UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

CIVIL MINUTES – GENERAL

Case No.	LA CV15-00992 JAK (PLAx)	Date	December 28, 2015
Title	Allergan, Inc. et al v. Ferrum Ferro Capital, LLC et al		

Present: The Honorable	JOHN A. KRONSTADT, UNITED STATES DISTRICT JUDGE
Andrea Keifer	Not Reported
Deputy Clerk	Court Reporter / Recorder
Attorneys Present for Plaintiffs:	Attorneys Present for Defendants:
Not Present	Not Present

Proceedings: **(IN CHAMBERS) ORDER RE JURISDICTION (DKT. 43); DEFENDANTS' MOTION TO STRIKE COMPLAINT (DKT. 26); DEFENDANTS' MOTION TO STAY DISCOVERY, DKT. 28; AND PLAINTIFFS' MOTION TO FILE A FIRST SUPPLEMENTAL COMPLAINT AND STRIKE ARGUMENTS FIRST RAISED IN DEFENDANTS' REPLY BRIEF, DKT. 63**

I. Introduction

Allergan, Inc. and Allergan Sales, LLC ("Plaintiffs") brought this action against Ferrum Ferro Capital, LLC ("FFC") and Kevin Barnes (collectively "Defendants"). Complaint, Dkt. 1. The Complaint advances three causes of action, each of which arises under California law: (1) attempted civil extortion;[1] (2) malicious prosecution;[2] and (3) unfair competition.[3] Cal. Bus. & Prof. Code. §§ 17200 *et. seq.* As the basis for

[1] "Extortion is the obtaining of property from another, with his consent, or the obtaining of an official act of a public officer, induced by a wrongful use of force or fear, or under color of official right." Cal. Penal Code § 518. Plaintiff claims that Defendants' conduct constitutes attempted extortion under Cal. Penal Code § 519 (defining the types of fear that may constitute extortion), §523 ("Every person who, with intent to extort any money or other property from another, sends or delivers to any person any letter or other writing, whether subscribed or not, expressing or implying, or adapted to imply, any threat such as is specified in Section 519, is punishable in the same manner as if such money or property were actually obtained by means of such threat.") and §524 ("Every person who attempts, by means of any threat, such as is specified in Section 519 of this code, to extort money or other property from another is punishable by imprisonment in the county jail not longer than one year or in the state prison or by fine not exceeding ten thousand dollars ($10,000), or by both such fine and imprisonment."). Complaint, Dkt. 1 ¶ 64. Under California law there is a private cause of action for civil extortion based on the Penal Code. *See, e.g. Monex Deposit Co. v. Gilliam*, 666 F. Supp. 2d 1135, 1136 (C.D. Cal. 2009) ("California has recognized a civil cause of action for the recovery of money obtained by the wrongful threat of criminal or civil prosecution, whether the claim is denominated as extortion, menace, or duress.") (internal quotations omitted).

[2] "[I]n order to establish a cause of action for malicious prosecution of either a criminal or civil proceeding, a plaintiff must demonstrate that the prior action (1) was commenced by or at the direction of the defendant and was pursued to a legal termination in his, plaintiff's, favor; (2) was brought without probable cause; and (3) was initiated with malice." *Sheldon Appel Co. v. Albert & Oliker*, 47 Cal. 3d 863, 871 (1989) (internal quotations and citations omitted).

federal jurisdiction, Plaintiffs allege that "[t]his Court has original jurisdiction . . . pursuant to 28 U.S.C. §§ 1331,[4] 1338,[5] or 1367"[6] because "this complaint necessarily raises issues related to Defendants' misuse of the patent laws of the United States of America, and the processes established by the AIA [Leahy-Smith America Invents Act, 112 P.L. 29, 125 Stat. 284 (2011)], which amended the patent laws of the United States." Complaint, Dkt. 1 at ¶ 6. The Complaint also alleges that "[t]his Court's exercise of jurisdiction over these important and far-reaching federal issues will not disrupt the balance struck by Congress between the federal and state courts." *Id.* ¶ 7.

On September 1, 2015, the issue of subject matter jurisdiction was raised through an order to show cause ("OSC" (Dkt. 43)) that was issued *sua sponte*. The OSC directed the parties to submit memoranda that addressed whether there is federal subject matter jurisdiction over this action. The parties did so through separate filings on September 14, 2015. Dkt. 50 ("Pl. Mem."); Dkt. 51 ("Def. Mem."). Thereafter, the matter was taken under submission. Dkt. 65.

For the reasons stated in this Order, because there is no subject matter jurisdiction over this action, it is **DISMISSED**, without prejudice to its being refiled in an appropriate California Superior Court.

II. Factual Allegations in the Complaint

Plaintiffs hold six patents that are related to the pharmaceutical product called COMBIGAN. Complaint, Dkt. 1 at ¶¶ 18, 20, 21. COMBIGAN is used to treat glaucoma and ocular hypertension. *Id.* ¶ 19. Several pharmaceutical companies that manufacture generic products filed Abbreviated New Drug Applications with the U.S. Food and Drug Administration ("FDA"). *Id.* ¶ 23. Through these applications, they sought approval for the marketing of generic versions of COMBIGAN prior to the expiration of the aforementioned patents held by Plaintiffs. *Id.* Plaintiffs responded by bringing civil actions against these companies alleging that their applications sought the approval of generic formulations that "infringed Allergan's duly issued patents. . . ." *Id.* ¶ 24. The defendants in those actions then sought a declaratory judgment that "Allergan's patents . . . were invalid." *Id.* ¶ 25. Following a bench trial, the district court "entered judgment in favor of Allergan on the . . . validity challenges . . . ." *Id.* ¶ 27, 28. The "United States Court of Appeals for the Federal Circuit affirmed the district court's judgment . . . ." *Id.* ¶ 29. "As a result of that litigation," the aforementioned pharmaceutical companies were "enjoined from launching their generic versions of COMBIGAN® until April 2022." *Id.*

---

[3] "As used in this chapter, unfair competition shall mean and include any unlawful, unfair or fraudulent business act or practice and unfair, deceptive, untrue or misleading advertising and any act prohibited by Chapter 1 (commencing with Section 17500) of Part 3 of Division 7 of the Business and Professions Code." Cal. Bus. & Prof. Code § 17200.

[4] 28 U.S.C § 1331 provides: "The district courts shall have original jurisdiction of all civil actions arising under the Constitution, laws, or treaties of the United States."

[5] 28 U.S.C. § 1338 provides: "The district courts shall have original jurisdiction of any civil action arising under any Act of Congress relating to patents . . . ."

[6] 28 U.S.C. § 1367 provides for supplemental jurisdiction under specified circumstances.

On March 9, 2015, FFC sent a letter to Allergan, Inc. in which it stated that "FFC was prepared to seek [FDA] approval . . . to produce and market" a generic version of COMBIGAN with an unnamed partner. *Id.* ¶ 42. Attached to this letter were what Plaintiffs deem a "sham 'proposed FDA filing,'" (*id.* ¶ 44), as well as an *inter partes* review petition ("IPR") that "FFC filed with the United States Patent and Trademark Office ("PTO") on March 9, 2015 challenging the validity" of one of the patents held by Allergan, Inc. related to COMBIGAN. *Id.* ¶ 45. Allergan, Inc. contacted FFC to discuss the letter, after which, at the request of Defendants, the parties entered a limited non-disclosure agreement as to discussions between Allergan, Inc. and Barnes. *Id.* ¶¶ 55, 56. Plaintiffs' claim that the IPR is baseless (*id.* ¶ 61) and was used as an "extortionate tactic[]" against them. *Id.* ¶ 59. They also claim that Barnes "publicly stated that he sees 'multiple pathways to monetization' of the IPR filing . . . ." *Id.* ¶ 57.

III. Analysis

A. Federal Question Jurisdiction and the *Gunn* Factors

Plaintiffs assert that there is subject matter jurisdiction as to this matter based on an application of the relevant factors identified in *Gunn v. Minton*, 133 S. Ct. 1059 (2013). Pl. Mem. at 3. Defendants take no position on this issue. Def. Mem. at 3. Plaintiffs do not contend that there is any other basis for federal jurisdiction.[7]

1. Legal Standard

As a court of limited jurisdiction, see *Kokkonen v. Guardian Life Ins. Co. of Am.*, 511 U.S. 375, 377 (1994), a district court must determine the issue of subject-matter jurisdiction before reaching the merits of a case. *See Steel Co. v. Citizens for a Better Env't* , 523 U.S. 83, 94 (1998). "When a requirement goes to subject-matter jurisdiction, courts are obligated to consider *sua sponte* issues that the parties have disclaimed or have not presented. Subject-matter jurisdiction can never be waived or forfeited." *Gonzalez v. Thaler*, 132 S. Ct. 641, 648 (2012) (internal citations omitted).

Federal courts have original jurisdiction over "all civil actions arising under the Constitution, laws, or treaties of the United States." 28 U.S.C. § 1331. In general, a case arises under federal law when "federal law creates a cause of action." *Wander v. Kaus*, 304 F.3d 856, 858 (9th Cir. 2002). Specifically, federal district courts "have original jurisdiction of any civil action arising under any Act of Congress relating to patents . . ." 28 U.S.C. § 1338(a). Under the well-pleaded complaint rule, "federal jurisdiction exists only when a federal question is presented on the face of the plaintiff's properly pleaded complaint." *Caterpillar Inc. v. Williams*, 482 U.S. 386, 392 (1987). "[D]eterminations about federal jurisdiction require sensitive judgments about congressional intent, judicial power, and the federal system." *Merrell Dow Pharms. Inc. v. Thompson*, 478 U.S. 804, 810 (1986).

[7] The Complaint does not, for example, allege diversity jurisdiction pursuant to 28 U.S.C. § 1332. Rather, it alleges that both Plaintiffs and Defendant FFC are citizens of Delaware. Complaint, Dkt. 1 ¶ 2-4.

Federal question jurisdiction may also arise when a "substantial, disputed question of federal law is a necessary element of one of the well-pleaded state claims." *Wander*, 304 F.3d at 858 (quoting *Franchise Tax Bd. of State of Cal. v. Constr. Laborers Vacation Trust for S. Cal.*, 463 U.S. 1, 13 (1983)). This is a "'special and small category' of cases in which arising under jurisdiction still lies." *Gunn,* 133 S. Ct. at 1064-65 (quoting *Empire Healthchoice Assurance, Inc. v. McVeigh,* 547 U.S. 677, 699 (2006)).

"The Federal courts have exclusive jurisdiction of all cases arising under the patent laws, but not of all questions in which a patent may be the subject-matter of the controversy." *New Marshall Engine Co. v. Marshall Engine Co.,* 223 U.S. 473, 478 (1912). "[I]n order to demonstrate that a case is one 'arising under' federal patent law 'the plaintiff must set up some right, title or interest under the patent laws, or at least make it appear that some right or privilege will be defeated by one construction, or sustained by the opposite construction of these laws.'" *Christianson v. Colt Indus. Operating Corp.*, 486 U.S. 800, 807-08 (1988) (quoting *Pratt v. Paris Gas Light & Coke Co.,* 168 U.S. 255, 259 (1897)). Such jurisdiction "must be determined from what necessarily appears in the plaintiff's statement of his own claim in the bill or declaration, unaided by anything alleged in anticipation or avoidance of defenses which it is thought the defendant may interpose." *Id.* 809. "[A] claim supported by alternative theories in the complaint may not form the basis for § 1338(a) jurisdiction unless patent law is essential to each of those theories." *Id.* 810.

In *Gunn*, the Court clarified the significance of exclusive federal jurisdiction over cases "arising under any Act of Congress relating to patents" pursuant to 28 U.S.C. § 1338(a). 133 S. Ct. at 1060. *Gunn* held that "federal jurisdiction over a state law claim will lie 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." 133 S. Ct. at 1065. "Where all four of these requirements are met . . . jurisdiction is proper because there is a 'serious federal interest in claiming the advantages thought to be inherent in a federal forum,' which can be vindicated without disrupting Congress's intended division of labor between state and federal courts." *Id*. (quoting *Grable & Sons Metal Products, Inc. v. Darue Eng'g & Mfg.,* 545 U.S. 308, 313-14 (2005)).

2. Application

a). The Federal Question is Necessarily Raised

A cause of action that arises under state law necessarily raises a federal question when the claim "really and substantially involv[es] a dispute or controversy respecting the validity, construction or effect of [federal] law." *Grable*, 545 U.S. at 313.

Plaintiffs claim that their state law claims raise a substantial federal question under patent law*, i.e.,* whether the IPR was a "sham." The question of a "sham" proceeding is not necessarily raised. It is not a term or concept used in patent law. Nor is it one that is an element of the claims that Plaintiffs have

brought under California law.[8] Instead, Plaintiffs' claims may raise the federal question of whether Defendants' IPR filing is meritorious, which turns on whether the disputed patent related to COMBIGAN is invalid.

As noted, the Complaint advances three claims under California law: attempted civil extortion; malicious prosecution and unfair competition. "Extortion is the obtaining of property from another, with his consent, or the obtaining of an official act of a public officer, induced by a wrongful use of force or fear, or under color of official right." Cal. Penal Code § 518. Cal. Penal Code § 519 defines that "[f]ear, such as will constitute extortion, may be induced by a threat . . . [t]o do an unlawful injury to the person or property of the individual threatened or a third person." This claim thus turns on the question of whether Defendants' IPR filing and related conduct was "wrongful" under California law, and therefore necessarily raises the federal patent question of whether IPR lacked merit with respect to its challenges to the validity of the patent related to COMBIGAN.

"[I]n order to establish a cause of action for malicious prosecution of either a criminal or civil proceeding, a plaintiff must demonstrate that the prior action (1) was commenced by or at the direction of the defendant and was pursued to a legal termination in his, plaintiff's, favor; (2) was brought without probable cause; and (3) was initiated with malice." *Sheldon Appel Co. v. Albert & Oliker*, 47 Cal. 3d 863, 871 (1989) (internal quotations and citations omitted). The question whether the IPR filing was brought without probable cause necessarily raises the question whether the COMBIGAN patent is valid.

Unfair competition refers to "any unlawful, unfair or fraudulent business act or practice and unfair, deceptive, untrue or misleading advertising and any act prohibited by Chapter 1 (commencing with Section 17500) of Part 3 of Division 7 of the Business and Professions Code." Cal. Bus. & Prof. Code §

[8]The term "sham" is used to describe an exception to the Noerr-Pennington doctrine. That principle was adopted in the context of an antitrust claim brought by a plaintiff that had been the subject of a competitor's efforts to influence the passage or enforcement of laws that would have affected the business of the plaintiff. The Supreme Court rejected the antitrust claims, holding that "no violation of the [Sherman] Act can be predicated upon mere attempts to influence the passage or enforcement of laws." *E. R. R. Presidents Conference v. Noerr Motor Freight, Inc*., 365 U.S. 127, 135 (1961). There is a "sham" exception to this doctrine. Thus, "activity ostensibly directed toward influencing governmental action does not qualify for *Noerr* immunity if it is a mere sham to cover . . . an attempt to interfere directly with the business relationships of a competitor." *Prof'l Real Estate Inv'rs, Inc. v. Columbia Pictures Indus., Inc.*, 508 U.S. 49, 51 (1993) (internal quotations omitted). This occurs where the petitioning party does not legitimately seek a positive outcome from the governmental process. The Noerr-Pennington doctrine has been applied outside the antitrust context. *See, e.g.*, *Sosa v. DIRECTV, Inc.*, 437 F.3d 923 (9th Cir. 2006) (applying the doctrine to a RICO case). What is significant in the present action is that the Noerr-Pennington doctrine is an affirmative defense. In the present action that would mean that Defendants could seek to assert it as an affirmative defense to those claims by Plaintiffs premised on the IPR process. That could, in turn, permit Plaintiffs to argue that the defense fails because the IPR process was a sham. However, it is well settled that a potential affirmative defense that could be raised by a defendant in response to a non-federal claim is not a basis for jurisdiction. *Christianson*, 486 U.S. at 809. Furthermore, to the extent that Defendants were to seek to present the Noerr-Pennington defense in the course of proceedings in a California court, the doctrine can be applied there. *See, e.g.*, *Blank v. Kirwan*, 703 P.2d 58, 63-64 (1985).

17200. Whether the IPR filing and related conduct were "unlawful, unfair or fraudulent" requires a determination of the merits of each.

For these reasons, each of the claims advanced in the Complaint necessarily raises issues under federal patent law. They are intertwined -- the validity of the patent related to COMBIGAN and the challenge of this patent by Defendants.

b) The Federal Question is Actually Disputed

The questions whether the IPR was meritorious and the patent valid, are actually disputed. To raise a federal question that is "actually disputed," a state cause of action must "really and substantially involv[e] a dispute or controversy respecting the validity, construction or effect of [federal] law." *Grable*, 545 U.S. at 313. Plaintiffs contend that the IPR is "objectively baseless[]," Complaint, Dkt. 1 at ¶ 7. Defendants respond that "there are sound legal arguments to support [Defendants'] position that [the relevant patent] is non-patentable as obvious . . . ." Special Motion to Strike under California Civil Procedure § 425.16, Dkt. 26 at 8. Thus, the federal question raised by these state law claims is actually disputed by the parties.

c) The Federal Question is Not Substantial

This element of the *Gunn* analysis focuses "not on the interests of the litigants themselves, but rather on the broader significance of the notice question for the Federal Government." *Gunn*, 133 S. Ct. at 1066. "The substantiality inquiry . . . looks . . . to the importance of the issue to the federal system as a whole." *Id*. *See also Grable*, 545 U.S. at 313 ("federal jurisdiction [over state action] demands not only a contested federal issue, but a substantial one, indicating a serious federal interest in claiming the advantages thought to be inherent in a federal forum.").

In assessing this question, *Gunn* is instructive. There, the Court found that there was no federal jurisdiction over a state law claim alleging legal malpractice in the handling of a patent case. Assessing the elements of the plaintiff's state law claim, the Court found that, although the federal patent question was necessarily raised and actually disputed (*id.* 1065-66), it was not "substantial in the relevant sense." *Id.* 1066. Thus, although the patent issue was substantial to the parties in the case, it was not substantial "to the federal system as a whole." *Id*. As the Court explained

> Because of the backward- looking nature of a legal malpractice claim, the question is posed in a merely hypothetical sense: *If* Minton's lawyers had raised a timely experimental-use argument, would the result in the patent infringement proceeding have been different? No matter how the state courts resolve that hypothetical "case within a case," it will not change the real-world result of the prior federal patent litigation. Minton's patent will remain invalid.

Id. 1066-67.

The Court also concluded that "allowing state courts to resolve these cases [will not] undermine 'the

development of a uniform body of [patent] law'" (*id.* at 1067 (quoting *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.,* 489 U.S. 141, 162 (1989)) because federal courts will not be bound by the state court rulings and "state courts can be expected to hew closely to the pertinent federal precedents." *Id.* at 1067. The Court also observed that

> novel questions of patent law that may arise for the first time in a state court "case within a case," . . . 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.

The Court rejected "the suggestion that the federal courts' greater familiarity with patent law means that legal malpractice cases like this one belong in federal court." *Id.* 1068. The Court concluded that "although the state courts must answer a question of patent law to resolve Minton's legal malpractice claim, their answer will have no broader effects. It will not stand as binding precedent for any future patent claim; it will not even affect the validity of Minton's patent." *Id.* For these reasons, there was no federal jurisdiction over the malpractice claim.

The result here is the same. The scope of the federal patent issue is hypothetical. Framed in the language of *Gunn*, the present claims can be viewed as follows: "Because of the backward- looking nature of" Plaintiffs' attempted civil extortion, malicious prosecution and unfair competition claims, "the question is posed in a merely hypothetical sense" because a determination that the filing was or was not meritorious "will not change the real-world result of the prior federal patent litigation." *Id*. 1066-67. A decision in this case "will not even affect the validity of [Plaintiffs'] patent." *Id.* 1068.

Furthermore, "[a] resolution of the federal issue here would not be dispositive of this action. Significant factual issues would remain as to" whether Defendant's actions constituted attempted civil extortion, malicious prosecution and/or unfair competition. *SFPP, L.P. v. Union Pac. R. Co.*, No. LA CV15-01954 JAK, 2015 WL 3536881, at *9 (C.D. Cal. June 3, 2015). The determination of these questions would not turn on federal law.

Moreover, unlike *Grable*, which "presented a nearly pure issue of law, one that could be settled once and for all and thereafter would govern numerous tax sale cases"," the determination required by the causes of action asserted in this case "is fact-bound and situation-specific." *Empire Healthchoice Assur., Inc*, 547 U.S. at 700-01 (internal quotations omitted). *See also MDS (Canada) Inc. v. Rad Source Technologies, Inc.*, 720 F.3d 833, 842 (11th Cir. 2013) ("Because this question of patent infringement is heavily fact-bound, our resolution of this question is unlikely to control any future cases.").

Jang v. Boston Sci. Corp., 767 F.3d 1334 (Fed. Cir. 2014), on which Plaintiffs relied in oral argument, presented different issues. There, an investor sued a manufacturer alleging a breach of a contract that governed the assignment of certain patents. The Federal Circuit concluded that "[c]ontract claims based

on underlying ongoing royalty obligations. . . raise the real world potential for subsequently arising infringement suits affecting other parties" as "there exists the possibility that the patentee would file suits alleging infringement by others and may even be contractually obligated to do so." *Id.* 1337-38. No such concerns are present in this action. Moreover, because there was diversity jurisdiction in *Jang*, the adjudication of the issues could have led to an inconsistent judgment between a regional circuit and the Federal Circuit, "resulting in serious uncertainty for parties facing similar infringement charges before district courts within that regional circuit." *Id.* 1338. Such concerns of inconsistency between the Federal Circuit and other Courts of Appeals are not presented here.

Whether a party may file an IPR or threaten to file one to extract a monetary settlement may be significant to the federal process. But that federal question is not raised in the present action. That question may be raised during the IPR process through a claim for sanctions against the petitioner pursuant to 35 U.S.C. § 316(a)(6) and 37 C.F.R. § 42.12.[9] The claims in the present action are different. They require the interpretation and application of California law as to attempted civil extortion, malicious prosecution and unfair competition. Although an element of those claims will include whether, under federal patent law, the IPR had merit, under the standards of *Gunn*, this federal patent question is not substantial.

d) The Federal Question is Not Capable of Resolution in Federal Court without Disrupting the Federal-State Balance Approved by Congress

An exercise of jurisdiction in this case would upset the judicial balance between the federal and state courts.

> [E]ven when the state action discloses a contested and substantial federal question, the exercise of federal jurisdiction is subject to a possible veto. For the federal issue will ultimately qualify for a federal forum only if federal jurisdiction is consistent with congressional judgment about the sound division of labor between state and federal courts governing the application of § 1331.

[9] 35 U.S.C. § 316(a)(6) and 37 C.F.R. § 42.12 allow the PTAB to impose sanctions against a party in connection with improper conduct in an IPR proceeding. The Patent Trial and Appeal Board ("the Board") "may impose a sanction against a party for misconduct, including: (1) Failure to comply with an applicable rule or order in the proceeding; (2) Advancing a misleading or frivolous argument or request for relief; (3) Misrepresentation of a fact; (4) Engaging in dilatory tactics; (5) Abuse of discovery; (6) Abuse of process; or (7) Any other improper use of the proceeding, including actions that harass or cause unnecessary delay or an unnecessary increase in the cost of the proceeding." 37 C.F.R. § 42.12(a). Such sanctions may include "(1) An order holding facts to have been established in the proceeding; (2) An order expunging or precluding a party from filing a paper; (3) An order precluding a party from presenting or contesting a particular issue; (4) An order precluding a party from requesting, obtaining, or opposing discovery; (5) An order excluding evidence; (6) An order providing for compensatory expenses, including attorney fees; (7) An order requiring terminal disclaimer of patent term; or (8) Judgment in the trial or dismissal of the petition." 37 C.F.R. § 42.12(b).

Grable, 545 U.S. at 313-14.

As the Ninth Circuit has explained:

> The exercise of federal jurisdiction must not "disturb [ ] any congressionally approved balance of federal and state judicial responsibilities." [*Grable*, 545 U.S.] at 314. The Supreme Court has instructed federal courts to approach 28 U.S.C. § 1331 "'with an eye to practicality and necessity.'" *Merrell Dow*, 478 U.S. at 810 (quoting *Franchise Tax Bd. v. Constr. Laborers Vacation Trust*, 463 U.S. 1, 20 (1983)). The Court has "consistently emphasized that, in exploring the outer reaches of § 1331, determinations about federal jurisdiction require sensitive judgments about congressional intent, judicial power, and the federal system." *Id.*

Nevada v. Bank of Am. Corp., 672 F.3d 661, 675–76 (9th Cir. 2012).

In *Gunn*, the Court concluded that the action was not capable of resolution in a federal court without disrupting the federal-state balance approved by Congress. This was due to "the absence of a substantial federal issue," when compared to the great interest of the states in overseeing the actions of lawyers, including through the adjudication of legal malpractice claims. 133 S. Ct. at 1068. The present action involves similar concerns. The California Legislature enacted the three statutes that provide the sole basis for Plaintiffs' claims. California trial and appellate courts have the authority and expertise to interpret and apply those statutes. Through this process, whether attempted civil extortion, malicious prosecution and unfair competition have occurred and warrant a civil remedy can be addressed. Although the determination of such issues may have some effect on the patent system, its focus and center of gravity is the interpretation and application of California law. *See SFPP, L.P.*, 2015 WL 3536881, at *10 ("The questions of contractual interpretation presented by this action are at least as significant as the federal issue presented."). Plaintiffs "ha[ve] not demonstrated a significant conflict between . . . an identifiable federal policy or interest and the operation of state law." *Empire Healthchoice Assur., Inc*, 547 U.S. at 693 (internal quotations omitted).

Plaintiffs also argue that the subject of improper IPR claims "has been the subject of extensive Congressional and media debate" and that "[a]ll branches of federal government have expressed a broad, unilateral interest in curbing abuses of the U.S. patent laws and patent system." Pl. Mem., Dkt. 50 at 7, 8. That does not change the analysis under *Gunn.* California has a strong interest in the proper application of its laws.

* * *

For the foregoing reasons, there is no subject matter jurisdiction over this action.

B. Preemption Analysis

Defendants take no position on whether Plaintiffs properly allege federal question jurisdiction using the

Gunn factors. Def. Mem., Dkt. 51 at 3. Instead, Defendants argue that subject matter jurisdiction exists based on the complete preemption doctrine. *Id.* 3. This argument is not persuasive.

1. Legal Standard

The Supremacy Clause of the Constitution establishes that, in certain instances, federal law preempts state law. U.S. Const., Art. VI Cl. 2. However, "a case may *not* be removed to federal court on the basis of a federal defense, including the defense of pre-emption, even if the defense is anticipated in the plaintiff's complaint . . . ." *Caterpillar*, 482 U.S. at 393 (emphasis in original).

"There does exist, however, an independent corollary to the well-pleaded complaint rule, known as the 'complete pre-emption' doctrine." *Id.* 393 (internal citations and quotations omitted). "On occasion, the Court has concluded that the pre-emptive force of a statute is so 'extraordinary' that it 'converts an ordinary state common-law complaint into one stating a federal claim for purposes of the well-pleaded complaint rule.'" *Id.* (quoting *Metro. Life Ins. Co. v. Taylor*, 481 U.S. 58, 65 (1987)). Complete pre-emption applies when "Congress [has] so completely pre-empt[ed] a particular area that any civil complaint raising this select group of claims is necessarily federal in character." *Metro. Life Ins. Co*, 481 U.S. at 63-64.

"Once an area of state law has been completely pre-empted, any claim purportedly based on that pre-empted state law is considered, from its inception, a federal claim, and therefore arises under federal law." *Caterpillar*, 482 U.S. at 393. *See also Franchise Tax Bd.,* 463 U.S., at 24 ("[I]f a federal cause of action completely pre-empts a state cause of action any complaint that comes within the scope of the federal cause of action necessarily 'arises under' federal law"); *Moore-Thomas v. Alaska Airlines, Inc*., 553 F.3d 1241, 1244 (9th Cir. 2009) ("[U]nder the complete pre-emption exception to the well-pleaded complaint rule, federal law displaces a plaintiff's state-law claim, no matter how carefully pleaded.") (internal quotations omitted).

"The complete-preemption doctrine must be distinguished from ordinary preemption, also known as defensive preemption . . . . Many federal statutes—far more than support complete preemption—will support a defendant's argument that because federal law preempts state law, the defendant cannot be held liable under state law." *Sullivan v. Am. Airlines, Inc.*, 424 F.3d 267, 272-73 (2d Cir. 2005). "Complete preemption (a jurisdictional issue) converts a well-pleaded state law claim into an inherently federal claim for jurisdictional purposes; defensive preemption (a substantive issue) does not enable removal . . . ." *Hall v. N. Am. Van Lines, Inc*., 476 F.3d 683, 689 n.8 (9th Cir. 2007). Thus, preemption itself is not a basis for subject matter jurisdiction—only complete preemption is.

In determining whether a state claim is completely preempted, the "sole task is to ascertain the intent of Congress." *California Fed. Sav. & Loan Assn. v. Guerra*, 479 U.S. 272, 280 (1987). Complete preemption is unusual. *See Bill Johnson's Restaurants, Inc. v. N.L.R.B.*, 461 U.S. 731, 752 (1983) ("complete preemption is not lightly implied"); *Thomas v. U.S. Bank Nat. Assn. ND*, 575 F.3d 794, 797 (8th Cir. 2009) ("Complete preemption, as opposed to ordinary or conflict preemption, is rare"). The Supreme Court has

found only three statutes that support complete pre-emption: § 301 of the Labor Relations Act, 29 U.S.C.S. § 185 (*Avco Corp. v. Machinists*, 390 U.S. 557 (1968)), §§ 85 and 86 of the National Bank Act, 12 U.S.C. §§85-86 (*Beneficial Nat. Bank v. Anderson*, 539 U.S. 1 (2003)) and § 502(a) of the Employee Retirement Income Security Act (ERISA), 29 U.S.C. § 1132(a) (*Metro. Life Ins. Co.* 481 U.S.).

2. Application

None of the present claims arises under the three statutes that have been found to impose complete pre-emption. And, a review of the manner in which those statutes have been applied, confirms that there is no complete preemption under federal patent law.

In determining that the National Bank Act completely preempted common law usury, the Supreme Court asked: "Does the National Bank Act provide the exclusive cause of action for usury claims against national banks? If so, then the cause of action necessarily arises under federal law and the case is removable. If not, then the complaint does not arise under federal law and is not removable." *Beneficial Nat. Bank*, 539 U.S. at 9. Federal patent law does not provide for express preemption. *Ultra-Precision Mfg., Ltd. v. Ford Motor Co.*, 411 F.3d 1369, 1377 (Fed. Cir. 2005) (citing 35 U.S.C. §§ 1–376 (2000)). *See also Bonito Boats, Inc.*, 489 U.S. at 165 ("[T]he Patent and Copyright Clauses do not, by their own force or by negative implication, deprive the States of the power to adopt rules for the promotion of intellectual creation within their own jurisdictions."). Nor does the federal statute that provides for a potential award of sanctions in IPR proceedings completely preempt the state law claims that are presented in this action.[10] It does not include any such language.

Moreover, the alleged extortionate conduct occurred during settlement negotiations between the parties, not in the proceedings before the Board. *See Dow Chem. Co. v. Exxon Corp.,* 139 F.3d 1470, 1477 (Fed. Cir. 1998) (distinguishing "an abuse of process claim . . . based entirely upon bad faith misconduct before the PTO" and "bad faith misconduct in the marketplace" and concluding that claims based on bad faith misconduct in the marketplace were not preempted). These claims "can be made out without there being any misconduct whatsoever in the [Patent and Trademark Office]." *Id.*

IV. Conclusion

For the reasons stated in this Order, there is no federal subject matter jurisdiction over this action. Therefore, the action is **DISMISSED**, without prejudice to its being refiled in an appropriate California Superior Court. This Order is stayed for 21 days, to permit Plaintiffs to refile the action while the present case is pending. In light of the foregoing, the following motions are **MOOT**: Defendants' Motion to Strike Complaint, Dkt. 26; Defendants' Motion to Stay Discovery, Dkt. 28; and Plaintiff's Motion to File a First Supplemental Complaint and Strike Arguments First Raised in Defendants' Reply Brief, Dkt. 63. On or

[10] *See* n. 9, *supra.*

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

CIVIL MINUTES – GENERAL

Case No.	LA CV15-00992 JAK (PLAx)	Date	December 28, 2015
Title	Allergan, Inc. et al v. Ferrum Ferro Capital, LLC et al		

before January 11, 2016, counsel shall meet and confer to seek to reach an agreement on a proposed judgment for entry in this matter. If no such agreement can be reached, within that same time period, Plaintiffs shall lodge a proposed judgment, to which Defendants may file any objections within 7 days from the date the proposed judgment is lodged.

IT IS SO ORDERED.

_____ : _____

Initials of Preparer ak