

A technology company incorporated and headquartered in State A hired an engineer domiciled in State B. The employment contract between the company and the engineer stated that all work product produced by the engineer was owned by the company. While employed by the company, the engineer developed a software program that was unrelated to the company's business. When the engineer left the company, she attempted to sell her program for \$50,000.

The technology company sued the engineer in a federal court in State A to enjoin the sale and for a declaratory judgment that the company owned the rights to the software program. The company claimed that it could incorporate the program into its business and increase profits by \$100,000. The engineer defended on the ground that the contract does not apply to work that is unrelated to the company's business.

The case proceeded to trial. After the close of evidence, the engineer moved to dismiss the case for lack of subject-matter jurisdiction.

Should the court grant the engineer's motion?

- A. No, because the engineer waived this defense by failing to assert it before the close of evidence.
- B. No, because the parties are diverse and the value of the requested relief exceeds \$75,000.
- C. Yes, because the company failed to demand damages in addition to the requested relief.
- D. Yes, because the cost to the engineer to comply with the requested relief is only \$50,000.

Explanation:

Subject-matter jurisdiction is established when a federal court has federal-question jurisdiction (not seen here) or diversity jurisdiction over a particular case. **Diversity jurisdiction** exists when the opposing parties are **citizens** of different states and the amount in controversy **exceeds \$75,000**.

The amount in controversy is generally determined by the monetary damages requested in the plaintiff's complaint. However, it can also be determined when a plaintiff requests **equitable relief**—eg, declaratory judgment, injunction (both requested here). Since equitable relief has no explicit monetary value, its **implicit monetary value** is **calculated by** the larger of the following:

- the **cost to the defendant** if forced to comply with the requested equitable relief (eg, lost sales) *or*
- the **worth to the plaintiff** if the requested equitable relief is granted (eg, expected profits).

Here, the parties are diverse because the company is incorporated and headquartered in State A and the engineer is domiciled in State B. The cost to the engineer if forced to comply with the requested equitable relief is only the \$50,000 she would lose if her sale is barred. However, the requested equitable relief is worth \$100,000 in expected profits to the company, so the amount-in-controversy requirement is satisfied (**Choice D**). Therefore, diversity jurisdiction exists, and the court should deny the engineer's motion to dismiss.

(Choice A) The right to challenge subject-matter jurisdiction is never **waived**. Instead, this issue can be raised at any time by the parties or on the court's own initiative (ie, *sua sponte*).

(Choice C) A plaintiff need not demand damages to satisfy the amount-in-controversy requirement. The reason is that a request for equitable relief can satisfy the amount-in-controversy requirement on its own if the value of the relief—based on its cost to the defendant or worth to the plaintiff—exceeds \$75,000.

Educational objective:

In a diversity action, a request for equitable relief satisfies the amount-in-controversy requirement if the value of the relief exceeds \$75,000 based on its (1) cost to the defendant or (2) worth to the plaintiff—whichever is larger.

References

- Hunt v. Wash. State Apple Advert. Comm'n, 432 U.S. 333, 347–48 (1977) (holding that the amount in controversy in an action requesting equitable relief is measured by the value of the object of the litigation).
- 32A Am. Jur. 2d Federal Courts § 962 (2020) (explaining how the amount in controversy is determined in actions that request equitable relief).

Calculating monetary value of equitable relief

