

No. 2019-1522

IN THE
United States Court of Appeals
for the Federal Circuit

INTELLISOFT, LTD., and BRUCE BIERMAN,

Appellants,

v.

ACER AMERICA CORPORATION AND ACER INCORPORATED,

Appellees.

**Appeal from the United States District Court for the
Northern District of California, No. 4:17-cv-06272-PJH
Hon. Phyllis J. Hamilton**

**APPELLEES ACER AMERICA CORPORATION AND ACER INC.'S
COMBINED PETITION FOR PANEL REHEARING OR
REHEARING EN BANC**

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CERTIFICATE OF INTEREST

Counsel for the Appellees, Acer America Corporation and Acer Inc., certifies the following:

1. Full Name of Party Represented by me:

Acer America Corporation

Acer Incorporated

2. Name of Real Party in interest (Please only include any real party in interest NOT identified in Question 3) represented by me is:

Acer America Corporation

Acer Incorporated

3. Parent corporations and publicly held companies that own 10% or more of stock in the party:

For Acer Inc.: **None.**

For Acer America Corporation: **Gateway, Inc., Acer America Holdings Corporation, and Boardwalk Capital Holdings, Ltd.**

4. The names of all law firms and the partners or associates that appeared for the Party or amicus now represented by me in the trial court or agency or are expected to appear in this court (and who have not or will not enter an appearance in this case) are:

Greenberg Traurig LLP, Lei Howard Chen,

K & L Gates LLP, Rachel Elizabeth Burnim, and Joanne M. Hepburn

5. The title and number of any case known to counsel to be pending in this or any other court or agency that will directly affect or be directly affected by this court's decision in the pending appeal. *See* Fed. Cir. R. 47.4(a)(5) and 47.5(b). (The parties should attach continuation pages as necessary).

Intellisoft, Ltd. v. Wistron Corporation, et al., California Court of
Appeal for the 6th District Case No: H044281.

Dated: May 4, 2020

/s/ Harold H. Davis, Jr.

Harold H. Davis, Jr.

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FEDERAL CIRCUIT RULE 35(B)(2) STATEMENT

Based on my professional judgment, I believe the panel decision is contrary to the following decisions of the Supreme Court of the United States: *Gunn v. Minton*, 568 U.S. 251 (2013) and *Dennison Mfg. Co. v. Panduit Corp.*, 475 U.S. 809 (1986)—and creates an intra-circuit inconsistency in the exceptionally important intersection of trade secret and patent law.

Based on my professional judgment, this appeal requires an answer to two precedent-setting questions of exceptional importance:

- (1) Whether a state trade secret claim that requires resolution of who invented a patent claim, and whether patent claims read on an industry standard, “necessarily raises” a federal issue sufficient for jurisdiction under 28 U.S.C. §1441, per *Gunn v. Minton*, 568 U.S. 251 (2013), and, whether the panel’s “lack of an adequate explanation of the basis” for relying on a trade secret claim that was never raised violates *Dennison Mfg. Co. v. Panduit Corp.*, 475 U.S. 809 (1986).
- (2) Whether a party must have a state court’s permission to bring patent counterclaims before a case becomes removable under 28 U.S.C. §1454, when every rule of statutory construction refutes that conclusion.

/s/ Harold H. Davis, Jr.

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ACER INCORPORATED

INTRODUCTION

The panel opinion contravenes *Gunn v. Minton*, 568 U.S. 251 (2013) and *Dennison Mfg. Co. v. Panduit Corp.*, 475 U.S. 809 (1986). The district court found that plaintiff’s “only” trade secret theory “calls into question the named inventors of the ’713 Family of Patents,” and requires resolving “how the claims within the ’713 Family of Patents should be construed and whether [defendant’s] use of the ACPI standard necessarily used the ’713 Family of Patents.” Appx12. Unsurprisingly, the district court found that this dispute warranted federal jurisdiction because plaintiff’s single theory “necessarily raises” “patent issues.” Appx8.

The panel held, however, that a trade secret claim based on “who should have been a named inventor” of a patent family (Appx9) does not “necessarily raise substantial patent law issue[s]” because plaintiff’s only “burden was to satisfy the ownership standards for trade secrets under California law rather than to prove [who] is the inventor of the ’713 patent.” ADD8. The panel also asserted, contrary to the district court’s findings, that plaintiff’s trade secret theory required “no construction of the patent claims” even though plaintiff’s only theory of misappropriation was based on reading the ’713 Patent Family claims onto an industry standard, which in

turn, was the basis for recovering a royalty on all standard-compliant products. ADD9.

The panel’s ruling directly conflicts with *Gunn* and *Dennison* because the panel ignored plaintiff’s actual claim. By creating a state law theory that plaintiff never advanced, the panel performed an end run around *Gunn*’s holding that resolving a patent law issue meets the “necessarily raises” requirement. 568 U.S. at 258. The panel also ignores *Dennison*’s express requirement to “explain why” it failed to defer to the district court’s finding that plaintiff has consistently conceded that its state trade secret cause of action turns on an invention’s conception.

The panel also improperly removed the important safety valve of removability under 28 U.S.C. §1454 by misconstruing its language and disregarding its express purpose. The America Invents Act (“AIA”) added §1454 to allow removal based on a patent counterclaim. *Id.* In drafting §1454, Congress “expand[ed] the removal jurisdiction of Federal district courts to the detriment of the States,” reasoning that state law claims that generated a patent counterclaim should be removed. H.R. Rep. No. 109-407, 5-6; 28 U.S.C. §1454(d). Thus, Congress statutorily overruled *Holmes Group v. Vornado Air Circulation Sys., Inc.*, 535 U.S. 826 (2002), and clarified that state law claims that spawn (and are intertwined with) patent counterclaims should be heard in federal court. H.R. Rep. No. 109-407 at 18.

The panel opinion departs from the plain language of §1454 and

Congressional intent. The panel ruled the term “assert” in §1454 (enacted in September 2012) is synonymous with the word “brought” in §1441 (originally inserted in 1875). But Congress deliberately chose not to use the word “brought” in §1454, and the plain meaning of the word it did use, “assert,” along with the legislative history, show that equating the two is wrong. The panel’s decision nullifies Congress’ intent by returning to the *Holmes Group* rule.

Rehearing, or *en banc* review, is necessary.

FACTUAL BACKGROUND

Appellees (collectively, “Acer”) are assignees and owners of U.S. Patent No. 5,410,713, “Power Management System for a Computer,” and three later continuations (collectively, “’713 Patent Family”). ADD3. Appellants sued Acer for trade secret misappropriation and other claims in California state court. *Id.*

“After more than three years of litigation” (ADD2) Acer sought to remove the case because, shortly before trial, Appellants finally revealed their sole, patent-based claim in expert reports and depositions. ADD4, ADD6-7.¹ Based upon this last-minute revelation, Acer asserted inventorship counterclaims and removed the case.

¹ Neither the district court nor the panel accepted Appellants’ argument that Acer had untimely removed the case. Appx2, Appx37 (“[A]fter more than three years of litigation..., plaintiff produced three expert reports [which] [t]ogether [with] the expert testimony revealed for the first time that plaintiff’s entire theory of liability necessarily depends on plaintiff showing that Bierman, and not Acer’s employees, conceived of the invention claimed by the ’713 patents.”)

ADD5. Acer timely asserted, “lodged,” and served its declaratory judgment counterclaims. *Id.*

The district court denied Appellants’ subsequent remand motion citing its jurisdiction under §§1441 and 1454. ADD6.

The district court then made several factual findings.

The court found that plaintiff “only advanced one theory of liability” which “boils down to an inventorship dispute.” Appx8, Appx12, Appx14. To prove misappropriation, plaintiff “construed the scope and meaning of claims within the ’713 Family of Patents” and then “compare[d] the ACPI standard to the ’713 patents, rather than the trade secrets themselves.” Appx4, Appx12. On that basis alone, plaintiff claimed “damages for each ACPI-compliant Acer computer.” Appx8. The district court therefore found that “the only theory plaintiff has advanced necessarily raises at least two federal patent law issues”: “an inventorship dispute” and “how the claims within the ’713 Family of Patents should be construed and whether Acer’s use of the ACPI standard necessarily used the ’713 Family of Patents.” Appx12.

Finding that “plaintiff never comes close to describing a different theory of liability that does not necessarily raise at least the inventorship, infringement, and claim construction issues,” (Appx10) the district court observed that “[p]laintiff cannot sidestep federal jurisdiction based on the mere possibility an alternative theory of liability exists but will not actually be pursued.” Appx13. “If that were the

case, a plaintiff asserting state law causes of action could always defeat the *Gunn* test.” Appx14. Indeed, it found that Appellants were “provided ... numerous chances to disavow the federal patent law inventorship dispute. [They] declined.” Appx11. Applying the balance of the *Gunn* factors, the district court found that the inventorship, claim construction, and infringement issues are disputed and are substantial federal issues, and that the federal-state balance supports removal. Appx.14-15.

The district court also ruled that §1454 jurisdiction was appropriate even though the state court had not yet allowed Acer’s counterclaim because Acer had “asserted” its claim per §1454 by lodging it with the state court and serving it. *Id.*

On appeal, the panel acknowledged the district court’s factual findings that Appellants had “only advanced one theory of liability” and the case “boil[ed] down to an inventorship dispute” because “the inventorship issue” was the “only theory of its case.” ADD6.

The panel did not acknowledge the district court’s observation that “a plaintiff asserting state law causes of action could always defeat the *Gunn* test” if removal was barred “based on the mere possibility an alternative theory of liability exists” that “will not actually be pursued.” Appx13-14. Instead, the panel did exactly that, announcing that plaintiff’s “burden was to satisfy the ownership standards for trade secrets under California law rather than to prove [who] is the inventor of the ’713

patent” and that proving misappropriation under state law theoretically “required no construction of the patent claims or proof that Acer’s products ‘infringed.’” ADD8. Additionally, the panel ruled because Appellants hypothetically *could have* (but actually did not) rely on a non-patent theory of trade secret use, Acer had not “establish[ed] that Intellisoft’s trade secret claim necessarily raised patent law issues.” ADD7-9. The panel did not explain why its hypothetical version of Appellants’ trade secret action was relevant here.

The panel also reversed the district court’s determination that there was jurisdiction under 28 U.S.C. §1454 because it concluded Acer’s counterclaim was not “operative” and thus not “assert[ed]” where the state court judge had not yet allowed it. ADD11. The panel therefore reversed with instructions to remand the case to the state court. ADD15.

ARGUMENT

I. THE PANEL’S DECISION SQUARELY CONFLICTS WITH SUPREME COURT PRECEDENT

A. The Panel’s Decision Conflicts With *Gunn*

Gunn holds that when the basis for a state law claim requires “application of patent law to the facts” of the case, resolution of a federal patent question is “necessary” for purposes of federal court jurisdiction. 568 U.S. at 258-59. Carefully applying *Gunn* to the trade secret claim here, the district court made the uncontested finding that the *only* factual basis for Appellants’ misappropriation claim, at the time

of removal, was Appellants' claimed inventorship of claim 1 of the asserted patents and Acer's alleged infringement of those claims. *Supra* 5-7. The district court's application of patent law governing inventorship, claim construction and infringement meets the "necessary" requirement under *Gunn*, whereas the panel's decision conflicts with *Gunn* in concluding otherwise.

The panel's decision further creates an intra-circuit conflict with *Jang v. Boston Sci. Corp.* which properly applies *Gunn*. 767 F.3d 1334 (Fed. Cir. 2014). *Jang* involved a state court contract claim over assignment of various patent claims. *Id.* at 1337. Because the *Jang* court found that the district court "may be called upon to determine the extent to which validity is made relevant to the resolution of the breach-of-contract claim," it ruled that federal jurisdiction was appropriate. *Id.*; accord *Additive Controls & Measurement Sys., Inc. v. Flowdata, Inc.* 986 F.2d 476, 478 (Fed. Cir. 1993) (federal jurisdiction over state law disparagement claims where allegedly disparaging statement was an accusation of patent infringement, and liability depended on resolution of patent law issue); *Hunter Douglas, Inc. v. Harmonic Design, Inc.*, 153 F.3d 1318, 1329 (Fed. Cir. 1998), *overruled on other grounds by Midwest Indus., Inc. v. Karavan Trailers, Inc.*, 175 F.3d 1356 (Fed. Cir. 1999) (*en banc*) ("injurious falsehood" claim based on theory that defendant falsely alleged to "hold exclusive rights to make or sell window shades covered by one or more" patents justified federal jurisdiction).

The panel’s opinion cannot be reconciled with *Gunn* or *Jang*. The panel opinion creates an alternative theory of liability—ownership and misappropriation under state law—and then uses that alternative theory to rule the patent law inventorship, claim construction, and infringement issues unnecessary for resolution. But just as the legal malpractice claim in *Gunn* could theoretically not have required resolution of patent law issues, so too here the trade secret claim could, in theory, not turn on issues of patent law. Indeed, the panel’s opinion circumvents *Gunn* in precisely the way the district court warned. It denies federal jurisdiction based on the “mere possibility an alternative theory of liability” could exist even though it “will not actually be pursued”; a standard that “could always defeat the *Gunn* test.” Appx14. Under that reasoning, the Supreme Court’s *Gunn* decision is meaningless.

B. The Panel’s Decision Conflicts With *Dennison*

The panel’s opinion also directly contradicts *Dennison*. In *Dennison*, the district court found a patent invalid as obvious. This Court reversed, disagreeing with the district court’s assessment and scope of the prior art. This Court did not, however, explain why its views of the prior art should trump the district court’s findings; the Court “did not mention Rule 52(a), did not explicitly apply the clearly erroneous standard to any of the District Court’s findings on obviousness, and did not explain why, if it was of that view, Rule 52(a) had no applicability to this issue.”

475 U.S. at 811. The Supreme Court vacated the ruling because there was no “opinion clearly setting forth the views of the Court of Appeals on these matters.”

Id.

Here, as in *Dennison*, the panel disregarded the district court’s factual findings, and substituted its own assumptions that there were other viable theories Appellants could have advanced when, in fact, there were not.² Consequently, the panel decision violated the *Dennison* rule, 475 U.S. at 811, requiring the Federal Circuit to either explicitly apply the clearly erroneous standard to the District Court’s factual findings or explain why, that standard did not apply to those factual findings.

The panel’s reliance on *Uroplasty, Inc. v. Advanced Uroscience, Inc.*, 239 F.3d 1277 (Fed. Cir. 2001), confirms its failure to explain its disregard of the district court’s findings. There, the plaintiff had, in fact, pleaded a theory that did not depend on resolving patent issues, and only included some allegations that the preparation and filing of a patent application used plaintiff’s trade secrets. *Id.* at 1280. There was no district court fact finding that plaintiff had advanced a single theory based

² This Court consistently requires deference to subsidiary factual determinations even where the ultimate question is one of law. *See, e.g., Sewell v. Walters*, 21 F.3d 411, 415 (Fed. Cir. 1994) (“[A]ny facts found . . . in reaching an inventorship holding are reviewed for clear error”); *Ferag AG v. Quipp Inc.*, 45 F.3d 1562, 1566 (Fed. Cir. 1995) (“any subsidiary fact findings must be reviewed, in this case, for clear error”); *Kahn v. Gen. Motors Corp.*, 77 F.3d 457, 459 (Fed. Cir. 1996) (patent ownership).

upon patent law questions. Here, unlike *Uroplasty*, the district court found that plaintiff's single theory of its case is grounded exclusively in patent law issues.

Had the panel complied with *Dennison*, it would have reached the unavoidable conclusion, consistent with *Gunn*, that Appellants' claim "necessarily raised" questions of patent law.

C. *En Banc* Review Is Warranted

Unless review is granted, the panel decision sanctions a vast jurisdictional sea change that will generate a host of new state trade secret cases that are inventorship and infringement disputes in disguise. Even in *Xitronix*, a case not involving trade secrets (and not involving disregard of a district court's findings), two judges of this Court thought a panel ruling involving application of *Gunn* and *Jang* warranted *en banc* review. *Xitronix Corp. v. KLA-Tencor Corp.*, 892 F.3d 1194, 1202 (Fed. Cir. 2018) (Newman, J., dissenting from denial of rehearing *en banc*) (arguing that *en banc* review of antitrust claim necessary where Plaintiff "presented no 'alternative, non-patent-law theory' for its antitrust claim") (Lourie, J., dissenting from denial of rehearing *en banc* without opinion). Here, the consequences of not reviewing the erroneous decision are far more dramatic. Under the panel decision, a dispute about who invented a patented invention and whether patent claims are infringed by an industry standard becomes a dispute resolved under state law.

Maintaining Federal Circuit jurisdiction over inventorship and infringement

disputes disguised as misappropriation claims is necessary to avoid conflicting rulings and keeping patent law determinations a function of federal courts. Misappropriation claims based on underlying inventorship, validity, and infringement issues, raise the realistic potential for subsequently arising suits affecting other parties. These other suits have the potential of resulting in conflicting rulings particularly as to inventorship, validity and infringement of the same patents. Permitting regional circuits and state courts to adjudicate questions of patent validity, for example, could result in inconsistent judgments resulting in serious uncertainty for parties facing similar infringement charges before district courts within that regional circuit.

In short, the panel's jurisdictional decision conflicts with two decisions of the Supreme Court, conflicts with decisions of this Court, and does so in a legal context of exceptional importance. *En banc* review is warranted.

II. THE PANEL DECISION IMPROPERLY RESTRICTS SECTION §1454 REMOVABILITY

The panel denied §1454 jurisdiction by improperly narrowing §1454 removability to where a patent counterclaim is “operative,” *i.e.* allowed as of right or by leave of the state court. ADD11-12. The panel reached its conclusion by equating the term “brought” in §1441 (a different removal provision) with the term “assert” in §1454. This new, substantial limit on §1454 jurisdiction contravenes the statutory text, statutory construction canons, and legislative history.

Section 1441 uses the term “brought” in the context of a plaintiff’s action that initiates a civil action. An action is brought through either an original complaint or an authorized amendment. Fed. R. Civ. P. 3, 15. Every case the panel cited involved a *plaintiff’s* claims that necessarily could be brought in state court. ADD11. Section 1454, in contrast, involves assertion of claims over which the state court could never have jurisdiction. 28 U.S.C. §1338(a). Accordingly, Congress requires only that the claim be asserted, *i.e.* that it be alleged. See “Assert,” *Black’s Law Dictionary* (11th ed. 2019) (“To state positively.”).

Other parts of the removal statute confirm the reading of “assert” to mean “allege.” See 28 U.S.C. §1446(c) (“[T]he notice of removal may assert the amount in controversy.”). The only other requirement is that the assertion must be *in* the civil action, *i.e.* filed. *Id.* §1454. At that point, removal is permitted, even though the state court could never acquire jurisdiction over the patent claims. *Id.* §1454(c).

The panel suggested that “assert” and “brought” are equivalent because §1441 also uses the term “assert,” when identifying the defendants that must agree to removal. *Id.* §1441(c)(2). That provision provides that if a complaint does not *allege* a federal cause of action against a particular defendant, that defendant need not consent to removal. There is nothing in that section that says “assert” means “brought” – it is only conjecture by the panel. To the contrary, other removal statute

provisions carefully delineate when, in the life of a claim, a defendant's obligations to consent to removal attach. *See, e.g.*, §1446(b)(2).

In equating “assert” with “brought,” the panel’s conclusion also violates statutory construction canons: “[W]here Congress includes particular language in one section of a statute but omits it in another ..., it is generally presumed that Congress acts intentionally and purposely in the disparate inclusion or exclusion.” *Keene Corp. v. United States*, 508 U.S. 200, 208 (1993).

When enacting §1454, Congress was aware of the long history of §1441, yet purposely chose to create a new removal statute, §1454, that did not require claims to be “brought.” Consequently, courts must conclude that Congress made a specific choice, and to rule otherwise, was error. *See, e.g., Central Bank of Denver v. First Interstate Bank*, 511 U.S. 164, 176-77 (1994).

Finally, the panel’s decision contravenes clear Congressional intent. Congress rejected a Federal Circuit Bar proposal to prohibit removal based on patent law counterclaims. H.R. Rep. No. 109-407 at 5-6 (rejecting amendments to §§1338 and 1441)). Congress recognized that district courts should consider not only patent law counterclaims, but also the state law claims that spawned those claims. *Id.* In doing so, Congress “ensure[d] that State courts will not adjudicate *any claim for relief* arising under any Act of Congress pertaining to patents...” while ensuring that interrelated claims could be considered together. *Id.* at 8 (emphasis added). If, as

the panel suggested, Congress' concern was only for eliminating state court jurisdiction over patent claims, the AIA's revisions to §1338(a) would have been sufficient. But Congress created a new removal statute which explicitly allowed removal of the entire case based on assertion of patent counterclaims despite the lack of jurisdiction to hear those counterclaims. *Id.* at 9, 18 (AIA "creates a new Federal removal statute (28 U.S.C. §1454) that would allow patent issues in a State action to be removed to U.S. district court....")

The panel incorrectly proffered it would be "anomalous" for a defendant's time to file a notice of removal to start upon a plaintiff's allegation of a patent claim but before the state court had permitted the filing of such a claim. ADD12. Far from anomalous, that is how Congress structured §1454 because state courts cannot properly exercise jurisdiction over the claims §1454 covers. H.R. Rep. No. 109-407 at 9, 18 and §1338(a). Congress recognized that issue and nevertheless provided for removal despite the lack of jurisdiction. *Id.* §1454(c). The panel's cited cases—which turn on the state court properly obtaining jurisdiction over federal causes of action state courts are *permitted* to hear—are inapposite. Indeed, the panel's requirement that a state court first grant permission to assert a claim over which it lacks jurisdiction as a prerequisite for removal is anomalous because:

- (1) §1454 permits removal when a patent claim is asserted in the initial complaint, or in a counterclaim filed as of right, but not if the same claim

- is raised in a filed, but not approved, amendment;
- (2) in states where amendments can occur without leave, a patent claim or counterclaim in an amended pleading can be removed, but not in states where leave is required (and denied); and
- (3) litigants are allowed to remove when a state court grants leave, but are denied removal when a state court judge decides that an amendment would be futile because it lacks jurisdiction over the patent counterclaims.

The panel's *dicta* suggesting that state courts should deny leave to assert counterclaims as a means of limiting jurisdiction over patent claims is also incorrect and should be removed from the opinion. ADD14. State courts have no jurisdiction over patent claims, so there is nothing to limit. Allowing amendment (and removal) has the salutary effect of promoting efficiency, as Congress intended. H.R. Rep. No. 109-407 at 18 (“[§ 1454] promotes administrative efficiencies by obviating the need for a state litigant to file a second suit to address patent claims in federal court.”). Thus, the panel's suggestion that a separate federal declaratory judgment action would suffice—which is what the Federal Circuit Bar proposed—is precisely what Congress rejected. *Id.*

Indeed, the panel's reasoning sweeps far beyond this case. It abdicates the federal judiciary's removal determinations to the permissive whims of state courts. As the district court noted, federal jurisdiction questions would then often turn on

where the state court case is venued. Appx18-19. Had this case been filed in Illinois rather than California, the panel presumably would have reached a contrary decision on §1454 jurisdiction. *Id.* The Federal Circuit should not permit federal jurisdiction to turn on the accident of state procedural rules and/or the discretion of individual state court judges. Congress did not intend, and §1454 does not allow, such a result because Congress sought “to prevent the inconsistencies that may develop once more by allowing multiple forums to hear patent cases,” when it enacted §1454. H.R. Rep. No. 109-407 at 19.

The panel sought to justify its ruling by suggesting that it furthers the policy of keeping patent claims out of state court. ADD14. That is incorrect. Patent claims may *not* be adjudicated in state court because of other changes the AIA effected. *See* 28 U.S.C. §1338. The panel’s concerns are unfounded and will generate duplicative litigation directly contrary to Congress’ intent. H.R. Rep. No. 109-407 at 18. *En banc* review is necessary to reestablish the appropriate federal-state jurisdictional balance created by Congress in the AIA.

CONCLUSION

For the foregoing reasons, Acer respectfully requests that this Court grant the petition.

Dated: May 4, 2020

Respectfully submitted,

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CERTIFICATE OF COMPLIANCE

1. This petition for rehearing en banc complies with the type-volume limitation of Fed. R. App. P. 35(b)(2)(A) because it contains 3,893 words, excluding the parts of the petition exempted by Fed. Cir. R. 35(c) and 40(c).

2. This brief complies with the typeface requirements of Federal Rule of Appellate Procedure 32(a)(5) and the typestyle requirements of Federal Rule of Appellate Procedure 32(a)(6) because it has been prepared in a proportionally spaced typeface using Microsoft Office Word in Times New Roman 14-point font.

Dated: May 4, 2020

/s/ Harold H. Davis, Jr.

Harold H. Davis, Jr.

*Counsel for Acer America
Corporation and Acer Incorporated*

**United States Court of Appeals
for the Federal Circuit**

**INTELLISOFT, LTD., A DELAWARE
CORPORATION,**
Plaintiff/Counterclaim Defendant-Appellant

BRUCE BIERMAN, AN INDIVIDUAL,
Counterclaim Defendant-Appellant

v.

**ACER AMERICA CORPORATION, A CALIFORNIA
CORPORATION, ACER INCORPORATED, A
TAIWAN CORPORATION,**
Defendants/Counterclaimants-Appellees

2019-1522

Appeal from the United States District Court for the
Northern District of California in No. 4:17-cv-06272-PJH,
Judge Phyllis J. Hamilton.

Decided: April 3, 2020

AARON MARTIN PANNER, Kellogg, Hansen, Todd, Figel
& Frederick, P.L.L.C., Washington, DC, argued for plain-
tiff/counterclaim defendant-appellant and counterclaim
defendant-appellant. Also represented by COLLIN WHITE.

MATTHEW GORDON BALL, K&L Gates LLP, San Francisco, CA, argued for defendants/counterclaimants-appellees. Also represented by JASON NATHANIEL HAYCOCK; THEODORE J. ANGELIS, JEFFREY CHARLES JOHNSON, Seattle, WA; ANDREW SPIELBERGER, Balaban And Spielberger LLP, Los Angeles, CA.

Before DYK, O'MALLEY, and CHEN, *Circuit Judges*.

DYK, *Circuit Judge*.

Intellisoft, Ltd. (“Intellisoft”) and its president Bruce Bierman (collectively, “appellants”) sued Acer America Corporation and Acer Inc. (collectively, “Acer”) in California state court, asserting various state law claims, including misappropriation of trade secrets. After more than three years of litigation, Acer sought to plead a patent inventorship counterclaim under federal law and thereafter removed the action to the United States District Court for the Northern District of California. The district court denied Intellisoft’s motion to remand and later entered final judgment in favor of Acer.

We conclude that the district court erred by holding that removal was proper under 28 U.S.C. §§ 1441 and 1454. We thus reverse the district court’s decision refusing to remand, vacate the district court’s judgment, and remand to the district court with instructions to remand the action to California state court.

BACKGROUND

This case originated from a business relationship between the appellants and Acer dating back to the early 1990s. At that time, the appellants allegedly shared with Acer trade secrets concerning computer power management technology under a non-disclosure agreement (“NDA”). According to the appellants, the NDA allowed

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Acer's use of their "Confidential Information" only to "directly further" the evaluation of Intellisoft's product for licensing and restricted Acer from "manufactur[ing] parts or components incorporating the Confidential Information." J.A. 406; Appellants' Br. 5. The appellants claim that they discovered in the early 2010s that Acer had applied for a patent that incorporated their trade secrets and became the owner of U.S. Patent No. 5,410,713 ("the '713 patent"). The appellants concluded that Acer had misappropriated their trade secrets and violated the NDA.

In March 2014, the appellants filed suit against Acer in California state court, asserting that Acer misappropriated their trade secrets by incorporating them into patent applications that issued as the '713 patent and three other related patents ("the '713 patent family").¹ The complaint also asserted that Acer unlawfully "incorporate[ed] [their] Confidential Information, products, and/or technology in Acer products without having a license." J.A. 392. The complaint alleged various other state law claims as well.

In May 2015, Bierman assigned his ownership interest in the trade secrets to Intellisoft and dismissed his claims in the state court action. On September 25, 2015, Intellisoft filed the operative Fourth Amended Complaint in state court. On October 26, 2015, Acer filed an answer.

In September 2017, Intellisoft produced three expert reports concerning liability and damages on the trade secret claim. First, Intellisoft's expert Irving Rappaport concluded that "trade secret and confidential information described in the [']713 [patent] family . . . were created by . . . Bierman," J.A. 2213, and "[he] should have been named [at least] as a co-inventor of the [']713 patent," J.A. 2237. During his deposition, Mr. Rappaport stated that "this is

¹ The three related patents are U.S. Patent Nos. 5,870,613; 5,884,087; and 5,903,765.

not an inventorship dispute case. It just happens to be the facts in this case.” J.A. 1794.

Second, Intellisoft’s expert Robert Zeidman opined that “Intellisoft’s trade secrets were disclosed by Acer in the patent specifications,” pointing to the written description and claims of the ’713 patent family as corresponding to various aspects of the purported trade secrets. J.A. 2276. He also concluded that Acer’s computer products could not comply with the Advanced Configuration and Power Interface (“ACPI”), an industry power management standard, without using the technology disclosed in the ’713 patent family. Because the ’713 patent family incorporated the trade secrets, Mr. Zeidman concluded that the computer products “would [have] need[ed] to incorporate Intellisoft’s trade secrets.” J.A. 2276–77.

Lastly, Intellisoft’s expert Brian Napper, relying on Mr. Zeidman’s report, and assuming that all Acer computers complied with the ACPI industry standard and incorporated the trade secrets, calculated damages based on a theory that Acer should have paid Intellisoft royalties for using the trade secrets.

Trial was scheduled to begin in November 2017. On October 30, 2017, Acer “e-filed” a “Cross-Complaint of Acer Defendants for Declaratory Relief” against the appellants, seeking a declaration that “Bierman properly was not named as an inventor of any of the ’713 Family of Patents and . . . is not entitled to an inventorship correction under 35 U.S.C. § 256.” J.A. 622. Referring to Mr. Rappaport’s expert report and deposition, Acer alleged that “Bierman [was] asserting an inventorship claim,” J.A. 624, and sought declaratory relief that “Bierman properly was not named as an inventor of [the ’713 patent family],” J.A. 622.

In California state court, a party may file a “cross-complaint” setting forth a “cause of action he has against any of the parties who filed the complaint . . . against him.” Cal. Civ. Proc. Code § 428.10(a). Such a “cause of action”

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is equivalent to a counterclaim under the Federal Rules of Civil Procedure Rule 13. Acer was required to “obtain leave of court to file [the] cross-complaint” because it had already filed its answer to Intellisoft’s complaint. *See* Cal. Civ. Proc. Code § 428.50(c). The state court confirmed that Acer’s “Cross-Complaint is considered **lodged** (pending approval of a stipulation & proposed order for filing of same, or absent a stipulation & order, an ex parte application/order).” J.A. 1388 (emphasis in original).

Also on October 30, 2017, Acer removed the action to the United States District Court for the Northern District of California under (1) 28 U.S.C. § 1441 providing removal of an action which the district court would have original jurisdiction and (2) 28 U.S.C. § 1454 providing removal of an action where a party asserts a patent counterclaim. In its Notice of Removal, Acer stated that section 1441 removal was proper because Intellisoft’s state law claim for trade secret misappropriation arose “under federal patent law—specifically, 35 U.S.C. § 256.”² J.A. 303. Acer’s basis for section 1441 removal was also Mr. Rappaport’s opinion that “Bierman should have been named as an inventor” under federal patent law. J.A. 302. Acer asserted that removal was proper under section 1454 because its cross-complaint alleged a patent inventorship claim. After removal, on November 20, 2017, Acer filed a First Amended Counterclaim, seeking a declaration under 35 U.S.C. § 256 that Bierman properly was not named an inventor of the ’713 patent family. Acer alleged that Intellisoft “intended

² Intellisoft also pleaded claims for breach of contract, intentional misrepresentation and fraudulent concealment, and accounting in its Fourth Amended Complaint. Acer argues only that the trade secret claim raised a federal issue.

to . . . try numerous other patent law issues, including patentability, patent validity, claim construction, and patent infringement.” J.A. 1283.

On November 27, 2017, Intellisoft moved the district court to remand the action to state court. Intellisoft argued that there was no disputed federal issue because its state law trade secret claim did “not require determination of inventorship” under federal patent law and Acer’s cross-complaint was not “[o]perative” due to Acer’s failure to obtain leave of court. *Intellisoft, Ltd. v. Acer Am. Corp.*, No. 17-CV-06272 (N.D. Cal. 2017), ECF 21 at 2, 12, 20.

The district court denied Intellisoft’s motion to remand. It held that section 1441 removal was proper because Intellisoft “ha[d] only advanced one theory of liability and that theory necessarily raise[d] substantial patent law issues,” J.A. 16, and the case “boil[ed] down to an inventorship dispute,” J.A. 12. The district court concluded that “the inventorship issue [wa]s not just an alternate theory that [the] plaintiff might [have] use[d] to show liability and damages” but was the “only theory of its case.” J.A. 10. The district court also held that section 1454 removal was proper, reasoning that the statute did not require the patent counterclaim to be pleaded in an operative pleading and that it did not matter “[w]hether or not defendants’ cross-complaint was allowed by the [state] court.” J.A. 17–18.

Having declined to remand the case to state court, in December 2018, the district court granted summary judgment in favor of Acer with respect to Intellisoft’s state law claims, reasoning that Intellisoft failed to prove under federal patent law that Bierman was the inventor of the ’713 patent family claims. Based on this failure, the district court concluded that Intellisoft could not show trade secrets ownership and damages. It also held that the claims were time barred. The parties thereafter stipulated to an entry of judgment on the inventorship counterclaim

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in favor of Acer. In February 2019, the district court entered final judgment in favor of Acer based on its summary judgment on Intellisoft's state law claims and the parties' stipulation regarding Acer's inventorship counterclaim.

The appellants appeal, arguing that removal was improper and seeking a remand to state court. We have jurisdiction under 28 U.S.C. § 1295(a)(1).

DISCUSSION

I. Section 1441 Removal

We first consider whether removal was proper under section 1441. That section generally provides that “any civil action brought in a State court of which the district courts of the United States have original jurisdiction, may be removed by the defendant or the defendants, to the district court of the United States.” 28 U.S.C. § 1441(a). Section 1338(a) of Title 28 provides in part that the “district courts shall have original jurisdiction of any civil action arising under any Act of Congress related to patents.” The propriety of section 1441 removal depends here on whether Intellisoft's state law claims could be brought in federal court pursuant to section 1338. We review *de novo* whether the district court had section 1338 jurisdiction, and apply Federal Circuit law. *Microsoft Corp. v. GeoTag, Inc.*, 817 F.3d 1305, 1311 (Fed. Cir. 2016).

When a plaintiff brings only a state law claim, as here, the district court will have original jurisdiction “over [the] state law claim . . . if a federal issue is: (1) necessarily raised, (2) actually disputed, (3) substantial, and (4) capable of resolution in federal court without disrupting the federal-state balance approved by Congress.” *Gunn v. Minton*, 568 U.S. 251, 258 (2013). The Supreme Court has explained that only a “special and small category” of cases would meet all four requirements. *Id.* (quoting *Empire Healthchoice Assurance, Inc. v. McVeigh*, 547 U.S. 677, 699 (2006)).

Addressing the first prong in the *Gunn* test, Acer contends that Intellisoft's trade secrets misappropriation claim necessarily raised patent law issues: (1) Intellisoft had to prove Bierman is the sole inventor of the '713 patent family to establish ownership of the trade secrets and (2) Intellisoft's expert offered a claim construction and infringement analysis with respect to the '713 patent family to show liability and damages.

Acer's arguments do not establish that Intellisoft's trade secret claim necessarily raised patent law issues. First, Intellisoft did not need to prove inventorship under federal law to establish ownership. Although Intellisoft's expert Mr. Rappaport stated that Bierman was an inventor of the claims in the '713 patent family as a factual matter, Intellisoft did not need to prove that statement was true but needed to show only that Intellisoft by assignment from Bierman was the owner of the trade secrets. In other words, Intellisoft's burden was to satisfy the ownership standards for trade secrets under California law rather than to prove that Bierman is the inventor of the '713 patent family, and ownership under state law did not require proof of patent inventorship. The ownership issue thus did not necessarily depend on patent laws.

Second, Intellisoft did not need to establish patent infringement to prove trade secrets misappropriation. Here, Intellisoft's expert Mr. Zeidman compared the trade secret, '713 patent family, and ACPI standard to conclude that Acer misappropriated the trade secrets by incorporating them into the patents and Acer "would [have] need[ed] to incorporate [the] trade secrets" into its products to comply with the ACPI, a standard by itself that incorporated the trade secrets disclosed by the patents. J.A. 2277. Intellisoft had to show only that Acer misappropriated ("used" or "disclosed") the trade secrets under California state law. See Cal. Civ. Code § 3426.1. The '713 patent family was only being used as evidence to support Intellisoft's state law claims. This analysis required no construction of the

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patent claims or proof that Acer's products "infringed" the '713 patent family under 35 U.S.C. § 271.

Third, Intellisoft's damages case did not necessarily depend on the resolution of patent law issues. Its expert Mr. Napper calculated damages in the form of royalties that Intellisoft would have received from Acer for using the trade secrets since 1997, assuming a royalty rate from the parties' 1992 software agreement. But this agreement was a software license for Intellisoft's Bookmark product and it neither included a patent license nor referenced the '713 patent family. Mr. Napper's damages calculation also presumed that Acer's products incorporated the trade secrets based on Mr. Zeidman's analysis. To prove such damages, however, Intellisoft did not need to establish that Acer's products infringed the '713 patent family. Thus, the damages issue also did not necessarily depend on the resolution of patent law issues.

We have made clear that a plaintiff's reliance on a patent as evidence to support its state law claims does not necessarily require resolution of a substantial patent question.

In *Uroplasty, Inc. v. Advanced Uroscience, Inc.*, 239 F.3d 1277 (Fed. Cir. 2001), the plaintiff alleged that its former executive officer, who became the defendant's chairman, "used and divulged [the plaintiff's] trade secrets . . . by acts that included the preparation and filing of [the defendant's patent] application." *Id.* at 1279–80. We held that "[t]he . . . patent may be evidence in support of [the plaintiff's] allegations, but the mere presence of the patent does not create a substantial issue of patent law." *Id.* at 1280. Thus, the plaintiff's reliance on a patent to prove misappropriation of trade secrets did not "necessarily depend[] on resolution of a substantial question of federal patent law." *Id.* at 1279–80 (quoting *Christianson v. Colt Indus. Operating Corp.*, 486 U.S. 800, 809 (1988)). We have

reached similar conclusions in other cases. *See Bd. of Regents, Univ. of Tex. Sys., ex rel. Univ. of Tex. at Austin v. Nippon Tel. & Tel. Corp.*, 414 F.3d 1358, 1362–63, 1365 (Fed. Cir. 2005) (state law claim of tortious interference did not necessarily require resolution of a federal patent law issue just because the plaintiff sought to show ownership of information incorporated into its U.S. patent); *Krauser v. BioHorizons, Inc.*, 753 F.3d 1263, 1265–67, 1269 (Fed. Cir. 2014) (state law claim of ownership of the defendants’ dental systems allegedly incorporated in the defendants’ patents did not depend on resolution of a federal patent law issue); *id.* at 1269 (“A claim of ownership does not necessarily require consideration of patent law inventorship.” (emphasis in original)).

The Tenth Circuit likewise held that using a patent as evidence for a misappropriation claim does not give rise to section 1338 jurisdiction in *Russo v. Ballard Med. Prod.*, 550 F.3d 1004 (10th Cir. 2008). In *Russo*, the plaintiff allegedly shared trade secrets concerning catheter devices with the defendants under a confidential disclosure agreement. *Id.* at 1007–08. The plaintiff asserted that the defendants’ patents misappropriated his trade secrets. *Id.* at 1010. The court held that “the fact that patents may be used as evidence in aid of a trade secret claim is not the same thing as raising a substantial (or really, any) question of federal patent law.” *Id.* (citing *Uroplasty*, 239 F.3d at 1280).

Because Intellisoft’s trade secret claim did not “necessarily depend[] on resolution of a substantial question of federal patent law,” *Uroplasty*, 239 F.3d at 1279 (quoting *Christianson*, 486 U.S. at 809), we need not address other prongs of the *Gunn* test. The district court did not have jurisdiction under section 1338(a), and the state law claims could not be removed under section 1441.

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II. Section 1454 Removal

Acer alternatively claims that removal was proper under section 1454 because of its inventorship counterclaim. Section 1454 provides:

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.

28 U.S.C. § 1454(a). We review de novo and apply Federal Circuit law on whether removal was proper under section 1454. *See GeoTag*, 817 F.3d at 1311.

Acer argues that the language “action in which any party asserts a claim for relief” of section 1454 did not require it to plead the counterclaim in an operative cross-complaint. According to Acer, what matters is that the cross-complaint was purportedly “filed”—received by the state court—regardless of whether it was legally operative. We disagree.

We conclude that removal under section 1454, like removal under section 1441, requires that the claim supporting removal must be contained in an operative pleading. Section 1441 allows removal if an action over which the district court would have original jurisdiction was “brought” in the state court. Courts have held that a claim is “brought” under section 1441 only after the claim supporting federal jurisdiction is pleaded in an operative complaint as opposed to a proposed amendment. *Sullivan v. Conway*, 157 F.3d 1092, 1094 (7th Cir. 1998) (“Until the state judge granted the motion to amend, there was no basis for removal. Until then, the complaint did not state a federal claim. It might never state a claim, since the state judge might deny the motion.”); *Freeman v. Blue Ridge Paper Prod., Inc.*, 551 F.3d 405, 410 (6th Cir. 2008).

It is evident that “assert” in section 1454 has the same meaning as “brought” in section 1441. In section 1441, Congress provided that “[o]nly defendants against whom a [federal claim] has been asserted are required to join in or consent to the removal.” 28 U.S.C. § 1441(c)(2) (emphasis added). Thus, section 1441 itself uses the word “asserted” as equivalent to the term “brought.” Similarly, many other statutes assume that the “brought” language means that the claim giving rise to jurisdiction was asserted. *See, e.g.*, 35 U.S.C. § 271(e)(5) (federal courts have “subject matter jurisdiction in any action brought” under certain Hatch-Waxman provisions); 19 U.S.C. § 1337(f)(2) (the government may recover penalty in “a civil action brought” by the International Trade Commission); 28 U.S.C. § 1332(d)(1)(B), (3)(D) (class action definition and exercise of jurisdiction concern an action “brought” by one or more representatives). We conclude that removal based on an “asserted” claim for relief under section 1454 requires that it must be included in an operative pleading.

A contrary interpretation would mean that the defendant’s time to file a notice of removal would begin to run even if the claim had no effect because it was yet to be made part of the case, and would “have the anomalous effect that the removed case lacks federal jurisdiction at the time that it is removed.” *Freeman*, 551 F.3d at 410; *Carvalho v. Equifax Info. Servs., LLC*, 629 F.3d 876, 885 (9th Cir. 2010) (“It is axiomatic that a case cannot be removed before its inception.”); *Reyes v. Dollar Tree Stores, Inc.*, 781 F.3d 1185, 1189 (9th Cir. 2015) (tentative class certification ruling had no “jurisdictional effect”). Consistent with this view, we have held that the defendant’s right to removal depends on the “pleading operative at the time” of removal and not on later amendments. *Bd. of Regents*, 414 F.3d at 1360 n.* (citing *Pullman Co. v. Jenkins*, 305 U.S. 534, 537 (1939)); *see also Abada v. Charles Schwab & Co.*, 300 F.3d 1112, 1117 (9th Cir. 2002).

Here, Acer's cross-complaint was not a legally operative pleading when it removed the action. Under California law, Acer could have filed the cross-complaint as a matter of right before or at the same time as its answer to the complaint. Cal. Civ. Proc. Code § 428.50(a). But, after that time, Acer was required to "obtain leave of court to file [the] cross-complaint." *Id.* § 428.50(c). California courts have held that a pleading was "ineffective" where the party seeking to file the pleading did not obtain the required leave of court. *People v. Oken*, 324 P.2d 58, 61 (Cal. Ct. App. 1958); see also *Morrow v. Carona*, No. E030000, 2002 WL 1832899, at *2 (Cal. Ct. App. Aug. 12, 2002) (unpublished). Acer admits that the cross-complaint was not legally operative under state law and it would have "needed leave to amend to file the counterclaim." Oral Argument 22:15–21, available at <http://oralarguments.cafc.uscourts.gov/default.aspx?fl=2019-1522.MP3>. The district court itself agreed that "[Acer's] cross-complaint did not become operative . . . under the California Code of Civil Procedure." J.A. 4. Because Acer's cross-complaint was not operative, it was never "asserted" under section 1454 and thus there was no basis for removal.

We reach our conclusion by looking at state law not to interpret the patent statute but to determine whether a party satisfied the criteria set forth in that statute. This approach is consistent with *Shamrock Oil & Gas Corp. v. Sheets*, 313 U.S. 100 (1941), which concerned an earlier and different statute, § 28 of the Judiciary Code,³ that allowed "the defendant or defendants" to remove based on diversity jurisdiction. *Id.* at 103–04. There the Supreme Court held that the word "defendant" was to be construed under Congress's "own criteria, irrespective of local law," and that its meaning excluded the plaintiff who initiated the action

³ This statute was codified as 28 U.S.C. § 71 at that time.

even if a counterclaim was asserted against him. *Id.* at 104, 108. Similarly, here we construe “assert” in section 1454 under Congress’s criteria irrespective of how state courts would interpret that word.

Treating an inoperative patent counterclaim as not being “asserted” is consistent with Congressional policy. Congress intended to keep claims arising under patent laws out of state court proceedings by conferring jurisdiction to only federal courts. *See* 28 U.S.C. § 1338(a). Denying leave to file a federal patent counterclaim in state court is fully consistent with the policy that patent claims should not be litigated in state courts. Any refusal to entertain federal patent claims in state court would serve the purpose of limiting state court jurisdiction over federal patent claims. We note that if the state court denied leave to file the patent counterclaim, Acer would still not have been deprived of its claim because it had “an alternative way to present [its] patent claim[] on the merits in federal court: a separate federal declaratory judgment action.” *Preston v. Nagel*, 857 F.3d 1382, 1386 (Fed. Cir. 2017).

As an alternative ground, Acer argues that its amended counterclaim filed in federal court after removal satisfied section 1454. There is no merit to this argument because we have repeatedly held that “[i]t is only the pleading operative at the time the petition to remove was filed . . . that is relevant to determining [the] right to remove[,]” not later amendments. *Bd. of Regents*, 414 F.3d at 1360 n.* (discussing §§ 1338 and 1441 removal); *Air Measurement Techs., Inc. v. Akin Gump Strauss Hauer & Feld, L.L.P.*, 504 F.3d 1262, 1268 n.8 (Fed. Cir. 2007) (same); *see also Additive Controls & Measurement Sys., Inc. v. Flowdata, Inc.*, 986 F.2d 476, 477 (Fed. Cir. 1993). Section 1454 includes no language that justifies a treatment different from other removal statutes.

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Accordingly, we hold that Acer's removal under section 1454 was improper because the October 30, 2017, cross-complaint was not legally operative.

CONCLUSION

For the foregoing reasons, we vacate the district court's judgment and reverse its denial of Intellisoft's motion to remand. We need not resolve the question of whether removal was timely. On remand, the district court must remand the action to California state court.⁴

VACATED, REVERSED, AND REMANDED

COSTS

Costs to the appellants.

⁴ In ordering remand to state court, we, of course, do not express any opinion concerning the merits of Intellisoft's state law claims.

CERTIFICATE OF SERVICE

I certify that on May 4, 2020, I caused a copy of the foregoing document to be served by electronic means via the Court's CM/ECF system on all counsel registered to receive electronic notices.

Dated: May 4, 2020

/s/ Harold H. Davis, Jr.

Harold H. Davis, Jr.

*Counsel for Acer America
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