation v. KLA-Tencor Corporation*, 757 Fed. Appx. 1008, 1010 (Fed. Cir. 2019), *Gunn* is not restricted to “expired patents.” That same statement applies to WPB’s contention that *Gunn* applies only to “backwards-looking” cases (AB.21, 28, 29).

WPB’s second error is its insistence that PC’s claims do not exist without the allegation of infringement (AB.10-11, 16-19). That ignores cases such as *Inspired*

*Development Group, LLC* (“Inspired Development”) v. *Inspired Products Group, LLC* (“KidsEmbrace”), 938 F.3d 1355, 1363 (Fed. Cir. 2019), in which the court rejected an argument like WPB’s here in a case addressing an exclusive license involving patent rights:

Demonstrating infringement, however, is not the only way that Inspired Development could succeed on its claim. It is often the case that a licensee, and in particular an exclusive licensee, benefits from the grant of a license regardless of whether or not an infringing product is actually created. For example, if a product is possibly but not certainly infringing, an entity may procure a license in order to avoid uncertainty and litigation. The benefit . . . is the entity’s ability to invest or have others invest . . . , as well as the avoidance of costs and fees associated with suit. As for an exclusive license, the entity also gains the benefit ensuring that no other entity has the ability to create competing products that practice the patents at issue. . . . In this way, Inspired Development need not demonstrate that KidsEmbrace actually practiced the licensed patents, and the question of infringement is not a “necessary element” of the claim.

WPB even admits that the claims are based on its violation of PC’s License rights to the Point Boundaries software, not on the patents themselves (R.8-45; AB.16). The Complaint alleges that by virtue of the License PC “possesses the exclusive IP right for software that performs functions” within the scope of the patents and that the software WPB encourages its guests to use is not that within the exclusive License right of PC (R.21, 37). That is an attempt to enforce PC’s License rights, and there is as yet no challenge to the License or the validity of the patents underlying it.

WPB’s third error is its confusion and conflation of “patent infringement” with PC’s License rights to claim that the Complaint establishes all four *Gunn* factors

(AB.22-30). The only “actual dispute” framed by the Complaint is WPB’s violation of PC’s License rights. To prove those License rights, PC need only establish the License, the scope of the License, WPB’s use of a different software, and its encouragement that its guests do the same, not the validity of the underlying patents. Although WPB claims here that it disputes whether it “violated the JB Patents” (AB.25), it has not done so below because it has not filed an answer.

Nor does WPB accurately portray the allegations of the Complaint (AB.24). The Complaint repeatedly refers to WPB’s violation of “Plaintiff’s software,” its “exclusive software rights,” the “Point Boundaries software,” “Point Conversions’ software,” the “intellectual property rights” inherent in Point Boundaries, PC’s “IP right” in its software, and the “software owned by Point Conversions” (R.10-21, 24, 25, 27-29, 35, 40-43). Consistent with those allegations, the relief that PC seeks is damages for the violation of its License rights and an injunction to stop WPB from continuing to use software other than that developed by PC, not patent infringement (R.30, 44-45). As the Third District said in *Key Pharmaceuticals, Inc. v. Robinson*, 334 So. 2d 137, 138 (Fla. 3d DCA 1976), citing *Bert Lane*:

If a plaintiff founds his suit directly on a breach of some right created by the patent laws, he (or she) makes a case arising under those laws and only a federal court has jurisdiction; however, if he (or she) founds his suit on some right vested in him by the common law or by general equity jurisdiction, he makes a case under state law and only a state court has jurisdiction.

For the same reasons, WPB’s cases do not support its position, because PC has no burden to prove the validity of the patents until that validity is challenged, which

it has not been, and patents have a presumption of validity (AB.24-25). *See Hess v. Advanced Cardiovascular Systems, Inc.*, 106 F.3d 976, 980 (Fed. Cir. 1997). Patent ownership, to the extent that WPB intends to challenge that here, is also a question of state law. *See Jim Arnold Corp. v. Hydrotech Systems, Inc.*, 109 F.3d 1567, 1572 (Fed. Cir. 1997). While PC agrees that a case may be dismissed for lack of federal jurisdiction, as in *Suppes v. Katti*, 710 F. Appx. 883, 887 (Fed. Cir. 2017), which involves federal question jurisdiction, that dismissal does not support WPB's position here, because there is no basis to conclude that the trial court will ever be required to determine the scope, validity, ownership, or infringement of the patents in the absence of any challenge.

WPB's contention that the Initial Brief does not address the substantiality factor is based on its misunderstanding of both the Initial Brief and the controlling law (AB.26-30). Throughout the Initial Brief PC explained that the issue was the enforcement of its License rights, not the patents, and the Complaint does not raise any issue of the validity of the patents. The fact that the Initial Brief does not reiterate every fact and argument in addressing substantiality does not amount to a "waiver," as WPB believes (AB.26). And as the Initial Brief states, the Complaint contains nothing regarding federal patent law that is important "to the federal system as a whole" as required by *Gunn*, 568 U.S. at 260 (IB.20).

In contrast, in the cases on which WPB relies, the waiver was because the appellants made no arguments other than single sentences with no supporting authority. *See Stanton v. Florida Dept. of Health*, 129 So. 3d 1083, 1085 (Fla. 1st

DCA 2013); *Caldwell v. Florida Dept. of Elder Affairs*, 121 So. 3d 1062, 1064 (Fla. 1st DCA 2013). Neither case applies to PC's substantiality argument in this case.

Furthermore, even if WPB ultimately disputes the underlying patents, there is no evidence that the challenge raises "significant federal issues," because: (1) there would be no "pure question of law" involving patent law, as opposed to the validity or scope of the particular patents involved here; (2) there is no question that will control in other federal cases since state court decisions involving patents do not control in the federal forum; and (3) the claims here are fact-specific, as opposed to broader general patent law questions that the federal government has a strong interest in litigating in federal court. *MDS (Canada) Inc. v. Rad Source Technologies, Inc.*, 720 F.3d 833, 842-43 (11th Cir. 2013). As the Court said in *Gunn*, 568 U.S. at 264:

There is no doubt that resolution of a patent issue in the context of a state legal malpractice action can be vitally important to the particular parties in that case. But something more, demonstrating that the question is significant to the federal system as a whole, is needed. That is missing here.

Nor do the cases cited by WPB lead to a contrary conclusion (AB.27-30). In *Hunter Douglas, Inc. v. Harmonic Design, Inc.*, 153 F.3d 1318 (Fed. Cir. 1998), the complaint alleged the invalidity of the defendant's patent. *See id.* at 1321-22. On that basis, the court held it had jurisdiction, explaining:

We understand section 1338(a), as construed by both the U.S. Supreme Court and this Court, to mandate that federal courts have exclusive jurisdiction over state law causes of action in which a substantial question of federal patent law is pleaded as a necessary element of that claim.



*Id.* at 1321; *see also Christianson v. Colt Industries Operating Corp.*, 486 U.S. 800, 801 (1988) (referring to a “well-pleaded complaint” as the basis for section 1338(a) jurisdiction).

In *Forrester Environmental Services, Inc. v. Wheelabrator Technologies, Inc.*, 715 F.3d 1329, 1331-32 (Fed. Cir. 2013), the court explained that the jurisdictional issue turned on whether the “plaintiff’s right to relief necessarily depends on resolution of a substantial question of federal patent law,” because the parties’ battle lines were drawn over alleged misrepresentations regarding a “claim of U.S. patent coverage.”

In *Jang v. Boston Scientific Corporation*, 767 F.3d 1334, 1338 (Fed. Cir. 2014), the court recognized that resolution of a contract claim required resolution of underlying issues of patent infringement and that permitting the resolution by a federal circuit court other than the Federal Circuit raised the potential for inconsistent judgments regarding infringement claims in federal courts. That, the court explained, created the exact importance to the “federal system as a whole” recognized in *Gunn*. *Id.*

In *E.I. du Pont de Nemours & Company v. Unifrax I LLC*, 921 F.3d 1060, 1064 (Fed. Cir. 2019), the issue was a “patent infringement suit” involving the plaintiff’s patents for a flame barrier. In that context the court held that the district court was required to “construe the scope and meaning of the asserted claims,” which it explained were those asserted in the patents at issue. *See id.* That “claim

construction” is done by the court as a matter of law in a hearing required by *Markman v. Westview Instruments, Inc.*, 517 U.S. 370, 372-74 (1996).

Here, in contrast to the claims asserted and disputed in the cases on which WPB relies, PC’s right to relief does not involve a patent dispute or resolution of a substantial question of federal law unless those issues are raised by WPB, which they have not been. The Complaint seeks only enforcement of PC’s License, and all four Counts can be adjudicated without any reference to patent law – unless WPB puts it at issue. PC’s allegations do not require “answering whether the JB Patents cover” WPB’s use of other software, as it contends (AB.29); they require only a determination whether WPB’s software does what PC’s Point Boundaries software does, and that determination does not involve federal patent law. WPB ignores that the Southern District of Florida has already held that these claims do not raise a “substantial” issue of patent law because they “arise under a licensing agreement.” *See Point Conversion, LLC v. Tropical Paradise Resorts, LLC*, 339 F. Supp. 3d 1350, 1356 (S.D. Fla. 2018).

As the Middle District of Florida explained in *Bonnafant v. Chico’s FAS, Inc.*, 17 F. Supp. 3d 1196, 1202 (M.D. Fla. 2014), the patent question there was not a “pure issue of law” but merely required the “application of unique facts to the well-settled federal patent law.” Quoting *Gunn* and rejecting a *Forrester* argument like WPB’s here, the court held that allowing state courts to resolve patent disputes would not undermine the development of a uniform body of patent law, because “actual patent cases” would be litigated in federal court. *Id.* at 1202.

Finally, while PC discussed below the federal-state balance factor in the context of preemption, WPB is incorrect that the issue is not preserved for review (AB.30-32). Although federal-state balance and preemption are different concepts, numerous opinions suggest that the two are related concepts. *See, e.g., Romero v. Castillo*, 2016 WL 9447765, \*7 (D.N.M. 2016). Complete preemption, for example, has been described as “actually a doctrine of subject matter jurisdiction.” *City of Greensburg v. Wisneski*, 75 F. Supp. 3d 688, 697 (W.D. Pa. 2015) (internal citations omitted); *see also Di Janni v. Biotronik, Inc.*, 2015 WL 13665407, \*8 (D.N.M. 2015) (discussing preemption in the context of the federal-state balance). Furthermore, despite its reliance on preemption, PC argued below that the federal-state balance favors state court jurisdiction over its claims, which is sufficient to preserve the issue for this Court’s review.

As the United States Supreme Court has explained, the federal-state balance is controlled by Congress to prevent any threat or material disruption of the “normal currents of litigation” or the “sound division of labor between state and federal courts . . . .” *Grable & Sons Metal Products, Inc. v. Darue Engineering & Mfg.*, 545 U.S. 308, 314 (2005). *Grable* points to the “nature of the federal interest at stake” as the determining factor. *Id.* at 317. But as *Gunn* explains, where there is the “absence of a substantial federal issue,” as here, the balance weighs in favor of permitting state courts to decide state court issues, even where they involve “questions of patent law.” *Id.* at 265.

As this Court has held in the context of a breach of contract claim involving copyrights, when claims are for common-law, state-created rights, they are properly litigated in state courts. *See Pro-Med Clinical Systems, L.L.C. v. Utopia Provider Systems, Inc.*, 18 So. 3d 1146, 1149 (Fla. 4th DCA 2009); *see also Aronson v. Quick Point Pencil Co.*, 440 U.S. 257, 262 (1979) (holding that commercial agreements “traditionally are the domain of state law”); *Sebor v. Rief*, 706 So. 2d 52, 54 (Fla. 5th DCA 1998) (holding that interpretation of an agreement regarding patented technology was properly in state court); *State, Dept. of Health and Rehabilitative Services v. Southpointe Pharmacy*, 636 So. 2d 1377, 1380 (Fla. 1st DCA 1994) (holding that the state court had jurisdiction of a state court issue collaterally involving copyright law); *Minatronics Corp. v. Buchanan Ingersoll P.C.*, 1996 WL 766508, \*4 (Pa. App. 1996) (holding that state courts have jurisdiction over claims arising under state law even where they raise incidental and collateral patent questions).

**D. The doctrine of preemption does not apply to prohibit the trial court’s subject matter jurisdiction.**

WPB concedes that it did not rely on a preemption argument below and does not rely on one in this Court, because preemption is an affirmative defense and WPB has not filed an answer to PC’s Complaint (AB.8, 11, 25). Therefore, as the Court held in *Tropical Paradise Resorts LLC v. Point Conversions, LLC*, No. 4D19-479 (Fla. 4th DCA 2019), the Dismissal Order cannot be affirmed on the basis of federal preemption.

**E. WPB’s arguments are based on a misunderstanding of the law and the record.**

WPB’s position relies nearly entirely on three cases: *Pincus v. Carlisle*, 585 So. 2d 1172 (Fla. 4th DCA 1991); *Solar Dynamics*, 211 So. 3d at 294; and *Schachel v. Closet Concepts, Inc.*, 405 So. 2d 487 (Fla. 3d DCA 1981) (AB.7, 12-16, 21-22, 23-24). PC disagrees with WPB that any supports its arguments.

In *Pincus*, 585 So. 2d at 1172, the issue that the Court held was within the exclusive jurisdiction of the federal court was an injunction prohibiting the petitioner from violating plaintiff’s patents and copyrighted materials. Judge Anstead, specially concurring, explained that there was “no claim of breach of contract or other state statutory or common law basis for such relief.” *Id.* (Anstead, J., specially concurring). Here, in contrast, PC’s claims are all based on state common laws and statutes, and *Pincus* was decided nearly 30 years before the United States Supreme Court established the *Gunn* factors that control here.

*Solar Dynamics* is, as the Southern District of Ohio held, an outlier: “In the course of its research, the Court could not find any other decision – federal or state – that has cited, much less followed, *Solar Dynamics*. That is not surprising, because the facts necessarily render it an outlier.” *Exceller Software Corp. v. Dine*, 2019 WL 6606084, \*3 (S.D. Oh. 2019). To date *Exceller*’s statement remains accurate.

Furthermore, as PC explained above, *Solar Dynamics* was authored by the same court that authored *State, Department of Transportation v. Padgett*, 601 So. 2d 1331 (Fla. 2d DCA 1992), the opinion that was quashed by the Florida Supreme Court in *Jacobs Wind* on the basis that the Second District misunderstood the federal subject

matter jurisdiction guidelines established by cases such as *Christianson*, 486 U.S. at 810.

Finally, in *Schachel*, 405 So. 2d at 488, the Third District held that the federal court has exclusive subject matter jurisdiction because the allegations in the operative pleading were that the defendant breached an agreement by virtue of which it would not infringe the plaintiff's patent. As the court explained, the only possible way to breach the settlement agreement was to infringe the patent, which was an issue "arising under" federal patent law. And, like *Pincus*, *Schachel* was decided nearly 30 years before *Gunn* and is not the current state of the law.

WPB's reliance on cases that significantly precede today's controlling cases highlights the errors in its position and its analysis. The issue here is WPB's violation of PC's License rights, not the underlying patents, and are framed by PC's Complaint as state law claims, as in the cases on which PC relies. Patent rights, validity, and infringement are not at issue unless WPB puts them at issue, which it has not done and may never do. Even if it does, however, *Gunn* controls and establishes that this case belongs in state court.

### **CONCLUSION**

For the foregoing reasons, the Dismissal Order should be reversed with directions to the trial court to reinstate PC's lawsuit.

### **CERTIFICATE OF SERVICE**

We certify that a copy of this document was filed electronically and was sent by E-Mail from the Florida Courts' E-Filing Portal system, unless otherwise noted

below, on all counsel or parties of record listed below, and pursuant to Administrative Order No. 2011-1, the e-filing of this document has been completed, this 5th day of May 2020.

### **CERTIFICATE OF COMPLIANCE**

We certify that this brief complies with the font requirements set forth in Florida Rule of Appellate Procedure 9.210(a)(2).

Respectfully submitted,

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