

**UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF VERMONT**

MPHJ TECHNOLOGY INVESTMENTS,)	
LLC, inclusive of its subsidiaries,)	
)	
Plaintiff,)	
)	
v.)	Civil Action No. 2:14-cv-191
)	
WILLIAM H. SORRELL, in his official)	
capacity as Attorney General of the State of)	
Vermont)	
)	
Defendant.)	

**DEFENDANT’S SUPPLEMENTAL MEMORANDUM IN SUPPORT OF
MOTION TO DISMISS FIRST AMENDED COMPLAINT**

STATE OF VERMONT

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INTRODUCTION

MPHJ filed its First Amended Complaint on December 29, 2014, Doc. 18, following Defendants' motion to dismiss on December 10, 2014, Doc. 13. In its First Amended Complaint, in addition to the relief requested in the original complaint, MPHJ now requests the following additional relief:

- A declaration that Vermont's Bad Faith Assertions Act and Consumer Protection Act are invalid or preempted with respect to a hypothetical new letter ("Claim 6 Letter"), Doc. 18-13, that MPHJ alleges an intention to send to unnamed Vermont businesses, Doc. 18, at ¶ 120;
- A declaration that Vermont's long-arm statute is invalid as applied to MPHJ, *id.* at 45;
- Declaratory relief regarding validity and infringement of its patents, including Claim 6 of MPHJ's '426 patent, *id.* at 46, 49;
- An order enjoining Defendant Sorrell from threatening "suit against MPHJ under the VCPA or the Vermont Patent Assertions Act for the sending of future letters," *id.* at 46;
- An order enjoining Defendant Sorrell from discriminating against MPHJ because it does not manufacture or sell products covered by its patents, *id.* at 46-47; and
- An award of just compensation for an alleged taking, *id.* at 50.

Defendant Sorrell asks this Court to incorporate by reference sections I and II of the memorandum in support of his original motion to dismiss, Doc. 13-1,¹ and supplements that memorandum, demonstrating that MPHJ's additional claims must also be dismissed because:

- (1) *Younger* abstention still requires dismissal of all claims;
- (2) MPHJ lacks standing to challenge the Bad Faith Assertion Act and its new claims are otherwise not justiciable;
- (3) MPHJ has failed to state a claim under the Dormant Commerce Clause, Takings Clause, or for selective prosecution;
- (4) MPHJ's damages claim is barred by sovereign immunity.

¹ The arguments set forth in Section III of the original motion to dismiss are no longer relevant, because MPHJ removed assistant attorney general Asay as a defendant.

ARGUMENT

I. MPHJ's claims must still be dismissed on the basis of *Younger* abstention.

This Court has now (for a second time) remanded the State's enforcement action back to state court. *Vermont v. MPHJ Tech. Invs., Inc.*, 2015 WL 150113 (Jan. 12, 2015). The remand confirms that *Younger* abstention is warranted here, where MPHJ seeks relief that interferes with a pending state enforcement action. Defendant Sorrell incorporates the briefing in the initial motion to dismiss that sets forth the standard for *Younger* abstention and explains why it is warranted here. Doc. 13-1, at 5-12. This supplemental memorandum addresses the amended complaint and explains why MPHJ's revisions do not change the *Younger* analysis.

A. Counts II and III. Count II of MPHJ's amended complaint largely reiterates the claims in MPHJ's original complaint. What MPHJ seeks in Count II is declaratory and injunctive relief directed at the constitutionality of the State's pending enforcement action. Doc. 18, at 36-43, 47-50. As previously argued, these claims are directed at and interfere with the State's enforcement action and should be dismissed on *Younger* grounds. Doc. 13-1, at 5-12. The claims regarding the objective and subjective baselessness of the prior letters, as well as the selective prosecution claim added in Count II-D and II-E do not change the *Younger* analysis. Indeed, if anything, they strengthen the point, as both claims are specifically directed at the pending enforcement action. *See* Doc. 18, at ¶¶ 203-233 (allegations directed at State's filing of original and amended complaint in pending enforcement action).

MPHJ's new takings claim in Count III likewise is an unambiguous request for this Court to interfere with the state court's evaluation of MPHJ's unfair and deceptive acts. MPHJ alleges that the "taking" occurred when Defendant Sorrell "filed suit against MPHJ, seeking an injunction that unlawfully interferes with MPHJ's patent property rights," Doc. 18, at ¶ 237, and

filed the Amended Complaint, “causing MPHJ to delay or limit its enforcement of its patents in Vermont,” *id.* at ¶ 238. Count III is thus premised on, and seeks relief directed at, the pending state-court enforcement action. *Younger* applies.

B. Count I. *Younger* also applies to MPHJ’s new Count I, which adds claims in part relating to its alleged intent to send the Claim 6 Letter. In its new Count I, MPHJ bounces back and forth between allegations regarding its supposed future intent to send the Claim 6 Letter and the State’s ongoing enforcement action. MPHJ repeatedly references the State’s enforcement action in describing its new claims. *See, e.g.*, Doc. 18, at ¶¶ 163, 165, 166, 168, 169, 170, 171, 172, 173, 174, 175, 177, 178, 179, 181, 182, 183. In fact, it expressly premises its standing and the ripeness of its claims on the State’s enforcement action, explaining that it was “Defendant Sorrell’s conduct . . . in connection with MPHJ’s sending of its previous letters, in suing MPHJ under the VCPA and also seeking an injunction compelling compliance with the Vermont Patent Assertions Act, and in refusing to [settle these claims]” that has “created a case or controversy that is ripe, afforded MPHJ standing, and caused MPHJ to be deprived of its rights under the U.S. Constitution and the U.S. Code.” *Id.* at ¶ 182.

Fundamentally, in all of its claims, MPHJ seeks declaratory relief regarding the State’s role in regulating patent licensing letters. Granting the relief MPHJ seeks will necessarily interfere with the state court’s evaluation of the constitutional issues already raised by MPHJ in the ongoing enforcement action. For example, MPHJ has requested relief declaring (1) that the CPA is invalid or preempted as applied, Doc. 18, at 44; (2) that “the Vermont Long Arm Statute is invalid as applied to subject MPHJ to personal jurisdiction in Vermont,” *id.* at 45; (3) that the CPA “as applied” and the Bad Faith Assertions Act “as asserted against MPHJ’s sending of future patent enforcement letters . . . are invalid or preempted,” *id.*; and (4) that “sending the

letter of Exhibit F, or a substantially similar letter, would not be” either “objectively baseless” or “subjectively baseless” as to the merits of the validity or enforcement of Claim 6 of the ‘426 patent, *id.* at 46. MPHJ also asks this Court to enjoin “Defendant Sorrell . . . from further threatening to bring suit against MPHJ under the VCPA or the Vermont Patent Assertions Act.” *Id.* Any of this relief would necessarily interfere with the state court’s ability to craft appropriate injunctive relief if it were to find that MPHJ’s previous correspondence violated the CPA.

In short, the relief sought by MPHJ in Count I interferes with the Attorney General’s prosecution of the enforcement action and the state court’s authority to grant appropriate injunctive relief in that case. Injunctive or declaratory relief from this Court directed at Vermont’s long-arm statute would interfere with the state-court’s exercise of personal jurisdiction over MPHJ – an issue the state court has already decided. Injunctive or declaratory relief from this Court addressing MPHJ’s alleged right to send other enforcement letters would interfere with the state court’s authority to shape appropriate prospective injunctive relief based on MPHJ’s past violations of the CPA. MPHJ is attempting to short-circuit the state-court proceeding by obtaining relief from this Court that limits and interferes with injunctive relief that may be granted in state court. This Court, accordingly, should abstain under *Younger*.

C. None of the exceptions to *Younger* apply in this case. A federal court need not abstain under *Younger* if the state proceeding was “(1) commenced in bad faith or to harass, (2) based on a flagrantly and patently unconstitutional statute, or (3) related to any other such extraordinary circumstance creating a threat of ‘irreparable injury’ both great and immediate.” *Phelps v. Hamilton*, 59 F.3d 1058, 1063-64 (10th Cir. 1995). MPHJ alleges that Defendant Sorrell filed the state-court proceeding “in retaliation for MPHJ’s exercise of its First Amendment Rights,” Doc. 18, at ¶¶ 165, 215, that the filing of the First Amended Complaint was

“blatantly unconstitutional,” *id.* at ¶¶ 168, 219, and “harassment,” *id.* at ¶¶ 169, 220. These appear to be attempts to get around *Younger* based on the first two exceptions. However, the exceptions to *Younger* only provide a “very narrow gate for federal intervention,” *Arkebauer v. Kiley*, 985 F.2d 1351, 1358 (7th Cir. 1993), and MPHJ has failed to plead facts supporting its baseless legal assertions of such exceptions. *See, e.g., Ashcroft v. Iqbal*, 556 U.S. 662, 678 (2009) (noting “a complaint [does not] suffice if it tenders ‘naked assertion[s]’ devoid of ‘further factual enhancement’”) (citations omitted); *Mikhail v. Kahn*, 991 F. Supp. 2d 596, 630 (E.D. Pa. 2014) (conclusory allegations are insufficient to avoid *Younger* abstention).

In determining whether the bad faith/harassment exception to *Younger* applies, courts consider whether the state action was (1) frivolous with no reasonable hope of success; (2) “motivated by the defendant’s suspect class or in retaliation for the defendant’s exercise of constitutional rights”; or (3) conducted in a harassing manner, typically through repeated prosecutions. *Phelps*, 59 F.3d at 1065 (citations omitted). “Generally, the subjective bad faith of the prosecuting authority is the gravamen of the exception to *Younger* abstention.” *Kern v. Clark*, 331 F.3d 9, 12 (2d Cir. 2003). MPHJ has not alleged any subjective bad faith on the part of Defendant Sorrell. The Second Circuit has upheld the application of the bad faith exception to *Younger* abstention where “a past history of personal conflict” and appellants’ pursuit of the appellee “in a strictly *ad hominem* manner” were retaliatory and designed to interfere with appellee’s exercise of his First Amendment rights. *Cullen v. Fliegner*, 18 F.3d 96, 102 (2d Cir. 1994) (quotations omitted). Here, MPHJ has not alleged any relation or connection to Defendant Sorrell or his subordinates until the beginning of the State’s investigation.

Moreover, to prevail on a claim of retaliation, MPHJ must prove it “was a major motivating factor and played a prominent role in the decision to prosecute.” *Smith v. Hightower*,

693 F.2d 359, 367 (5th Cir. 1982). Nothing in MPHJ's allegations, except the legal conclusions themselves, suggest that the actions of Defendant Sorrell were the result of retaliation. In *Schlagler v. Phillips*, 166 F.3d 439, 443 (2d Cir. 1999), the court explained that for this exception to apply the facts must show "that the prosecution is in retaliation for past speech or shows a pattern of prosecution to inhibit speech *beyond the acts being prosecuted.*" *Id.* (emphasis added). Here, MPHJ's allegations are akin to those presented in *Schlagler*, there is no prior precedential holding that the State's application of the CPA or the requirements of the Bad Faith Assertions Act are unconstitutional, and MPHJ has failed to allege any retaliation beyond the acts specifically being prosecuted in the enforcement action.

Finally, as the State has previously argued before this Court, the State has a "reasonable expectation of obtaining a favorable action" in its proceeding. *Diamond "D" Constr. Corp. v. McGowan*, 282 F.3d 191, 199 (2d Cir. 2002) (quotation omitted) ("A state proceeding that is legitimate in its purposes, but unconstitutional in its execution – even when the violations of constitutional rights are egregious – will not warrant the application of the bad faith exception."). The bad faith exception to *Younger* is not applicable where a prosecutor enforces a statute that a court ultimately finds unconstitutional, if there was no prior precedential holding that the statute was unconstitutional and the prosecution was not motivated by retaliation. *See Schlagler*, 166 F.3d at 443. In the absence of bad faith or retaliation, MPHJ's concerns regarding the constitutionality of the State's actions are properly addressed in state court. *Diamond "D,"* 282 F.3d at 200 ("We give states the first opportunity – but not the only, or last – to correct those errors of a federal constitutional dimension that infect its proceedings.").

To enjoin a state court proceeding based on the unconstitutionality of a statute, the law must be "flagrantly and patently violative of express constitutional prohibitions in every clause,

sentence and paragraph, and in whatever manner and against whomever an effort might be made to apply it.” *Younger v. Harris*, 401 U.S. 37, 53-54 (1971) (quotation omitted). While alleging that the State’s first amended complaint in its enforcement action was “blatantly unconstitutional,” MPHJ has not adequately set forth any justification for this legal conclusion nor noted any law that flagrantly and patently violates the constitution in all applications. *See* Doc. 13-1, at 20-24.

In sum, MPHJ has pled no facts that support applying one of the narrow, limited exceptions to *Younger* abstention. Its “bare assertions” of retaliation and bad faith are mere legal conclusions that are properly disregarded and not assumed true. *See Iqbal*, 556 U.S. at 678-81; *see, e.g., Mikhail*, 991 F. Supp. 2d at 630. The Court should dismiss the amended complaint based on *Younger*.

II. MPHJ’s challenges to the Bad Faith Assertions Act and its requests for advisory opinions on patent enforcement and personal jurisdiction are not justiciable.

A. The Claim 6 Letter and the Bad Faith Assertions Act. MPHJ’s new allegations and its hypothetical new Claim 6 Letter are insufficient to support MPHJ’s standing to challenge the Bad Faith Assertions Act. And even if MPHJ has adequately alleged standing, its claim is not ripe, because its cursory allegations do not permit the Court or the Attorney General to evaluate the proposed conduct.

1. Standing. MPHJ’s allegations about its future plans remain conclusory and vague, given the recent rulings invalidating the patent claims that formed the basis of MPHJ’s prior enforcement efforts. MPHJ now asserts that it “wishes” and “desires” to send enforcement letters to six unnamed Vermont businesses regarding a different patent claim, Claim 6 of the ‘426 patent. Doc. 18, ¶¶ 6, 119, 120. Claim 6 was not mentioned in letters previously sent to Vermont

businesses; to the contrary, the five patent claims described as “illustrative” in those letters were invalidated. *See* Doc. 13-1, at 14 & n.4. The Attorney General had not seen or been informed of any effort to enforce Claim 6 before the filing of the First Amended Complaint. MPHJ thus asks this Court to offer an advisory opinion on whether its proposed Claim 6 letter conforms with Vermont law, in the absence of any threatened enforcement action by the Attorney General.

MPHJ’s revised allegations are still inadequate to support standing, because its allegations are vague and its supposed intention to conduct enforcement regarding Claim 6 of the ‘426 is implausible. Entirely missing from the First Amended Complaint and the proposed Claim 6 Letter is (1) any explanation of Claim 6, as distinct from the remainder of the ‘426 claims that were invalidated; (2) any factual basis that MPHJ has to suspect that a Vermont business is infringing Claim 6; or (3) any information about the identity of these supposed infringers.

These missing allegations – particularly after MPHJ has amended its complaint in an effort to bolster its standing – are fatal. If MPHJ seeks to predicate standing on its supposed intent to enforce Claim 6 of the ‘426 patent, MPHJ has to plausibly allege a basis for attempting to enforce that claim against Vermont targets. MPHJ’s bare assertion that unnamed Vermont businesses are “reasonably suspected” of infringement (Doc. 18, ¶ 120) is a legal conclusion that is not accepted as true for purposes of a motion to dismiss. *See Iqbal*, 556 U.S. at 678-81. No factual allegations support this “bald allegation[],” *id.* at 681, and accordingly, it must be disregarded. Absent this minimum showing of a factual basis to suspect infringement, MPHJ has not pled sufficient facts for its alleged intent to enforce Claim 6 in Vermont to move its claim “across the line from conceivable to plausible.” *Id.* at 680 (quoting *Bell Atlantic Corp. v. Twombly*, 550 U.S. 544, 570 (2007)).

Other aspects of the amended complaint also indicate that MPHJ's alleged intent to enforce Claim 6 in Vermont is implausible and inadequately supported. In the past, MPHJ has stated that it does not intend to enforce its patents until the "legal clouds [are] cleared up." Docket No. 2:14-cv-192, Doc. 32, at 2. The amended complaint does not allege a threatened injury that is imminent and concrete, because it provides no timeframe for any future action. *See Lujan v. Defenders of Wildlife*, 504 U.S. 555, 560, 564 (1992) (allegations of future, "'some day' intentions" insufficient "without any description of concrete plans, or indeed even any specification of *when* the some day will be"). Additionally, Exhibit F, the supposed Claim 6 Letter, is drafted in MPHJ's name only, yet its complaint and its prior letters allege "exclusive licensees" for the patents. Doc. 18, ¶¶ 30, 49, 52-56, 105. MPHJ has not identified a basis for disregarding these "relevant exclusive licensee[s]" (*id.*) in its plan to send these letters. These omissions further show that MPHJ has not plausibly alleged specific facts to support its standing.

2. Ripeness. Even if MPHJ's allegations are sufficient to meet the minimum constitutional requirements for standing – and they are not – MPHJ's claims regarding its proposed Claim 6 Letter are not ripe and its request for declaratory and injunctive relief is not justiciable. The Second Circuit has held that there is both a constitutional and a prudential aspect to ripeness. *Nat'l Org. for Marriage, Inc. v. Walsh*, 714 F.3d 682, 687-88 (2d Cir. 2013). MPHJ's pre-enforcement challenge to the Bad Faith Assertions Act fails in both respects.

First, this case is not justiciable because, as explained above, MPHJ's allegations regarding suspected infringement are conclusory and unsupported by any factual allegations. At a minimum, to credibly allege "a real and imminent fear" that its conduct in Vermont will be "chilled," *Walsh*, 714 F.3d at 689, MPHJ has to allege a plausible basis for suspecting infringement by Vermont businesses. If it cannot show reasonable factual grounds for suspecting

infringement of Claim 6, it cannot send the Claim 6 Letter or any similar letter to a Vermont business. MPHJ has not satisfied this threshold requirement. *See supra* 7-9. For similar reasons, MPHJ's bare-bones allegations are inadequate to allege a "credible threat of enforcement." *Susan B. Anthony List v. Driehaus*, 134 S. Ct. 2334, 2343 (2014). MPHJ has not alleged sufficient facts to show that its proposed conduct is constitutionally protected and at least "arguably proscribed" by the challenged law. *See id.* at 2342-44. After two tries, MPHJ is still unable to plead facts (such as the identity of its proposed targets and the factual basis for suspecting infringement) necessary for a Court to evaluate these issues.

This case is nothing like *Walsh*, where the plaintiff described several specific political advertisements that it sought to broadcast immediately, and for which it credibly feared enforcement action. *See Walsh*, 714 F.3d at 690-91. Nor is it like *Driehaus*, where political advocacy groups challenged a state law that proscribed certain false statements in political campaigns. The Supreme Court noted that the law "sweeps broadly" and could be enforced not only through administrative complaints but also criminal penalties. 134 S. Ct. at 2344-46 (not deciding whether administrative proceedings alone were sufficient to establish Article III injury, because administrative enforcement was coupled with threat of criminal prosecution). Here, in contrast, the challenged state law is directed at a narrow class of bad-faith conduct and carries no criminal penalties.

Second, the prudential ripeness doctrine also favors dismissal of this premature claim. *See Nutritional Health Alliance v. Shalala*, 144 F.3d 220, 225 (2d Cir. 1998) (holding First Amendment challenge unripe). When evaluating prudential ripeness, the Court must consider the "fitness of the issues for judicial review." *Id.* In *Shalala*, the parties challenging on First Amendment grounds certain FDA labeling requirements for dietary supplements "did not allege

any particular health claims that plaintiffs wished to state.” *Id.* Nor did they “contend that they had ever sought the FDA’s authorization to make any such health claim . . . and that permission had been denied or delayed.” *Id.* The Second Circuit held that, in the absence of specific allegations, it was “extremely difficult for the court to conduct a *Central Hudson* analysis.” *Id.*

The same is true here. The issues are not fit for review because crucial allegations that would allow a Court to evaluate MPHJ’s claim are missing. MPHJ claims it “wishes” to enforce Claim 6 of the ‘426 patent, but has not described what Claim 6 covers or alleged *any* facts that suggest any business, much less a Vermont business, may be infringing Claim 6. Indeed, just as in *Shalala*, there is no way for the Court to evaluate whether the Claim 6 Letter, as directed to an unknown entity that has been targeted for unknown reasons, is truthful and not misleading. *See id.* at 226 (noting that “issue is particularly difficult to resolve in the abstract and without a full record”). Because MPHJ’s allegations are insufficient for this Court to address *either* the constitutional standard or the potential application of the Bad Faith Assertions Act, its claim is “not . . . ready for judicial review.” *Id.*

Shalala shows that the difference between commercial speech and fully protected political speech is relevant to the ripeness inquiry. MPHJ has no unfettered right to send letters alleging infringement and seeking licensing fees. Commercial speech is only protected if it is truthful and not misleading. *See, e.g., Shalala*, 144 F.3d at 226; *Alexander v. Cahill*, 598 F.3d 79, 89 (2d Cir. 2010) (commercial “speech that is false, deceptive, or misleading, and speech that concerns unlawful activities” is not protected). MPHJ thus bears the burden of alleging sufficient facts for the Court to find that its proposed demand letters at least arguably come within the First Amendment’s protection. It did not meet that burden, and its claim is not ripe.

B. Declaratory relief regarding validity and infringement. MPHJ’s request for advisory opinions on the validity of its patents, particularly Claim 6 of the ‘426 patent, or the possibility of infringement by non-parties are not justiciable.

1. As the Federal Circuit has recognized, “a declaratory judgment of patent validity . . . is not a viable cause of action.” *Semiconductor Energy Lab. Co. v. Nagata*, 706 F.3d 1365, 1370 (Fed. Cir. 2013). Courts have, accordingly, rejected attempts by patent holders to get a declaratory judgment confirming the validity of their patents. *See AstraZeneca AB v. Dr. Reddy’s Labs. Inc.*, 2014 WL 1292226, at *3 (D.N.J. Mar. 28, 2014) (“While invalidity of a patent is an available affirmative defense in a patent infringement action, Plaintiff cites nothing to support the notion that a patentee has an affirmative cause of action to seek a declaration that a patent is valid. Indeed, the opposite appears to be true.”); *Brooks Mfg. Co. v. Dis-Tran Wood Prods., LLC*, 2012 WL 1099760, at *4 (W.D. Wash. Mar. 30, 2012) (declining to exercise discretion to issue a declaratory ruling of validity where “the court has uncovered no case in which a patentee seeks a declaration of validity. Indeed, [plaintiff’s] patent is presumed valid.”). MPHJ’s request for judicial affirmation of validity is not the type of “definite and concrete” controversy that can support a claim for declaratory judgment. *See Aetna Life Ins. Co. of Hartford, Conn. v. Haworth*, 300 U.S. 227, 240-41 (1937); *cf. C.R. Bard, Inc. v. Schwartz*, 716 F.2d 874, 879 (Fed. Cir. 1983) (alleged infringer may seek declaratory judgment of *invalidity* where alleged infringer “has sufficient interest in the controversy” and “there is a reasonable threat that the patentee or licensor will bring an infringement suit against the alleged infringer”).

2. MPHJ seeks to have this Court address validity, potential or suspected infringement by unknown entities, and objective or subjective baselessness, but these are not justiciable claims for declaratory relief. MPHJ’s declaratory judgment claims “would not completely resolve” any

challenges, but rather “would simply carve out one issue in the dispute for separate adjudication.” *Calderon v. Ashmus*, 523 U.S. 740, 749 (1998); *see also Coffman v. Breeze Corp.*, 323 U.S. 316, 324 (1945) (finding no case or controversy when party’s requested declaratory relief is “but a request for an advisory opinion as to the validity of a defense” that has not yet been made). The “controversy” between MPHJ and the State is whether MPHJ has violated the CPA. MPHJ’s piecemeal declaratory judgment requests are an impermissible effort to have this Court offer advisory opinions on “collateral legal issue[s]” related to the pending enforcement action. *Calderon*, 523 U.S. at 747. The Declaratory Judgment Act may not be used “for this purpose.” *Id.* at 746.²

3. Even if a patent owner could seek a declaratory judgment of validity or infringement, MPHJ has not alleged an actual case or controversy. Defendant Sorrell is not an alleged infringer of any of MPHJ’s patents and he has not challenged the validity of these patents. MPHJ’s effort to litigate its claims regarding patent validity and enforcement involve the “independent action” of third parties not before the Court. *See Simon v. E. Ky. Welfare Rights Org.*, 426 U.S. 26, 42 (1976); *Pritikin v. Dep’t of Energy*, 254 F.3d 791, 797-98 (9th Cir. 2001). For that reason, MPHJ cannot show the requisite causal connection to Defendant Sorrell or a likelihood of redressability. *See Lujan*, 204 U.S. at 560 (to show “causal connection between the injury and the conduct complained of—the injury has to be ‘fairly . . . trace[able] to the challenged action of the defendant, and not . . . th[e] result [of] the independent action of some third party not before the court’” (citations omitted)). MPHJ and Defendant Sorrell are not adverse on the issues of

² MPHJ has, in any event, not alleged facts sufficient for this Court to address these issues. As just one example, the complaint alleges no facts on which the Court could find that “claim 6 of the ‘426 patent may reasonably suspected of being infringed by at least some Vermont businesses.” Doc. 18, at 46.

validity or infringement presented in Counts I-E or II-D, and the relief MPHJ seeks is both abstract and not directed at Defendant Sorrell.

Adjudicating important questions of validity and infringement in a void without adverse parties is precisely what the case or controversy requirement was designed to prevent. *Md. Cas. Co. v. Pac. Coal & Oil Co.*, 312 U.S. 270, 273 (1941) (“Basically, the question in each case is whether the facts alleged, under all the circumstances, show that there is a substantial controversy, between parties having adverse legal interests, of sufficient immediacy and reality to warrant the issuance of a declaratory judgment.”). Because Defendant Sorrell has not challenged the validity of MPHJ’s patents and there is no infringement dispute between MPHJ and Defendant Sorrell, it would be improper for the Court to address these questions. *See* 13A Wright & Miller, Federal Practice & Procedure, § 3531.6 (3d ed.) (“An abstract decision without remedial consequence seems merely advisory, an unnecessary expenditure of judicial resources that burdens the adversary and carries all the traditional risks of making bad law and trespassing on the provinces of the executive and legislature.”).

C. Personal Jurisdiction. MPHJ’s request for a declaratory judgment regarding personal jurisdiction in a hypothetical future enforcement action is not justiciable.³

1. As set forth above, MPHJ has not alleged adequate facts demonstrating its own concrete and specific plans regarding Claim 6, much less an imminent threat of enforcement action by the Attorney General. Accordingly, MPHJ has not alleged injury-in-fact sufficient to

³ As explained above, MPHJ’s request for declaratory relief addressing personal jurisdiction is one reason that Count I must be dismissed based on *Younger* abstention. MPHJ has already contested personal jurisdiction in the state-court enforcement action, and lost. Any relief entered by this Court that addresses the state court’s jurisdiction over MPHJ would interfere with the state enforcement action. *See supra* 4.

litigate personal jurisdiction in a future action. For similar reasons, absent a pending enforcement action and developed factual record, the issue is not ripe for adjudication.

2. MPHJ also lacks standing because any injury caused by a state-court ruling addressing personal jurisdiction is neither traceable to nor redressable by the Attorney General. The Vermont courts, not the Attorney General, apply and enforce the long-arm statute, and the Vermont courts, not the Attorney General, would exercise personal jurisdiction over MPHJ in a particular case. MPHJ's claim seeks to dictate, in advance, the decision of a Vermont court – presumably not just in an action potentially brought by the Attorney General, but in any action brought by any party. Doc. 18, at 45. This Court may not enter relief against the Attorney General in an effort to control the potential future holdings of Vermont courts entertaining actions involving MPHJ.

3. Again, this effort at piecemeal litigation is not a justiciable request for declaratory relief. MPHJ's claim is much like the request for declaratory relief rejected by the Supreme Court in *Calderon*. There, instead of filing a habeas petition, an inmate sought a declaratory judgment regarding the statute of limitations that would govern a habeas petition. The Court held that the claim was not justiciable, because it would not resolve the “case or controversy” between the inmate and the State, but “merely determine a collateral legal issue governing certain aspects of their pending or future suits.” 523 U.S. at 747. The same is true here: MPHJ seeks nothing more than “an opinion advising what the law would be upon a hypothetical state of facts.” *Id.* at 746 (quoting *Aetna Life*, 300 U.S. at 241). Its claim accordingly “fall[s] outside the constitutional definition of a ‘case’ in Article III.” *Id.*

D. Selective Prosecution. MPHJ's selective prosecution claim has the same standing, ripeness, and justiciability issues outlined above. MPHJ has not credibly alleged an imminent

threat of prosecution under the Bad Faith Assertions Act, and thus lacks standing. Similarly, absent actual or imminent prosecution under the Act, a claim of selective prosecution is unripe. And, regardless, MPHJ is merely seeking an “advance ruling” on a potential defense in future litigation, which is not a justiciable claim for declaratory relief. *Calderon*, 523 U.S. at 747.⁴

E. Takings. MPHJ’s Takings claim is not ripe, because there has been no final decision applying the CPA or Bad Faith Assertions Act to MPHJ’s patents, nor has MPHJ exhausted state procedures for obtaining just compensation.

1. The takings claim is unripe because there has been no final state action affecting MPHJ’s patents. The Supreme Court has consistently required a final decision from the relevant authority before considering a takings claim ripe, since the Court cannot evaluate the economic impact of an alleged taking until there is a “final, definitive position” regarding how the law applies to property. *Williamson Cnty. Reg’l Planning Comm’n v. Hamilton Bank of Johnson City*, 473 U.S. 172, 191 (1985). The Second Circuit and this Court have described the “finality” prong as requiring a “legal compulsion” to act, rather than a mere market incentive. *Garelick v. Sullivan*, 987 F.2d 913, 916 (2d Cir. 1993) (no taking from price regulations when anesthesiologists were under no legal duty to provide services to Medicare patients); *see also Vermont Assembly of Home Health Agencies, Inc. v. Shalala*, 18 F. Supp. 2d 355, 369 (D. Vt. 1998) (finding no compulsion related to federal Medicare reimbursement limits, even where state law essentially required plaintiff to serve Medicare beneficiaries because “action causing financial hardship is not necessarily compulsory”), *Hinesburg Sand & Gravel Co. v. Chittenden*

⁴ MPHJ has alleged nearly identical selective prosecution claims in Counts I and II. To the extent the claim of selective prosecution is directed at the pending enforcement action, it must be dismissed on *Younger* grounds (*supra* 2-3) and fails to state a claim (*infra* 20-21).

Solid Waste Dist., 959 F. Supp. 652, 657 (D. Vt. 1997) (holding plaintiff failed to state a takings claim where a landfill siting process did not legally compel plaintiff to take any action). Here, the State's pending enforcement action has placed no legal compulsion on MPHJ and there has been no final decision applying Vermont law to its conduct.

2. Even if MPHJ alleged a final state action, a taking does not violate the Fifth Amendment until the property owner exhausts procedures in place for receiving compensation.⁵ “[I]f a State provides an adequate procedure for seeking just compensation, the property owner cannot claim a violation of the Just Compensation clause until it has used the procedure and been denied just compensation.” *Williamson*, 473 U.S. at 195. Vermont state courts provide an “adequate procedure” for compensating regulatory takings. *Southview Assocs., Ltd. v. Bongartz*, 980 F.2d 84, 101 (2d Cir. 1992) (explaining that “a suit in state court” is an adequate procedure before asserting a Section 1983 claim). MPHJ alleges that a taking has occurred, but has not sought just compensation in a Vermont state court. Because it fails the “exhaustion” prong of *Williamson*, its claim is unripe.

III. MPHJ fails to state a claim for relief.

As set forth in the original motion to dismiss, MPHJ's pre-enforcement challenge to the Bad Faith Assertions Act does not state a plausible claim for relief. Doc. 13-1, at 16-24. Defendant Sorrell supplements the prior briefing, showing that MPHJ's new Dormant Commerce Clause, selective prosecution, and takings claims also should be dismissed for failure to state a claim.

⁵ MPHJ's conclusory assertion that there is no remedy under Vermont law (Doc. 18, at ¶ 114) must be disregarded because it is a bare legal assertion. *Iqbal*, 556 U.S. at 678.

A. Dormant Commerce Clause. MPHJ fails to state a claim under the Dormant Commerce Clause. The Dormant Commerce Clause “prohibits economic protectionism – that is, regulatory measures designed to benefit in-state economic interests by burdening out-of-state competitors.” *Wyoming v. Oklahoma*, 502 U.S. 437, 454 (1992) (quotation omitted). However, “the States retain authority under their general police powers to regulate matters of legitimate local concern, even though interstate commerce may be affected.” *Maine v. Taylor*, 477 U.S. 131, 138 (1986) (quotation omitted). In addition to a statute that clearly discriminates against interstate commerce, a nondiscriminatory statute may violate the Dormant Commerce Clause if it has “incidental” effects on interstate commerce. *Automated Salvage Transp. Inc. v. Wheelabrator Envtl. Sys., Inc.*, 155 F.3d 59, 74 (2d Cir. 1998). MPHJ has not alleged that either the Bad Faith Assertions Act or the CPA discriminate between in-state and out-of-state commerce. *See Or. Waste Sys., Inc. v. Dept. of Envtl. Quality*, 511 U.S. 93, 99 (1994) (explaining that the term discriminate “means differential treatment of in-state and out-of-state economic interests that benefits the former and burdens the latter”).

Absent pleading that the statutes are clearly discriminatory, MPHJ must allege that the laws place a burden on interstate commerce that is “clearly excessive in relation to the putative local benefits.” *Pike v. Bruce Church, Inc.*, 397 U.S. 137, 142 (1970). This burden may be shown “(1) when the regulation has a disparate impact on any non-local commercial entity; (2) when the statute regulates commercial activity that takes place wholly beyond the state’s borders; and (3) when the challenged statute imposes a regulatory requirement inconsistent with those of other states.” *United Haulers Ass’n v. Oneida-Herkimer Solid Waste Mgmt. Auth.*, 438 F.3d 150, 156-57 (2d Cir. 2006), *aff’d* 550 U.S. 330 (2007). MPHJ fails to assert any such burden on interstate commerce.

“[T]he minimum showing required to succeed in a Commerce Clause challenge to a state regulation is that it have a disparate impact on interstate commerce.” *Automated*, 155 F.3d at 75. “Under *Pike*, if no such unequal burden be shown, a reviewing court need not proceed further.” *Nat’l Elec. Mfrs. Ass’n (NEMA) v. Sorrell*, 272 F.3d 104, 109 (2d Cir. 2001). Here, MPHJ has failed to plead any unequal burden or disparate impact on interstate (as opposed to intrastate) commercial activity. It has, in fact, not alleged any particular burden on interstate commerce, only stating that the law “discriminates against patent owners seeking to enforce their patents against Vermont infringing businesses.” Doc. 18, at ¶ 156. It has not suggested that this burden falls unequally on out-of-state patent holders versus in-state patent holders.

Instead, MPHJ alleges that the law unlawfully favors Vermont businesses. Doc. 18, at ¶¶ 110(c) (“the Act . . . provides benefits to Vermont citizens who are ‘targets’ of patent assertions differently than citizens of other States”), 156 (“it is designed to shield Vermont businesses from patent infringement claims more favorably than out of state businesses”), 157 (“it unlawfully discriminates against patent owners to the benefit of Vermont businesses more favorably than businesses in other states). This is not the test under the Dormant Commerce Clause. Of course, Vermont state laws are going to protect Vermont consumers as opposed to consumers in other states. In fact, if Vermont, instead of protecting just its own consumers, sought to act in a way that regulated transactions occurring entirely outside of the state, such regulation could impose a cognizable burden under the *Pike* balancing test. *See Town of Southold v. Town of East Hampton*, 477 F.3d 38, 50 (2d Cir. 2007) (explaining that a burden may exist where a state “regulates commercial activity that takes place wholly beyond the state’s borders”). MPHJ has not alleged that either the Bad Faith Assertions Act or the CPA regulates commercial activity outside of Vermont.

Finally, MPHJ has not alleged that Vermont's laws impose regulatory burdens inconsistent with other states. "It is not enough to point to a risk of conflicting regulatory regimes in multiple states; there must be an actual conflict between the challenged regulation and those in place in other states." *NEMA*, 272 F.3d at 112. MPHJ has not alleged that there is any conflict between Vermont's law and the laws of other states. Although it suggests that Vermont businesses receive greater protections than businesses in other states, it has demonstrated no conflict between the laws. Vermont's law is not unconstitutional simply because MPHJ cannot solicit licenses "on exactly the same terms to consumers in all states." *SPGGC, LLC v. Blumenthal*, 505 F.3d 183, 196 (2d Cir. 2007). In fact, "[c]onsumer protection matters are typically left to the control of the states precisely so that different states *can* apply different regulatory standards based on what is locally appropriate." *Id.* By failing to demonstrate any disparate impact, extraterritorial reach or conflict with other laws, MPHJ has not pled a burden necessary to support its Dormant Commerce Clause claim.

B. *Selective prosecution.* Even assuming a plaintiff may assert an affirmative claim of selective prosecution – a point Defendant Sorrell does not concede – MPHJ's allegations do not state a plausible claim for relief. First, a "type of patent owner" (Doc. 18, ¶¶ 170, 221) is not an arbitrary classification for purposes of the Equal Protection Clause. *See United States v. Armstrong*, 517 U.S. 456, 464 (1996) ("decision whether to prosecute may not be based on an unjustifiable standard such as race, religion, or other arbitrary classification" (quotation omitted)). Second, MPHJ has supplied nothing more than conclusory allegations of discrimination. *See* Doc. 18, ¶¶ 227-31. *Armstrong* teaches that the selective-prosecution standard is "demanding" and "rigorous" because of the broad prosecutorial discretion afforded the Executive Branch and the presumption that prosecutors properly discharge their duties. 517

U.S. at 463-64, 468. As a threshold matter, MPHJ must make a credible showing that similarly situated persons have not been prosecuted. *Id.* at 465; *see also United States v. Alameh*, 341 F.3d 167, 172 n.2 (2d Cir. 2003). Its complaint is, however, devoid of any such allegations. Nor has MPHJ shown, as it must, “‘clear evidence’ that the prosecutorial decision or policy in question had both ‘a discriminatory effect and . . . was motivated by a discriminatory purpose.’” *Alameh*, 341 F.3d at 173 (quoting *Armstrong*, 517 U.S. at 465). The complaint’s conclusory allegations of discrimination do not approach this standard.

C. Takings. As explained above, MPHJ’s takings claim in Count III is not ripe, but even if it were, it fails to state a plausible claim for relief. Applying regulatory takings analysis to patents would be an unprecedented and unwise step. While plaintiffs have rarely bothered to assert regulatory takings claims on their patents, courts have rejected this approach to patent rights when it is raised. *See, e.g., Michelotti v. United States*, 557 F. App’x 956, 962 (Fed. Cir. Feb. 18, 2014), *as amended on denial of reh’g* (Mar. 3, 2014), *cert. denied*, 134 S. Ct. 2828 (2014) (rejecting inventor’s claim that a regulatory prohibition relating to his invention effected a taking of the patent, since patent rights only conferred exclusionary rights); *Korsinsky v. Dudas*, 227 F. App’x 891, 894 (Fed. Cir. 2007) (upholding district court determination that patent rights could lapse if maintenance fees went unpaid). Indeed, some commentators have noted that applying regulatory takings analysis to patents would risk a chilling effect on all regulation concerning science and technology rights, and hypothesized that this concern has driven courts to avoid applying any takings analysis to patents. *See* Davida H. Isaacs, *Not All Property Is Created Equal: Why Modern Courts Resist Applying the Takings Clause to Patents, and Why They Are Right to Do So*, 15 *Geo. Mason L. Rev.* 1, 3 (2007). MPHJ’s claim is thus not only unripe, but also lacking support from precedent and sound policy when considered on its merits.

IV. Any award of damages to MPHJ is barred by Section 1983 and sovereign immunity.

MPHJ appears to seek an award of its fees and costs incurred in its defense of the State's separate enforcement action. *See* Doc. 18, at ¶¶ 232-33 (noting that MPHJ has "necessarily incur[ed] attorneys' fees and costs" relating to the State's enforcement action and claiming that such fees and costs "are recompensable to MPHJ under the law."). That would be money damages, and the State's sovereign immunity bars an order requiring payment to MPHJ for damages, including any fees and costs related to the State's enforcement action. *See, e.g., Ruckelshaus v. Sierra Club*, 463 U.S. 680, 685 (1983) ("Except to the extent it has waived its immunity, the Government is immune from claims for attorney's fees."); *Edelman v. Jordan*, 415 U.S. 651, 676 (1974) ("[A] federal court's remedial power, consistent with the Eleventh Amendment, is necessarily limited to prospective injunctive relief, and may not include a retroactive award which requires the payment of funds from the state treasury." (citations omitted)). The result is the same although the Attorney General is the named defendant, because "[w]hen the action is in essence one for the recovery of money from the state, the state is the real, substantial party in interest and is entitled to invoke its sovereign immunity from suit even though individual officials are nominal defendants." *Edelman*, 415 U.S. at 663 (quotation omitted). Moreover, a damages award is not even available under 42 U.S.C. § 1983, because MPHJ's claim is against the Attorney General in his official capacity, and "neither a State nor its officials acting in their official capacities are 'persons' under § 1983." *Will v. Michigan*, 491 U.S. 58, 71 (1989); *Al-Jundi v. Estate of Rockefeller*, 885 F.2d 1060, 1065 & n.2 (2d Cir. 1989) (damages may not be awarded under s 1983 in official-capacity suit). MPHJ's claim to recover

its fees and costs in the enforcement action, and any other damages claim MPHJ might assert, must be dismissed.⁶

CONCLUSION

The Court should dismiss MPHJ's claims.

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⁶ To the extent MPHJ seeks an award of its fees incurred in litigating this case (Doc. 18, at 47-48), that issue would be litigated, if necessary, following a final judgment. *See* Fed. R. Civ. P. 54(d).