16-359

No. 16-

IN THE

Supreme Court of the United States

DATATREASURY CORPORATION,

Petitioner,

v.

JP MORGAN CHASE BANK NA,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FIFTH CIRCUIT

PETITION FOR A WRIT OF CERTIORARI

KARL RUPP
KENDALL LAW GROUP, PLLC
3232 McKinney Avenue,
Suite 700
Dallas, Texas 75204
(214) 744-3000

NELSON J. ROACH
Counsel of Record
DEREK T. GILLILAND
CHRISTIAN J. HURT
NIX, PATTERSON & ROACH, LLP
205 Linda Drive
Daingerfield, Texas 75638
(903) 645-7333
nelsonroach@nixlaw.com

Counsel for Petitioner

268113

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QUESTION PRESENTED

The Fifth Circuit in this case construed forward-looking language within a most-favored licensee ("MFL") clause as permitting refunds. By that ruling, the Fith Circuit created a split among the federal courts: this decision allowed for refunds—the first and only case do so—while the balance of the federal cases have held that MFL provisions only apply prospectively, not retroactively, in the absence of clear contrary language. MFL clauses are critically important to licensing patent, copyright, and trademark rights. The uncertainity created by the conflicting rules will negatively impact innumerable owners of those rights and the inventors and authors that create that intellectual property. Should this Court grant certiorari to resolve the conflicting decisions on this important legal question?

RULE 29.6 STATEMENT

Petitioner has no parent company and no publicly held corporation owns 10% or more of its stock.

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PETITION FOR A WRIT OF CERTIORARI

The Court should grant this petition for a writ of certiorari. This petition raises a specific but highly important property-rights issue: the proper construction of most-favored licensee ("MFL") clauses in intellectual property license agreements. Those clauses are common in agreements conveying patent, copyright, and trademark rights, and the law had developed a settled rule: MFL caluses only applied prospectively—and did not provide for refunds—in the absence of clear language to the contrary. That rule applied in the Fifth Circuit since the 1960s and was consistently applied by courts in other circuits.

This case changed that. The Fifth Circuit majority did not follow the well-established prospective-only rule. It instead created a new one and did so over a vigorous dissent. It concluded that the MFL clause in this case provided a $69M refund. It reached that result because this MFL provision was supposedly part of a lump-sum license—a fixed license payment—and not a running-royalty payment that varies over time. That reasoning finds no support in the law, as the majority determined such an issue was one of first impression.

That legal error had and will have significant consequences. The licensing of intellectual property is a multi-billion-dollar market, and intellectual property accounts for an increasing share of U.S. corporate assets. Numerous licenses have been drafted relying on the established prospective-only rule, and the change caused by this case will drastically shift the parties' liabilities under those licenses, exclusively against the owner of the patent rights. In this case alone, that difference was in excess of tens of millions of dollars.

The Fifth Circuit's new, conflicting rule has untold potential to extract great sums from rights holders who entered into licenses. That devaluation of property will, in turn, devalue the interest inventors and authors have in licensing their discoveries and works. For these reasons, and the reasons below, DataTreasury respectfully requests that the Court grant its petition for certiorari.

OPINIONS BELOW

The split-panel opinion of the United States Court of Appeals for the Fifth Circuit is reported at 823 F.3d 1006 and is reproduced in the Appendix ("App.") at 1a–43a. The Fifth Circuit's order denying DataTreasury's Petition for Rehearing En Banc is not reported but is reproduced at App. 44a–45a. The opinion of the United States District Court for the Eastern District of Texas is reported at 79 F. Supp. 3d 643 and is reproduced at App. 46a–80a.

JURISDICTION

The United States Court of Appeals for the Fifth Circuit rendered its decision on May 19, 2016. App. 1a. A timely petition for rehearing en banc was denied on June 21, 2016. App. 33a. This Court has jurisdiction under 28 U.S.C. § 1254(a).

FEDERAL LAW IMPLICATED IN THE CASE

The Patent Act provides that patents, and interest in patents, have the transferrable attributes of personal property. 35 U.S.C. § 261. This case involves interpreting an MFL clause as part of a patent license that transfers a license from the patentee to a licensee. While contract interpretation is seemingly governed by state law, federal courts rely on federal caselaw to assess the prospective versus retroactive nature of an MFL provision in a patent license. *See, e.g., Studiengesellschaft Kohle m.b.H. v. Novamont Corp.*, 704 F.2d 48, 52 (2d Cir. 1983) (citing *Rothstein v. Atlanta Paper Co.*, 321 F.2d 90, 96 (5th Cir. 1963)); *Wang Labs., Inc. v. Oki Elecs. Indus Co.*, 15 F. Supp. 2d 166, 171 (D. Mass. 1998) (quoting *Studiengesellschaft*, 704 F.2d at 52). In addition, "[t]he prospective nature of licenses has long been recognized in the law of patents." *Davis v. Blige*, 505 F.3d 90, 104 (2d Cir. 2007) (citing *Waterloo Furniture Components, Ltd. v. Haworth, Inc.*, 467 F.3d 641, 647 (7th Cir. 2006) and *Wang Labs.*, 15 F. Supp. 2d at 172).

STATEMENT OF THE CASE

This petition seeks review of a precedential, split-panel Fifth Circuit decision on a legal issue that the panel majority deemed one of first impression: whether an MFL provision must provide for refunds of amounts already paid simply because the license payment is expressed as a lump-sum amount. App. 19a–20a. MFL clauses are common in royalty-bearing agreements such as patent licenses and, as the majority recognized, the case law had developed a settled rule: an MFL clause does not permit refunds for amounts already paid. *See* App. 13a, 20a–23a, 37a–40a.. That law included Fifth Circuit precedent, *Rothstein v. Atlanta Paper Co.*, 321 F.2d 90 (5th Cir. 1963), as well as precedent from other Circuits, *e.g.*, *Studiengesellschaft Kohle m.b.H. v. Novamont Corp.*, 704 F.2d 48 (2d Cir. 1983).

The majority created a different rule—and sanctioned a $69M retroactive refund—on the basis that this MFL clause was tied to a lump-sum payment term. App. 23a–24a. That new path produced a strident dissent, which highlighted the disharmony between majority opinion and MFL precedent and how the majority opinion's new rule strongly discourages licensing. App. 34a–43a. DataTreasury now respectfully petitions this Court for certiorari.

A. The Events That Led to the JPMC MFL Clause

In the 1990s, DataTreasury developed foundational image-processing technology that most, if not all, major banks and financial institutions now use to electronically process checks. The banking industry historically cleared checks manually, shipping the physical checks from bank to bank to clear funds. DataTreasury's patented technology changed that.

DataTreasury raised over $20M in investor funding and developed a central imaging system. DataTreasury began to approach banks in the late

1990s about working together in the retail banking sector. It met with JPMC and discussed using the DataTreasury system to process and store JPMC's check images.

JPMC declined the invitation. Instead, using DataTreasury's technology, it set up competing electronic check systems with several other major banks. That action nearly put DataTreasury out of business, and the company sued JPMC and others to defend its patent rights.

JPMC settled with DataTreasury in 2005. As part of the settlement, JPMC entered into a consent judgment, admitting that DataTreasury's patents were valid and enforceable and that it had infringed them. The parties also entered into a series of agreements as part of the settlement.

B. The JPMC MFL Clause and the Cathay Bank Agreement

The JPMC Agreements provided for \$70M in payments spread over a seven-year period: \$30M in 2005, \$5.5M each year from 2006 to 2011, and \$7M in 2012. After its initial \$30M payment, JPMC's payment obligations were conditioned on both of DataTreasury's patents remaining valid and enforceable (the banking industry continued to challenge each in multiple forums). DataTreasury negotiated the license price based on its estimates of JPMC's check volumes.

The License Agreement contains the MFL

clause at issue here. The language is exclusively forward-looking and does not include a refunds provision. It provides:

> If DTC ***grants*** to any other Person a license to any of the Licensed Patents, . . . JPMC ***will be entitled to the benefit of any and all more favorable terms with respect to such Licensed Patents***. . . . The MFN ***shall be applied within thirty (30) days*** from the date this provision is recognized in accordance with Section 10.7.

App. 4a–5a (emphases added). When the parties entered into the MFL, DataTreasury had other ongoing litigation against smaller banks and financial institutions. Shortly after settling with JPMC, DataTreasury filed suit against Bank of America, Citibank, and Wells Fargo, among others.

Those banks and dozens more entered into licenses with DataTreasury during the period that JPMC continued to make its payments. The patents were not invalidated, and JPMC made the final payment in 2012. It had no further payment obligations and thereafter enjoyed a cost-free license.

After JPMC's final payment, DataTreasury entered into a license with Cathay Bank for a $250,000 payment plus an additional royalty should Cathay Bank acquire other entities. Cathay Bank is a small fraction of the size of JPMC. DataTreasury also based Cathay Bank's price on the volumes of checks Cathay Bank historically processed. It is undisputed that when normalized to asset size or check volume, JPMC received the most favorable license price.

C. JPMC's Suit Against DataTreasury and the Fifth Circuit Opinion

JPMC filed suit against DataTreasury, alleging breach of the MFL provision. The District Court entered summary judgment in favor of JPMC, and ruled JPMC could substitute its price ($70,000,000) for the price of Cathay Bank's license ($250,000) plus an additional cost for the banks that JPMC acquired. The parties stipulated that the difference was $69M, and DataTreasury appealed.

A divided panel of the Fifth Circuit affirmed. While the majority acknowledged the uniform authority holding an MFL licensee is not entitled to refund absent clear language to the contrary, it declined to follow that rule. App. 13a, 20a–23a. The majority did so because it found that this appeal appeared to raise an issue of first impression—what rule to apply when the agreement contains a lump-sum payment amount. App. 23a–24a. In that context, the majority concluded that a refund was proper because a contrary reading "would render the MFL clause effectively meaningless." App. 16a.

Judge Higginson dissented. The dissent noted that "every other court to consider an MFL clause" applied the clause prospectively. App. 38a–39a. That list of other courts included the Fifth Circuit's prior decision in *Rothstein v. Atlanta Paper*, which "addressed a similarly worded clause . . . and reached a conclusion opposite to that which the majority reaches." App. 35a. The dissent "would hold—consistently with every other court to have interpreted a similar clause—that JPMC is not entitled to recoup sums paid before DTC granted any lower-priced license." App 34a–35a.

The dissent also highlighted that the majority's interpretation of the MFL strongly discourages parties from licensing property rights:

> This interpretation, at odds with the clause's prospective language and our case law interpreting a similar clause, strongly discourages licensing, especially to small competitors, as a licensor that had granted one non-running-royalty license with an MFL clause stands to lose significant money by granting a cheaper license to a smaller entity, even several years later.

App. 42a. DataTreasury petitioned the full Court to rehear the case en banc, and the Fifth Circuit denied that petition. App. 44a–45a. DataTreasury now petitions this Court to grant certiorari.

REASONS FOR GRANTING THE PETITION

This Court should grant DataTreasury's petition for certiorari because the Fifth Circuit's decision in this case conflicts with that Court's decision in *Rothstein*, as well as subsequent federal MFL authority that relied on *Rothstein*, *e.g.*, *Studiengesellschaft*, on a matter of vital importance to licensing intellectual property rights. The MFL authority uniformly holds that MFL clauses are prospective unless there is clear contract language to the contrary. The Fifth Circuit's majority opinion announces a new rule: if the license contains a lump-sum component, the rule is opposite—MFLs are retrospective unless there is clear language to the contrary.

Certainty of property rights, including the licensing of federal intellectual property rights, is essential to commerce. Untold licenses for patents, copyrights, trademarks, brands, trade secrets and the like were drafted in reliance on the prospective-only rule embodied in the *Rothstein*-line of cases. The majority opinion throws the contracting parties' understanding of all of those licenses into question, and not to a minor degree. The majority's rule altered the outcome in this case by tens of millions of dollars in excess of what *Rothstein* and all the other authority would have allowed. That new rule will have a significant and detrimental impact on the greater licensing economy, including the licensing of federally-created property rights such as patents, copyrights, and trademarks. This Court should grant certiorari and reverse it.

I. Review is Essential Because the Fifth Circuit's Decision Greatly Impacts the Licensing of Federally Created Property Rights

The proper construction of MFL provisions is central to the efficient transfer of property rights such as patents, copyrights, and trademarks. As a general matter, the law highly favors agreements over litigation to resolve disputes. *D.H. Overmyer Co. v. Loflin*, 440 F.2d 1213, 1215 (5th Cir. 1971). MFL provisions facilitate out-of-court agreements—they provide a rights holder with an initial licensee from which to set market rates while protecting the licensee from a competitive disadvantage should a cheaper license be granted. *See* 2 Information Law § 11:104 (reproduced at App. 14a); John Gladstone Mills III *et al.*, 5 Pat. L. Fundamentals § 19:21 (2d ed) (reproduced at App. 14a). They thus help settle multiple claims—those against the MFL licensee and those against subsequent licensees. For that reason, many agreements contain MFL provisions. 2 Information Law § 11:104 (reproduced at App. 14a).

Striking the right balance in how to construe MFL provisions is thus crucial to furthering the law's interest that parties settle private property disputes. The prospective-retroactive construction of MFLs is central to that inquiry.

Applying MFL provisions prospectively is much more likely to facilitate settlement. That general rule protects the MFL licensee by ensuring that it has the lowest cost going forward as compared to competitors.

It also enables the licensor to settle future disputes without triggering a cost-prohibitive liability (*e.g.*, settling a $250,000 dispute at a cost to the licensor of $69,000,000). Courts that address MFL clauses "have been motivated in part by a desire to encourage settlements," *Wang*, 15 F. Supp. 2d at 171, which helps explain why "every other court to consider an MFL clause" has applied it prospectively, App. 38a–39a. Prior to the Fifth Circuit majority opinion, a prospective-only application was the settled expectation of contracting parties.

A retroactive application of MFL clauses, as the Fifth Circuit majority held, has the opposite effect. It "strongly discourages licensing, especially to small competitors, as a licensor . . . stands to lose significant money by granting a cheaper license to a smaller entity, even several years later." App. 42a. For that reason, at least one court has held unenforceable an MFL provision that expressly recited a refunds clause. *In re Chicken Antitrust Litig.*, 560 F. Supp. 943, 949 (N.D. Ga. 1979) (holding unenforceable an MFL provision that expressly provided for refunds because the provision was impeding settlement). The majority opinion in this case stands as an outlier—it is the only opinion that allows, and in fact requires, refunds.

That holding will impact hundreds of agreements, if not more. The majority's rule is not limited to intellectual property licenses—it applies to an MFL clause in any contract. But even focusing on intellectual property alone shows that the effect of the opinion will be significant.

Many licenses contain MFL clauses, and intellectual property licensing—in which MFL clauses often have a central role—is a significant economic activity. *See* App. 14a, 15a, 28a–29a (citing six secondary sources that discuss MFL clauses). The estimated global market for intellectual property licensing by 2007 was already over $100B, with intellectual property assets accounting for 40% of the net value of corporations in the United States. Cameron R. Sneddon, *Licensee Beware: The Seventh Circuit Holds That a Patent License by Any Other Name Is Not the Same*, 2 SEVENTH CIRCUIT REV. 796 (2007), at http://www.kentlaw.edu/7cr/v2-2/sneddon.pdf. The number of U.S. patents issued per year has nearly doubled since the JPMC Agreements were signed, as has the annual number of patent lawsuits filed. *See* 2015 PWC Patent Litigation Study, at https://www.pwc.com/us/en/forensic-services/publications/assets/2015-pwc-patent-litigation-study.pdf.

Many of these intellectual property assets are encumbered by licenses with MFL clauses, all of which were drafted in reliance on the uniform holdings of cases that MFL clauses are prospective absent clear language to the contrary. The majority opinion will upend how many of those provisions operate and will devalue the underlying assets by imposing refund obligations. It will cause additional contract litigation and provide windfalls to MFL licensees, no matter how long ago the royalty payments were made.

That risk is especially great for agreements that contain a lump-sum component, of which there are many. *See Lucent Techs., Inc. v. Gateway, Inc.*, 580 F.3d 1301, 1325–32 (Fed. Cir. 2009) (detailing lump-sum, running royalty, and hybrid lump-sum/running royalty arrangements and explaining that a benefit of a lump-sum license is that it enables the property owner to "raise a substantial amount of cash quickly" while capping the licensee's liability). Indeed, nearly all of the dozens of licenses that DataTreasury entered into recited fixed amounts based on usage documentation or estimates. *See* App. 40a (listing various license prices).

It thus behooves this Court to harmonize the Fifth Circuit's law with the balance of the authority that precludes refunds. Parties now operate under an uncertain MFL framework. The Fifth Circuit alone has two decisions that conflict—*Rothstein* and the majority opinion in this case—and the remainder of the MFL authority sides with *Rothstein*. The different outcomes that flow from each holding is not small and was tens of millions of dollars in this case. *See* App. 40a.

Restoring the prospective approach will facilitate the settlement of property claims, a purpose the law highly favors, while protecting the MFL licensee's competitive interest. Upholding the majority's decision will detract from that purpose, encourage inefficient litigation in a central segment of the United States economy, and provide MFL licensees with undeserved windfalls.

II. This Court Should Grant Certiorari Because the Majority's Decision Conflicts With *Rothstein v. Atlanta Paper* and Subsequent Authority

The majority's decision conflicts with the Fifth Circuit's decision in *Rothstein v. Atlanta Paper*, as detailed in the dissenting opinion in this case. App. 34a–37a. In *Rothstein*, this Court "addressed a similarly worded clause [] and reached a conclusion opposite to that which the majority reache[d]" in this case. App. 35a. Even JPMC volunteered that *Rothstein* was "troubling" for its position. *Id.*

Rothstein is not only a binding decision in the Fifth Circuit. Other courts have relied on *Rothstein* as the base federal appellate authority for the proposition that MFL clauses do not provide refunds. *E.g.*, *Studiengesellschaft Kohle m.b.H. v. Novamont Corp.*, 704 F.2d 48, 52 (2d Cir. 1983) (citing *Rothstein*, 321 F.2d at 96); *Wang Labs.*, 15 F. Supp. 2d at 171 (quoting *Studiengesellschaft*, 704 F.2d at 52). The *Studiengesellschaft* Court, for example, relied on *Rothstein* (among other authority) when it explained that courts presented with refund claims based on MFL clauses "have declined to interpret the clauses with that breadth." 704 F.2d at 52. The majority's conflicting decision will thus upend how courts and parties interpret MFL clauses, both inside and outside the Fifth Circuit. This Court should grant certiorari to harmonize which legal rule applies.

The conflict between the decision below and *Rothstein* is particularly problematic because the cases reached opposite legal conclusions based on very similar facts. The agreement in *Rothstein* contained a typical MFL provision that is very similar to the language in the MFL clause at-issue here:

MFL Clause in *Rothstein*
Atlanta ***shall be entitled to be in as favorable a position*** as any other manufacturer or seller of bottle carriers, wherefore any more favorable terms of conditions as to royalties ***that have been or hereafter may be granted*** to others who are licensed under said patent ***automatically shall become available*** to Atlanta . . . . App. 35a (quoting *Rothstein*, 321 F.2d at 92) (emphases added).
MFL Clause in This Case
If DTC ***grants*** to any other Person a license to any of the Licensed Patents, . . . JPMC ***will be entitled to the benefit*** of any and all more favorable terms with respect to such Licensed Patents. . . . The MFN ***shall be applied within thirty (30) days*** from the date this provision is recognized. . . . App. 34a (emphases added).

In *Rothstein*, the agreement licensed a bottle-carrier patent to Atlanta in exchange for a three-percent royalty. 321 F.2d at 91–92. Three years after entering into the MFL, Rothstein granted a paid-up license to one of Atlanta's competitors for $8,000. *Rothstein*, 321 F.2d at 93. Atlanta then demanded a refund for the amount of royalties it paid in excess of $8,000. *Id.*

The Fifth Circuit rejected that refund claim. It concluded that the "[t]he only reasonable construction" of the MFL was that it did "not operate retrospectively." *Rothstein*, 321 F.2d at 96. The Court instead held that the MFL only applied prospectively: Atlanta was "entitled to a prospective license for $8,000, with credit for sums paid *after* the second license was granted." App. 36a (citing *Rothstein*, 321 F.2d at 96).

That outcome prevented Atlanta from being at a competitive disadvantage, the purpose of MFL clauses. *Id.* (citing *Rothstein*, 321 F.2d at 96). But the Court rejected Atlanta's claim that it could "recover all royalties it paid in excess of $8,000 since the beginning of its own license, including *before* the second license was granted." *Id.* (citing *Rothstein*, 321 F.2d at 96); *see also* App. 36a–37a (collecting cases supporting the rule that a licensee is not entitled to receive credit for royalty payments made prior to its election of more favorable terms).

The Fifth Circuit reached the opposite conclusion in this case. At the time of the Cathay

Bank Agreement—the earliest potential election date—JPMC's payment obligations were already complete. Thus, the Cathay Bank Agreement did not place JPMC at a competitive disadvantage with respect to Cathay Bank. App. 41a–42a. There were earlier agreements that came into existence when JPMC still had ongoing payment obligations—which JPMC chose not to assert. App. 40a. But rather than hold JPMC to its strategic choice, the Fifth Circuit majority provided JPMC with a full $69M refund. That result directly conflicts with *Rothstein*'s holding that the "[t]he only reasonable construction" of such an MFL clause is that it does "not operate retrospectively." *Rothstein*, 321 F.2d at 96.

The Fifth Circuit majority opinion attempted to distinguish *Rothstein*—and the other MFL authority—on the basis that it involved a running royalty agreement, not a lump-sum agreement. App. 12a–15a. It reasons that applying *Rothstein*'s holding would render this MFL meaningless. App. 16a. Both reasons are incorrect.

First, settled law makes "no distinction between one who makes an up-front, lump-sum payment and one who makes continuing royalty payments." *Epic Systems Corp. v. Allcare Health Mgmt. Sys. Inc.*, No. 4:02-CV-161-A, 2002 U.S. Dist. LEXIS 17110, at *13–14 (N.D. Tex. Sept. 11, 2002); *Studiengesellschaft Kohle m.b.H. v. Hercules, Inc.*, 105 F.3d 629, 633 (Fed. Cir. 1997) ("We see no distinction between one who makes an up-front, lump-sum payment and one who makes continuing royalty payments."). That settled rule makes sense—a series of payments may be expressed as a lump sum in present value terms—*e.g.*, a lump-sum pension payout versus an annuity.

Moreover, *Rothstein* itself involved substituting a lump-sum amount in place of a running royalty. The *Rothstein* Court still held that a prospective application of the MFL—which, like this MFL, was agnostic as to royalty structure—was the only reasonable construction of that clause. *Rothstein* would have come out precisely the other way under the Fifth Circuit majority's approach in this case.

Even the JPMC Agreement is not a pure lump-sum agreement under the majority's analysis. It is a hybrid lump-sum agreement. By its express terms, the royalty was to be paid over the course of seven years and JPMC's annual payment obligations were excused in the event DataTreasury's patents were invalidated. App. 38a–39a. The stream of payments was not fixed; DataTreasury bore financial risk of nonpayment for most of the payment term.

Second, a prospective-only reading of this MFL clause does not render it meaningless. JPMC structured the $70M royalty in annual payments over a seven-year period. DataTreasury, as JPMC was aware, entered into dozens of license agreements during that period. App. 39a–42a. For any of those agreements, JPMC could have attempted to timely invoke the MFL clause but it chose not to. App. 39a–40a (pointing to a license that the dissent found could potentially have "sav[ed] the bank over $37M"). Moreover, the JPMC Agreements contained a number of valuable non-price terms, and a prospective reading of the MFL provides JPMC with protection regarding those terms as well. App. 37a–38a, 42a–43a. The prospective application that the *Rothstein*-based authority mandates does not render this MFL meaningless.

The majority opinion conflicts with the Fifth Circuit's holding in *Rothstein* and those cases that follow it. This Court should grant certiorari to resolve the conflict.

III. The Fifth Circuit Majority Erred When It Re-Wrote the MFL Clause to Provide a $69M Refund in This Case

The only reasonable construction of the MFL clause in this case, as the dissent below explained, is that it only applies prospectively. The clause contains exclusively prospective language and all of the MFL authority, including *Rothstein*, has interpreted similar MFL clauses to preclude refunds. App. 35a–36a. Moreover, as DataTreasury argued below, JPMC still had the most-favorable license price on a normalized basis, JPMC actually waived its MFL rights, and equitable estoppel and the statute of limitations barred JPMC's claim.

DataTreasury's business was to license its Patents during their term. As the dissent below rightly concluded, it is implausible that the parties intended to hamper that business by attaching a perpetual eight-figure liability to any license that DataTreasury entered into with a bank smaller than

JPMC (*i.e.*, virtually every bank in the United States). App. 40a–42a.

Had DataTreasury known that the MFL would so be construed, it would have litigated many of its cases to a satisfied judgment rather than resolve the disputes out of court. Unless this case is heard in this Court and reversed, other licensors with MFL-encumbered assets will doubtless do the same.

CONCLUSION

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

Respectfully Submitted,

NELSON J. ROACH
Counsel of Record
DEREK T. GILLILAND
CHRISTIAN J. HURT

NIX, PATTERSON & ROACH, LLP
205 Linda Drive
Daingerfield, TX 75638
Tel: (903) 645-7333

KARL RUPP

KENDALL LAW GROUP, PLLC
3232 McKinney Avenue, Ste. 700
Dallas, TX 75204
Tel: (214) 744-3000

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