

**IN THE UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION**

Continental Automotive GmbH and
Continental Automotive Systems, Inc.,

Plaintiffs,

v.

iBiquity Digital Corporation,

Defendant.

Civil Action No. 1:14-CV-01799

Hon. John Z. Lee

**DEFENDANT IBIQUITY DIGITAL CORPORATION'S
MOTION TO DISMISS**

Pursuant to Federal Rules of Civil Procedure 12(b)(1) and 12(b)(6), Defendant iBiquity Digital Corporation (“iBiquity”) hereby moves to dismiss the Complaint filed by Continental Automotive GmbH and Continental Automotive Systems, Inc. (collectively “Continental”).

This Court lacks jurisdiction to hear Continental’s claims. Continental’s lawsuit relates to a contractual dispute over an intellectual property license agreement that is currently being adjudicated in the Circuit Court for Montgomery County, Maryland. None of Continental’s claims establish a basis for federal jurisdiction. Count I (Patent Exhaustion) and Count II (Patent Misuse) are affirmative *defenses*, which Continental has asserted as part of its unclean hands contract defense in the pending Maryland action. Continental’s Count III (Declaratory Judgment of Patent Rights) is a state law contract interpretation issue and is also one the Court can refuse to hear using its discretionary authority. Continental’s remaining claims consist of state law contract defenses and counterclaims. Because there is no diversity between the parties, this Court lacks jurisdiction over this licensing dispute.

Additionally, Continental fails to state a claim for Counts I-II, two claims purported to arise under federal law.

For the reasons set forth in the attached supporting memorandum, the Court should grant this motion to dismiss Continental's complaint. iBiquity respectfully requests oral argument on this motion.

Dated: May 19, 2014

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that on May 19, 2014, I provided service to all counsel of record by causing a true and correct copy of **Defendant iBiquity Digital Corporation's Motion to Dismiss** to be served on all counsel of record by electronic mail.

Dated: May 19, 2014

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**DEFENDANT IBIQUITY DIGITAL CORPORATION'S MEMORANDUM OF LAW
IN SUPPORT OF ITS MOTION TO DISMISS**

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Defendant iBiquity Digital Corporation (“iBiquity”), through its undersigned counsel, hereby moves, pursuant to Federal Rules of Civil Procedure 12(b)(1) and 12(b)(6), to dismiss the Complaint filed by Continental Automotive GmbH and Continental Automotive Systems, Inc. (collectively “Continental”) for lack of subject matter jurisdiction and failure to state a claim upon which relief can be granted.

I. INTRODUCTION

In this action, Continental seeks to have this Court rule upon a license dispute that is already being adjudicated in the Circuit Court for Montgomery County, Maryland. The primary dispute between the parties is over interpretation of an intellectual property license agreement. Despite Continental’s assertion that its complaint invokes substantial questions of patent law, the only valid and ripe issues arise under state contract law.

This Court lacks jurisdiction to hear Continental’s complaint. Counts I-III are the only claims in which Continental purports to allege claims arising under federal law, but none of these Counts establishes a basis for federal jurisdiction. Continental’s Count I (Patent Exhaustion) and Count II (Patent Misuse) are not proper claims at all; they are defenses to a hypothetical patent infringement suit. Count III (Declaratory Judgment of Patent Rights) seeks a declaration to interpret the parties’ license agreement in light of certain public statements made by iBiquity regarding its patents, both of which are state law contract issues. Further, Counts I-II fail to properly state any claim for relief. Stripped of Counts I-III and without diversity between the parties, the complaint provides no basis for this Court to have supplemental jurisdiction to hear Continental’s remaining state law contract defenses and counterclaims.

Continental’s complaint also omits a critical fact that is paramount to the resolution of this motion. More than a month before Continental filed its federal complaint in this Court,

iBiquity filed a breach of contract lawsuit against Continental in Maryland state court over the same license interpretation issue. Viewed in that context, it becomes clear that Continental's complaint is an attempt to manufacture federal question jurisdiction to evade iBiquity's first-filed state law claims.

In short, Continental seeks to "use the Declaratory Judgment Act to establish a federal defense to an action grounded exclusively in state law, which could only be and has been brought in state court." *Milprint, Inc. v. Curwood*, 562 F.2d 418, 421 (7th Cir. 1977). Continental's complaint should be dismissed.

II. BACKGROUND¹

iBiquity is the developer of HD Radio™ technology for digital AM and FM radio broadcasting. iBiquity owns valuable intellectual property, including patents, copyrights, trademarks, and know-how for HD Radio technology, and licenses that intellectual property to others.

On June 28, 2005, iBiquity and Siemens VDO Automotive Corporation ("Siemens VDO") executed a "Nonexclusive Intellectual Property License for Receiver Technology" ("License Agreement"). *See* Compl. ¶ 13, Ex. C. Among other aspects, the License Agreement licenses iBiquity's intellectual property for HD Radio technology for use in Siemens VDO's Licensed Receiver Products in exchange for the payment of a royalty each calendar quarter. *See* Compl. ¶¶ 13-16, Ex. C. The intellectual property covered by the License Agreement includes, among other things, patents that iBiquity has committed to license on reasonable and non-discriminatory ("RAND") terms. *See* Compl. ¶¶ 12-13, Ex. B.

On August 28, 2007, Continental Automotive GmbH acquired Siemens VDO, and

¹ This factual background is drawn primarily from the allegations set forth in Continental's complaint ("Compl."), as well as the documents cited in that complaint. iBiquity does not accept as true the allegations, but for purposes of this motion sets the allegations forth to demonstrate that the complaint should be dismissed.

became the successor in interest to the License Agreement with iBiquity. *See* Compl. ¶¶ 13-14. Thus, Continental assumed all responsibilities as Siemens VDO's successor in interest to the License Agreement with iBiquity. *See id.*

In exchange for the license to iBiquity's intellectual property, Continental agreed to pay a quarterly royalty based on the sales of "Licensed Receiver Products."² *See* Compl. ¶ 16, Ex. C. For the first eight years of the License Agreement, Continental paid royalties based on the price of the radio receivers that Continental sold to its customers. *See* Compl. ¶¶ 16-17. However, starting in the third quarter of 2013, Continental stopped paying royalties under the License Agreement based on an improper interpretation of the term "Licensed Receiver Products." *See* Compl. ¶¶ 17-19. iBiquity made a good faith effort to resolve this dispute with Continental, but negotiations broke down in November 2013 after Continental informed iBiquity that it will no longer pay royalties in accordance with the terms of the License Agreement. *See* Compl. ¶¶ 21-23, Ex. D.

Given that Continental continued to sell Licensed Receiver Products without paying royalties to iBiquity pursuant to the terms of the License Agreement, iBiquity filed an action for breach of contract in the Circuit Court for Montgomery County, Maryland on February 7, 2014 ("iBiquity Compl.") (iBiquity's Maryland Complaint is attached hereto as Exhibit A). In the Maryland action, iBiquity seeks to recover monetary damages based on Continental's breach of the License Agreement. iBiquity Compl. at 4. iBiquity also asks the Maryland court to order Continental to comply with its obligations under the License Agreement. *See id.*

² The License Agreement defines "Licensed Receiver Products" as [REDACTED]
[REDACTED]
[REDACTED] Compl. Ex. C §1.10.

More than a month after iBiquity filed suit in Maryland, Continental filed this federal action on March 13, 2014. In the complaint, Continental asserted nine counts. Counts I-III—patent exhaustion, patent misuse, declaratory judgment of patent rights—are the only alleged federal claims. Compl. ¶¶ 28-43. The remaining claims, Counts IV-IX, are traditional state law causes of action—unjust enrichment, breach of the covenant of good faith and fair dealing, breach of the license agreement, promissory estoppel, breach of RAND contract, and wrongful interference with a business relationship. Compl. ¶¶ 44-76. Nowhere in Continental’s federal complaint is any mention of the state law breach of contract complaint filed by iBiquity more than a month earlier.

On March 21, 2014, Continental filed an answer to iBiquity’s Maryland complaint (“CAS Answer”) (attached hereto as Exhibit B). In its answer, Continental raised affirmative defenses that mirror the affirmative claims in its federal lawsuit, such as: (1) unclean hands, including breach of RAND contract, patent exhaustion, and patent misuse, *see* CAS Answer at 6-7; (2) equitable estoppel, *see id.* at 7; and (3) breach of the license agreement, *see id.* at 7-8.

At the same time Continental answered the complaint, it filed a motion to stay the Maryland case pending resolution of Continental’s federal lawsuit. That motion is fully briefed and oral argument is scheduled for May 29, 2014. Fact discovery is ongoing in that case.³

III. LEGAL STANDARD

When considering a Rule 12(b)(1) motion challenging subject matter jurisdiction, district courts must look beyond the pleadings and consider all competent evidence to determine whether in fact subject matter jurisdiction exists. *Hay v. Indiana State Bd. of Tax Comm’rs*, 312 F.3d 876, 879 (7th Cir. 2002). In evaluating such a motion, the Court need not accept as true all well-

³ iBiquity served its First Set of Requests for Production to Continental on March 6, 2014, which Continental responded to on April 7, 2014. iBiquity issued additional discovery requests on April 17, 2014. Also, Continental served its First Set of Requests for Production on May 1, 2014.

pleaded factual allegations in favor of the plaintiff. *Commodity Trend Serv., Inc. v. Commodity Futures Trading Comm'n*, 149 F.3d 679, 685 (7th Cir. 1998). Rather, the burden of proof lies with the party asserting jurisdiction, namely, the plaintiff. *Selcke v. New England Ins. Co.*, 2 F.3d 790, 792 (7th Cir. 1993).

To survive a 12(b)(6) motion to dismiss, a complaint must “contain sufficient factual matter, accepted as true, to ‘state a claim to relief that is plausible on its face.’” *Ashcroft v. Iqbal*, 556 U.S. 662, 678 (2009) (quoting *Bell Atlantic v. Twombly*, 550 U.S. 544, 555-57 (2007)). It is not enough for a complaint to “plead[] facts that are ‘merely consistent with’ a defendant’s liability.” *Id.* (quoting *Twombly*, 550 U.S. at 557). Rather, a claim has facial plausibility only “when the plaintiff pleads factual content that allows the court to draw the reasonable inference that the defendant is liable for the misconduct alleged.” *Id.*

Although a court considering a Rule 12(b)(6) motion must accept all of the factual allegations in the complaint as true, “[t]hreadbare recitals of the elements of a cause of action, supported by mere conclusory statements, do not suffice.” *Id.* at 678. Documents outside of the pleadings may be considered if referenced in the complaint, central to plaintiffs’ claim, and attached to defendant’s motion to dismiss. *Venture Assocs. Corp. v. Zenith Data Sys. Corp.*, 987 F.2d 429, 431 (7th Cir. 1993).

IV. ARGUMENT

A. Continental’s Complaint Contains No Valid Claims Under Federal Law

Continental relies on 28 U.S.C. §§ 1331, 1338, and 2201 as its sources of jurisdiction for this state law contract dispute. Compl. ¶ 5. Section 1331 establishes federal question jurisdiction for civil actions “arising under” the laws of the United States, 28 U.S.C. § 1331, while 28 U.S.C. § 1338 extends federal question jurisdiction to cases “arising under” the patent

laws. Lastly, 28 U.S.C. § 2201 allows a party to seek a declaratory judgment in federal court. Importantly, Continental cannot establish federal jurisdiction on diversity grounds, as both Continental and iBiquity are incorporated in Delaware. *See* 28 U.S.C. § 1332(a); Compl. ¶¶ 2-4.

1. Patent Exhaustion and Patent Misuse Are Not Affirmative Causes of Action

a. Patent Exhaustion (Count I)

Plaintiff attempts to state an affirmative claim for patent exhaustion. The patent exhaustion doctrine, however, is not an affirmative cause of action. Rather, it is a *defense* to a patent infringement claim that limits the patent rights that survive an initial authorized sale of a patented item. *See Quanta Computer, Inc. v. LG Elecs., Inc.*, 553 U.S. 617, 625 (2008) (“The longstanding doctrine of patent exhaustion provides that the initial authorized sale of a patented item terminates all patent rights to that item.”); *Monsanto Co. v. Scruggs*, 459 F.3d 1328, 1332-36 (Fed. Cir. 2006) (referring to patent exhaustion doctrine as an affirmative defense).

The Federal Circuit’s ruling in *ExcelStor Technology, Inc. v. Papst Licensing GmbH & Co. KG*, 541 F.3d 1373, 1376 (Fed. Cir. 2008) rejects a patent exhaustion claim such as Continental’s Count I. In that case, plaintiffs-licensees sought a declaration that defendant-licensor violated the patent exhaustion doctrine by collecting two royalties from the sale of the same patented hard disk drives, among other claims. 541 F.3d at 1375. The district court dismissed the patent exhaustion claims without reaching the merits, finding:

The patent exhaustion doctrine is not a source of relief for [Plaintiff]. It is not a cause of action that a party can bring and obtain relief such as the damages sought by [Plaintiff] in this action. Rather, the patent exhaustion doctrine is a defense for claims such as a patent infringement claim, prohibiting a party from suing for patent infringement to protect its proprietary rights since the party is deemed to have already received full compensation for ownership in such rights.

ExcelStor Tech., Inc. v. Papst Licensing GmbH & Co. KG, No. 07C2467, 2007 WL 3145013, at *4 (N.D. Ill. Oct. 24, 2007).

On appeal, the Federal Circuit agreed with the district court, stating “[a]s the district court held, patent exhaustion is a defense to patent infringement, not a cause of action.” *ExcelStor Tech.*, 541 F.3d at 1376. Also, the court concluded that “there is no federal cause of action for collecting royalties twice on the same goods,” and such claims are properly made under state law. *Id.* at 1376-77.

Here, as in *ExcelStor*, Continental’s patent exhaustion claim is merely a defense to a hypothetical complaint. *See id.* As such, it does not “arise under” the patent laws. *See Christianson v. Colt Indus. Operating Corp.*, 486 U.S. 800, 809 (1988) (“[A] case raising a federal patent-law defense does not, for that reason alone, ‘arise under’ patent law.”). Continental’s patent exhaustion defense will be adjudicated in Maryland state court, where Continental has asserted patent exhaustion as part of its unclean hands affirmative defense to iBiquity’s breach of contract claim.⁴ *See* CAS Answer at 6-7.

b. Patent Misuse (Count II)

Similarly, Continental cannot seek a cause of action for patent misuse. Like patent exhaustion, patent misuse is an equitable *defense*, not an affirmative cause of action. *See, e.g., Windsurfing Int’l Inc. v. AMF, Inc.*, 782 F.2d 995, 1001 (Fed. Cir. 1986) (referring to patent misuse as an affirmative defense). For that reason, “patent misuse is only a defense to a patent-infringement claim, not an affirmative basis for relief.” *Cummins, Inc. v. TAS Distrib. Co.*, 676 F. Supp. 2d 701, 704 n.2 (C.D. Ill. 2009). Indeed, the Federal Circuit has ruled that “the defense

⁴ Continental’s patent exhaustion claim turns on whether “iBiquity authorizes Continental’s suppliers to sell HD Radio semiconductor devices embodying the Asserted Patents.” Compl. ¶ 31. This, however, is a contract issue governed by the license agreements between iBiquity and Continental’s suppliers. *See Quanta Computer*, 553 U.S. at 637 n.7 (“[S]uch a question would arise as a question of contract, and not as one under the inherent meaning and effect of the patent laws.”) (quoting *Keeler v. Standard Folding Bed Co.*, 157 U.S. 659, 666 (1895)).

of patent misuse may not be converted to an affirmative claim for damages simply by restyling it as a declaratory judgment counterclaim.” *B. Braun Med., Inc. v. Abbott Labs.*, 124 F.3d 1419, 1428 (Fed. Cir. 1997).

Nor is Seventh Circuit authority helpful to Continental’s misuse claim. While recent unpublished decisions⁵ within the Circuit point to *County Materials Corp. v. Allan Block Corp.*, 502 F.3d 730 (7th Cir. 2007) as a basis for not dismissing a claim for patent misuse, that was not the issue before the court. To the contrary, the relevant issue in *County Materials* was whether the Federal Circuit had appellate jurisdiction on an underlying state law cause of action. 502 F.3d at 733-34. *County Materials* makes clear that a declaratory judgment action arising out of a contract dispute is a state law claim. *See id.* at 733-34 (“[F]ederal patent law does not create the cause of action here. It is instead a claim about the enforceability of a contract or license agreement.”). As explained further below, in such a “non-patent patent case[,]” “the district court’s jurisdiction over the present case was not based even in part on § 1338.” *Id.* at 732, 734.

Like patent exhaustion, the proper forum to resolve this defense is in state court, where Continental has already asserted misuse as part of its unclean hands contract defense. *See CAS Answer at 6-7.* Patent misuse is unavailable as an affirmative claim in this Court.

2. This Court Lacks Subject Matter Jurisdiction to Hear Continental’s Declaratory Judgment Claim (Count III)

Continental’s declaratory judgment claim asks this Court to interpret the parties’ License Agreement in light of representations made by iBiquity that it would license its patents on RAND terms. Contract disputes, even those involving patents, do not arise under federal law

⁵ *See Syndicate Sales, Inc. v. Floral Innovations, Inc.*, No. 1:11-cv-00465-SEB-DKL, 2012 WL 4477691, at *3 (S.D. Ind. Sept. 28, 2012); *Apple, Inc. v. Motorola Mobility, Inc.*, No. 11-cv-178-BBC, 2011 WL 7324582, at *14 (W.D. Wis. June 7, 2011).

and are instead the domain of state courts. *See, e.g., Aronson v. Quick Point Pencil Co.*, 440 U.S. 257, 262 (1979). Because the Declaratory Judgment Act requires an independent basis for federal jurisdiction, this Court lacks authority to hear Continental’s contract interpretation claim.

“In a case of actual controversy within its jurisdiction . . . any court of the United States, upon the filing of an appropriate pleading, 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.” 28 U.S.C. § 2201. Importantly, the Declaratory Judgment Act does not create an independent source of federal jurisdiction. *See, e.g., Skelly Oil Co. v. Phillips Petroleum Co.*, 339 U.S. 667, 671-72 (1950); *GNB Battery Techs. v. Gould, Inc.*, 65 F.3d 615, 619 (7th Cir. 1995); *Speedco, Inc. v. Estes*, 853 F.2d 909, 911 (Fed. Cir. 1988). Rather, it provides a remedy only if the court has jurisdiction from some other source. *Aetna Life Ins. Co. v. Haworth*, 300 U.S. 227, 240 (1937). In declaratory judgment cases, the well-pleaded complaint rule dictates that jurisdiction is determined by whether federal question jurisdiction would exist over the presumed suit by the declaratory judgment defendant. *GNB Battery*, 65 F.3d at 619; *Speedco*, 853 F.2d at 912. In addition, relief under the Declaratory Judgment Act is purely discretionary. *See Public Affairs Assocs., Inc. v. Rickover*, 369 U.S. 111, 112 (1962) (“The Declaratory Judgment Act . . . gave the federal courts competence to make a declaration of rights; it did not impose a duty to do so.”).

Such jurisdiction is further limited by Article III of the Constitution, which restricts federal judicial power to the adjudication of “Cases” or “Controversies.” U.S. Const. art. III, § 2. The Act’s requirement of “a case of actual controversy” simply affirms this constitutional requirement, having long been interpreted as referring to any case and controversy that is justiciable under Article III. *See Aetna Life Ins.*, 300 U.S. at 239–40. For there to be a case or controversy under Article III, the dispute must be “definite and concrete, touching the legal

relations of parties having adverse legal interests,” “real and substantial,” and “admi[t] of specific relief through a decree of a conclusive character, as distinguished from an opinion advising what the law would be upon a hypothetical state of facts.” *Id.* at 240-41; *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118, 126 (2007).

Here, the only “definite and concrete” dispute with iBiquity anticipated by Continental’s complaint is a breach of contract action, which currently is pending in Maryland state court. Despite Count III’s heading seeking a “Declaratory Judgment of Patent Rights,” the parties agree that this claim seeks “a determination *interpreting provisions of the parties’ intellectual property license agreement* to the extent iBiquity’s rights are not exhausted or unenforceable.” Joint Initial Status Report, at 3, May 16, 2014 (Dkt. 18) (emphasis added). Count III focuses solely on whether Continental’s “continued activities” are authorized under the License Agreement in view of iBiquity’s alleged contractual promise to license its patents on RAND terms. *See* Compl. ¶¶ 38-42. Further, Continental’s prayer for relief seeks judgments “interpreting the terms of Continental’s license” and requiring iBiquity to license its patents on RAND terms. Compl. at 14-15. Thus, Continental has not pled a case or controversy with respect to “patent rights” or federal patent law.

Although Count III refers to 35 U.S.C. § 271(a), that is not sufficient to convert Continental’s defenses to iBiquity’s state law breach of contract lawsuit into a dispute arising under federal law. It is well established that contract disputes, including disputes regarding license agreements for intellectual property or patents, are the domain of state courts. *See, e.g., Aronson*, 440 U.S. at 262 (stating that “[c]ommercial agreements traditionally are the domain of state law” and that “[s]tate law is not displaced merely because the contract relates to intellectual property which may or may not be patentable”); *Scheiber v. Dolby Labs., Inc.*, 293 F.3d 1014,

1016 (7th Cir. 2002) (“[A] suit to enforce a patent licensing agreement does not arise under federal patent law.”); *Schwarzkopf Dev. Corp. v. Ti-Coating, Inc.*, 800 F.2d 240, 244 (Fed. Cir. 1986) (“The complaint in the case at bar is for failure to pay royalties due under an existing patent license agreement. Such a suit has consistently been viewed as one arising out of state contract law, not ‘arising under’ the patent law.”). That is why iBiquity sought to resolve this dispute via a breach of contract lawsuit in state court. “[T]he fact that patent issues are relevant under state contract law to the resolution of a contract 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.’” *Speedco*, 853 F.2d at 913 (quoting *Ballard Med. Prods. v. Wright*, 823 F.2d 527, 530 (Fed. Cir. 1987)).

This dispute is similar to *Milprint, Inc. v. Curwood*, 562 F.2d 418 (7th Cir. 1977). In that case, Milprint, the licensee, ceased making royalty payments due under the license agreement to Curwood, the patent owner. 562 F.2d at 419. Curwood filed suit for royalties in state court. *Id.* In response, Milprint filed suit in federal court seeking a declaration of patent invalidity, that no further royalties were due, and also seeking recoupment of previously paid royalties. *Id.* The Seventh Circuit found that Milprint’s federal complaint did nothing more than plead its defenses to the state court action. *Id.* at 420-21. Thus, the court concluded that “where diversity is lacking, a patent licensee’s declaratory complaint which asserts patent invalidity simply to avoid the obligations of the license does not state a claim arising under the patent laws within the meaning of 28 U.S.C. § 1338(a).” *Id.* at 422. Importantly, the court noted that “where the licensor stands on the license agreement and seeks contract remedies, even an allegation of infringement will not create federal jurisdiction, for the existence of the license precludes the possibility of infringement.” *Id.* at 420.

Continental's actions here are analogous to Milprint's. Both licensees responded to state court breach of contract complaints by filing their own lawsuits in federal court. *See id.* at 419; Compl. Both licensees asserted state court defenses as affirmative claims "arising under" the patent laws. 562 F.2d at 420-21; Compl. ¶¶ 28-43. Both licensees lacked diversity with the patentee. *See* 562 F.2d at 419; Compl. ¶¶ 2-4. Therefore, following the Seventh Circuit's guidance in *Milprint*, this Court should similarly rule that it lacks jurisdiction to hear Continental's claims.

Nor does Continental's alleged defense that iBiquity failed to license its patents on RAND terms, *see* Compl. ¶ 39-41, convert its state law breach of contract defenses into a federal action. "[A] typical RAND term is a contractual covenant of the granting participant, pursuant to which that entity agrees that it will, at some point in the future, grant a license on reasonable and nondiscriminatory terms to any requesting implementer of [the] applicable standard." *In re Innovatio IP Ventures, LLC Patent Litig.*, 921 F. Supp. 2d 903, 915 (N.D. Ill. 2013) (quoting Brad Biddle et al., *The Expanding Role and Importance of Standards in the Information and Communications Technology Industry*, 52 *Jurimetrics* 177, 196 (2012)). For these reasons, actions seeking affirmative relief for breach of RAND obligations are based upon contract law. *See, e.g., Microsoft Corp. v. Motorola, Inc.*, 854 F. Supp. 2d 993, 1002 (W.D. Wash. 2012) (granting summary judgment for plaintiff on its contract claims regarding breach of RAND commitments); *Research In Motion Ltd. v. Motorola, Inc.*, 644 F. Supp. 2d 788, 797 (N.D. Tex. 2008) (denying motion to dismiss where plaintiff stated a breach of contract claim based on defendant's failure to offer RAND license terms).⁶ Thus, even though patents are necessarily

⁶ Since a RAND commitment is a contractual promise, it may be relevant in evaluating remedies in patent infringement cases. *See Innovatio*, 921 F. Supp. 2d at 915-16. That scenario, however, does not convert a RAND commitment into a claim "arising under" the federal patent laws.

involved in a license dispute related to RAND obligations, that alone does not create federal jurisdiction. *See Speedco*, 853 F.2d at 913; *Ballard Med. Prods.*, 823 F.2d at 530.

In sum, Continental’s declaratory judgment claim is merely a question of contract rights under the License Agreement, which is an action arising under state law and currently pending in Maryland state court.⁷ Because there is no diversity, Count III should be dismissed.

B. Counts I-II Also Fail to State a Claim

Were the court to have jurisdiction to hear this dispute—which it does not—Counts I-II still would need to be dismissed for failure to state a claim. *See* Fed. R. Civ. P. 12(b)(6).

To succeed on a misuse claim, Continental must show that iBiquity: (1) “impermissibly broadened the physical or temporal scope of the patent grant” and (2) such conduct has “anticompetitive effects.” *Princo Corp. v. ITC*, 616 F.3d 1318, 1328 (Fed. Cir. 2010). Continental’s complaint meets neither of those factors. *See* Compl. ¶¶ 33-36. First, Continental does not plead that the alleged misuse results in an anticompetitive effect in a properly defined relevant market. *Princo*, 616 F.3d at 1334. Second, it is well-established that it is not misuse for parties to voluntarily agree on a royalty base that includes components outside the scope of the patents. *See Engel Indus., Inc. v. Lockformer Co.*, 96 F.3d 1398, 1408 (Fed. Cir. 1996) (“[R]oyalties may be based on unpatented components if that provides a convenient means for measuring the value of the license.”).

Continental’s patent exhaustion claim is similarly flawed. The patent exhaustion doctrine states that “[t]he authorized sale of an article that substantially embodies a patent exhausts the patent holder’s rights and prevents the patent holder from invoking patent law to control postsale use of the article.” *Quanta Computer*, 553 U.S. at 638. The Court made clear that “the right to

⁷ To the extent Continental contends it is also entitled to a declaratory judgment for Counts I and II, the same analysis applies and the claims should be dismissed.

vend is exhausted by a single, *unconditional* sale, the article sold being thereby carried outside the monopoly of the patent law.” *Id.* at 626 (emphasis added) (quoting *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 518 (1917)). Here, Continental failed to plead an unconditional sale that exhausts iBiquity’s patent rights. For example, paragraphs 30-31 of the complaint consist of speculative comments about iBiquity’s relationship with Continental’s suppliers asserted under “information and belief.” *See* Compl. ¶¶ 30-31. Absent an allegation of an unconditional sale, Continental’s statement that iBiquity’s patents are exhausted, *see id.* ¶ 32, is merely an impermissible conclusory allegation. *See Iqbal*, 556 U.S. at 678.

C. The State Law Claims in Counts IV-IX Neither “Arise Under” the Patent Laws Nor Are Entitled to Supplemental Jurisdiction, and Should Be Dismissed

Continental relies on 28 U.S.C. § 1338 as a means for jurisdiction for its state law claims in Counts IV-IX, including unjust enrichment, breach of the covenant of good faith and fair dealing, breach of the license agreement, promissory estoppel, breach of RAND contract, and wrongful interference with a business relationship. But none of these causes of action “arise under” the patent laws.

Jurisdiction under § 1338(a) extends only 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.” *Christianson*, 486 U.S. at 808-09. Continental cannot meet this burden, as the claims in Counts IV-IX are strictly contract related, and accordingly, do not satisfy either prong of the *Christianson* test.

To the extent that Continental seeks to invoke supplemental jurisdiction to have the state law claims in Counts IV-IX heard in federal court, it cannot succeed. Since there is no subject matter jurisdiction for Counts I-III, this Court has no authority to exercise supplemental

jurisdiction over Continental's remaining state law claims. *See Rifkin v. Bear Stearns & Co.*, 248 F.3d 628, 634 (7th Cir. 2001) ("Because [plaintiffs] lack standing to bring their federal claim, the district court had no authority to exercise supplemental jurisdiction over their remaining state law claims.").

V. CONCLUSION

Continental's complaint is a transparent and baseless attempt to recast its defenses to iBiquity's state law breach of contract action into affirmative claims "arising under" federal patent law. For the reasons set forth herein, iBiquity respectfully requests that the Court dismiss Continental's complaint pursuant to Federal Rule of Civil Procedure 12(b)(1) for lack of subject matter jurisdiction, or, alternatively, under Rule 12(b)(6) for failure to state a claim.

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Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that on May 19, 2014, I provided service to all counsel by causing a true and correct copy of *Defendant iBiquity Digital Corporation's Memorandum of Law in Support of its Motion to Dismiss* to be served on all counsel of record by electronic mail and/or as agreed to by the parties.

Dated: May 19, 2014

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EXHIBIT A

(FILED UNDER SEAL)

EXHIBIT B

(FILED UNDER SEAL)