UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF VERMONT

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

DEFENDANTS' MEMORANDUM IN SUPPORT OF MOTION TO DISMISS

STATE OF VERMONT

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INTRODUCTION

MPHJ brought this § 1983 action to direct the outcome of the State's pending consumer-protection lawsuit against MPHJ. MPHJ seeks an injunction to end the State's enforcement action. The doctrine of *Younger* abstention prevents this kind of interference with a pending state enforcement action. The case should be dismissed.

The State began investigating MPHJ and its subsidiaries in early 2013. The State issued MPHJ a civil investigative subpoena in February 2013, to which MPHJ replied in March 2013. The State then filed its enforcement action (the "State Action") in state court in May 2013, alleging that MPHJ engaged in unfair and deceptive acts in commerce. Docket No. 2:13-cv-00170, Docs. 1-1, 1-2.

On May 24, 2013, after the State Action was filed, the Vermont Legislature enacted the Bad Faith Assertions of Patent Infringement Act. 9 V.S.A. § 4195-4199. The State Action does not assert any claims under this Act, as MPHJ's conduct predated the Act.

In June 2013, MPHJ removed the State Action to federal court. Docket No. 2:13-cv-00170, Doc. 1. This Court remanded in April 2014. *Id.* at Doc. 61. Immediately following the remand, the State filed an amended complaint to remove one portion of its requested injunctive relief. Docket No. 2:14-cv-00192, Doc. 7. MPHJ appealed the remand order, and the Federal Circuit dismissed those appeals in August 2014. *See Vermont v. MPHJ Tech. Invs., LLC*, 763 F.3d 1350 (Fed. Cir. 2014).

After the Federal Circuit ruling and a state-court ruling denying MPHJ's motion to dismiss, MPHJ filed a second removal notice in the State Action. This second effort at removal came over a year after the original complaint was filed and months after the State amended its complaint. Docket No. 2:14-cv-00192, Doc. 1. The State's motion to remand this untimely second removal is pending. *Id.* at Doc. 22.

MPHJ simultaneously brought this action, asking the Court to enjoin "Defendants Sorrell and Asay, and any of their authorized agents or representatives in their official capacity, from further prosecuting the First Amended Complaint in Vermont Superior Court." Doc. 1, at 26. MPHJ also requests declaratory and injunctive relief related to the Bad Faith Assertions Act, which MPHJ has not violated, has alleged no intention of violating, and which Defendants Sorrell and Asay have taken no steps to enforce.

This Court should dismiss MPHJ's claims because (1) *Younger* abstention requires dismissal of all claims; (2) MPHJ lacks standing to challenge the Bad Faith Assertion Act; and (3) MPHJ has failed to state a claim that the Bad Faith Assertion Act is preempted or otherwise unconstitutional. Moreover, the official-capacity claim against Defendant Asay, an assistant Attorney General, should be dismissed because the relief MPHJ seeks may only be entered against the Attorney General.

ARGUMENT

I. MPHJ's effort to enjoin and otherwise interfere with a pending state enforcement action must be dismissed on the basis of Younger abstention.

"Since the beginning of this country's history Congress has, subject to few exceptions, manifested a desire to permit state courts to try state cases free from interference by federal courts." *Younger v. Harris*, 401 U.S. 37, 43 (1971). The Supreme Court has explained that states should not be required to engage in "duplicative litigation" and the associated disruption to their enforcement actions. *Trainor v. Hernandez*, 431 U.S. 434, 445 (1977). "*Younger* . . . and its progeny espouse a strong federal policy against federal-court interference with pending state judicial proceedings absent extraordinary circumstances." *Middlesex County Ethics Committee v. Garden State Bar Ass'n*, 457 U.S. 423, 431 (1982). As the Supreme Court explained in *Younger*, "the possible unconstitutionality of a statute 'on its face' does not in itself justify an injunction against good-faith attempts to enforce it." 401 U.S. at 54.

MPHJ's lawsuit against the Attorney General and a subordinate, seeking an injunction to end a prosecution, exemplifies the type of case for which *Younger* abstention is required. The relief requested by MPHJ in this action is an express attempt to interfere with the State Action. MPHJ seeks an injunction barring the Attorney General "from further prosecuting the First Amended Complaint in Vermont Superior Court." Doc. 1, at 26. MPHJ also seeks other injunctive relief and declaratory judgments directed at the State Action and MPHJ's alleged defenses to that action. *See* Doc. 1, at ¶¶ 117, 126 (alleging that Consumer Protection Act is

invalid or preempted, as applied by the Defendants in the State Action "under the First, Fifth and Fourteenth Amendments, and the Supremacy and Patent Clauses of the U.S. Constitution, and Title 35 of the U.S. Code").[1] In short, MPHJ wants this Court to address issues that must be litigated in the State Action, and asks this Court to grant relief that would terminate the State Action. Consistent with the respect for comity and federalism that *Younger* requires, the Court may not entertain these claims.

Younger abstention applies to actions seeking to *enjoin* state court proceedings, *see Hansel v. Town Court for Town of Springfield, N.Y.*, 56 F.3d 391, 393 (2d Cir. 1995), and also encompasses actions seeking declaratory judgments that would interfere with ongoing state enforcement actions. *See Samuels v. Mackell*, 401 U.S. 66, 73-74 (1977); *Kirschner v. Klemons*, 225 F.3d 227, 235 (2d Cir. 2000) ("The *Younger* doctrine is as applicable to suits for declaratory relief as it is to those for injunctive relief."); *Ponbriand v. Hofmann*, 2006 WL 2585075, at *3 (D. Vt. Aug. 24, 2006) ("The *Younger* abstention doctrine applies both to injunctive and declaratory relief."). "When *Younger* applies, abstention is mandatory, and its application deprives the court of subject matter jurisdiction in the matter." *Jureli,*

[1] In Count I of its complaint, MPHJ seeks relief directed at the Bad Faith Assertions Act, which the State is not enforcing against MPHJ. MPHJ nevertheless affirmatively alleges that the Act is part of the State Action and seeks relief directed at and intended to interfere with that action. Accordingly, Count I should be dismissed on *Younger* abstention grounds along with the other counts in the complaint. Defendants advance two alternative grounds for dismissing Count I. *See infra* Section II.

LLC. v. Schaefer, 2014 WL 4293918, at *8 (E.D.N.Y. Aug. 28, 2014) (quoting *Thomas v. Venditto*, 925 F. Supp. 2d 352, 358 (E.D.N.Y. 2013)).

The Supreme Court recently clarified in *Sprint Commc'ns, Inc. v. Jacobs,* 134 S. Ct. 584 (2013), that *Younger* abstention is appropriate for three categories of pending state actions: "ongoing state criminal prosecutions"; "certain civil enforcement proceedings"; and "pending civil proceedings involving certain orders . . . uniquely in furtherance of the state courts' ability to perform their judicial functions." *Id.* at 591 (quotations omitted). The Second Circuit has held in an unpublished summary order that *Sprint* "rejected" the three-part test for *Younger* abstention derived from *Middlesex*. *Mir v. Shah,* 569 F. App'x 48, 50 (2d Cir. June 17, 2014) (unpub.); *see Sprint*, 134 S. Ct. at 593 (holding that "three *Middlesex* conditions . . . were not dispositive; they were, instead, additional factors appropriately considered by the federal court before invoking *Younger*"). As explained below, the *Sprint* test is readily met here, and to the extent the *Middlesex* factors are relevant, they are satisfied as well.

A. The State Action is a civil enforcement action for which Younger abstention is required.

The State Action fits comfortably in the second *Sprint* category, because it is "an act of civil enforcement of the kind to which *Younger* has been extended." 134 S. Ct. at 592. It was "initiated to sanction the federal plaintiff, *i.e.*, the party challenging the state action, for some wrongful act," *id.*, namely, engaging in unfair and deceptive acts in commerce. The State conducted an investigation, *see* Doc. 1-9, at 11 (requesting investigative costs); 9 V.S.A. § 2460, which "culminat[ed] in the

filing of a formal complaint" by the State of Vermont. *Sprint*, 134 S. Ct. at 592. The investigation, the provision for substantial civil penalties, and the role of "the State in its sovereign capacity" make this enforcement action "akin to a criminal prosecution in important respects." *Id.* at 592 (quotation omitted); *see also Mir*, 569 F. App'x at 51 (applying the *Sprint* test and abstaining under *Younger* where "referral proceedings are initiated by a state actor, are preceded by investigations that culminate in formal charges, and sanction the [defendant] for some wrongful act").

This case is also consistent with other civil cases where the Supreme Court has required *Younger* abstention. This is a state proceeding, *see Huffman v. Pursue, Ltd.*, 420 U.S. 592, 604 (1975) (distinguishing between a civil action involving private parties and a state proceeding), and "an offense to the State's interest in the [consumer protection] litigation is likely to be every bit as great as it would be were this a criminal proceeding." *Id.* [2] The Supreme Court again in *Trainor*, emphasized that "the State was a party to the suit," in concluding that *Younger* abstention was appropriate. 431 U.S. at 444. This was the case even where the suit was the type that would be available to private parties as well as the state. *See id.* Where a state brings a civil action to enforce its state laws and address wrongdoing, as Vermont did in the State Action, *Younger* abstention is consistently applied. *Id.* ("[T]he

[2] Additionally, although the Consumer Protection Act is a civil statute and does not impose criminal penalties, it is akin to a criminal prosecution in the respects described in *Sprint*, and there are, in fact, similar criminal statutes under Vermont law. *See, e.g.*, 13 V.S.A. § 2005 (criminal prohibition on false advertising).

principles of *Younger* and *Huffman* are broad enough to apply to interference by a federal court with an ongoing civil enforcement action such as this, brought by the State in its sovereign capacity.").

Courts, including this one, have consistently applied *Younger* abstention to state enforcement actions brought to enforce consumer-protection laws. Just two years ago, this Court dismissed a similar § 1983 action directed at a Vermont consumer enforcement action. *MyInfoGuard, LLC v. Sorrell*, 2012 WL 5469913, at *8 (D. Vt. Nov. 9, 2012) (noting that the "State is acting under its own authority to prevent and eradicate unfair and deceptive business practices . . . [by] seeking civil penalties and injunctive relief, remedies only the State is entitled to seek under the CPA"). Other courts agree. *See Am. Consumer Pub. Ass'n v. Margosian*, 349 F.3d 1122, 1127 (9th Cir. 2003) (abstaining under *Younger* where Oregon Attorney General filed action alleging unlawful trade practices, explaining that "Oregon has a strong interest in protecting its consumers from fraud and in administering its consumer-fraud statutes smoothly"); *In re Standard & Poor's Rating Agency Litig.*, 2014 WL 2481906, at *22 (S.D.N.Y. June 3, 2014) (finding that state consumer protection proceedings met the three hallmarks identified by the Supreme Court in *Sprint*).

The State Action was brought by the State of Vermont in furtherance of addressing a wrongful act by MPHJ – violating the state's prohibition on unfair and deceptive acts and practices in commerce. This falls squarely within the category of

"certain civil enforcement proceedings" recognized in *Sprint* and countless other cases.

B. The *Middlesex* factors further support *Younger* abstention.

The Second Circuit, applying the *Middlesex* factors, has required abstention under *Younger* when "(1) there is a pending state proceeding, (2) that implicates an important state interest, and (3) the state proceeding affords the federal plaintiff an adequate opportunity for judicial review of his or her federal constitutional claims." *Spargo v. New York State Comm'n on Judicial Conduct*, 351 F.3d 65, 75 (2d Cir. 2003); *see also Middlesex*, 457 U.S. at 432; *but see Mir*, 569 F. App'x at 50 (unpub.). In addition to falling within one of the recognized categories set forth in *Sprint*, each of the *Middlesex* requirements is met in this case.

1. The State's enforcement action, which MPHJ improperly removed to federal court for a second time, is the pending state proceeding for purposes of the State's motion. The State Action was properly filed in state court, remanded once by this Court, and should be remanded again. *See* Docket No. 2:14-cv-00192, Doc. 22 (State's pending motion to remand). In a recent similar case, this Court found an ongoing state proceeding for *Younger* purposes where the Court, in the same order, remanded the State's enforcement action to state court. *MyInfoGuard*, 2012 WL 5469913, at *8; *see also In re Standard & Poor's*, 2014 WL 2481906, at *22 ("[I]n light of the Court's decision to remand South Carolina's and Tennessee's civil enforcement proceedings to state court, there is no dispute that there is – now – a pending state proceeding in each state"). Here, as in *Younger*, MPHJ can raise its constitutional claims as defenses in the State Action.

2. A state's interest is "important" under *Younger* where "the state action concerns the central sovereign functions of state government." *Grieve v. Tamerin*, 269 F.3d 149, 152 (2d Cir. 2001) (quotation omitted). The State in its underlying action seeks to prevent consumer deception under the Consumer Protection Act by restraining activities that violate the statute, obtaining restitution for victims, and imposing civil penalties as a sanction. *See* 9 V.S.A. § 2458; Docket No. 2:13-cv-00170, Doc. 61, at 14 (noting that "this case is about consumer protection, not about patents"). There can be no dispute that protecting consumers from unfair and deceptive business practices falls within the sovereign function of state government. *See California v. ARC America Corp.*, 490 U.S. 93, 101 (1989) ("Given the long history of state common-law and statutory remedies against monopolies and unfair business practices, it is plain that this is an area traditionally regulated by the states." (footnote omitted)). Therefore, courts have consistently held that a state's interests in protecting its consumers from deceptive practices satisfies the *Younger* abstention test. *See, e.g.*, *In re Standard & Poor's*, 2014 WL 2481906, at *23 (citing cases in support of proposition that "courts have repeatedly held that state actions to enforce consumer-protection statutes and laws against deceptive business practices are sufficiently important for *Younger* purposes").

3. Finally, the state court proceeding will offer MPHJ ample opportunity to raise its federal constitutional claims. MPHJ has already raised the same issues in the State Action as affirmative defenses. Docket No. 2:14-cv-00192, Doc. 20, at 11-14. Moreover, "the United States Constitution declares that 'the Judges in every

State shall be bound' by the Federal Constitution, laws, and treaties." *Huffman*, 420 U.S. at 611. The Supreme Court has declined to "base a rule on the assumption that state judges will not be faithful to their constitutional responsibilities." *Id.*; *Middlesex*, 457 U.S. at 431 ("Minimal respect for the state processes, of course, precludes any *presumption* that the state courts will not safeguard federal constitutional rights."); *Grundstein v. Vermont*, 2011 WL 6291955, at *4 (D. Vt. Dec. 15, 2011) (Vermont state courts provide an adequate opportunity to raise federal constitutional claims). But MPHJ nonetheless asks this Court to assume that Vermont state courts cannot or will not protect its federal constitutional rights. The Court should decline MPHJ's invitation to second-guess state courts.

II. MPHJ lacks standing to challenge Vermont's Bad Faith Assertions of Patent Infringement Act and fails to state a claim for relief.

Again, the Court should dismiss all claims in this case on the basis of *Younger* abstention. Count I of MPHJ's complaint is, however, in a somewhat different posture from the other counts, because MPHJ asserts that the Bad Faith Assertions Act is part of the State Action, while in fact the State has not asserted a claim under that statute. *See* Doc. 1-9; *see also* Docket No. 2:14-cv-00192, Docs. 22-1, at 8-9; 25-1, at 5. *Younger* abstention nonetheless applies and Count I should be dismissed because MPHJ seeks relief *directed at* the State Action. Doc. 1, at 3-4, 16-18, 25-26. In the alternative, however, the Court should also dismiss Count I for lack of standing and failure to state a claim.

A. MPHJ lacks standing to challenge the Act.

MPHJ lacks standing for Count I because it has failed to allege an injury-in-fact traceable to Vermont's Bad Faith Assertion Act. "Injury in fact" is required for a plaintiff to demonstrate standing sufficient to meet the Article III case or controversy requirement. *Whitmore v. Arkansas*, 495 U.S. 149, 155 (1990). A plaintiff must allege injury "that is distinct and palpable, as opposed to merely [a]bstract, and the alleged harm must be actual or imminent, not conjectural or hypothetical." *Id*. (quotations and citations omitted). MPHJ's alleged injury is entirely conjectural and hypothetical, as it has not violated the Bad Faith Assertions Act and has not alleged an intention to violate the Act.

MPHJ has not alleged that it has violated or intends to violate the Bad Faith Assertions Act. Nor has the Attorney General threatened MPHJ with suit under the Act. Any harm MPHJ alleges to have suffered as a result of the Bad Faith Assertions Act is purely speculative because:

- MPHJ stopped sending demand letters into Vermont in February 2013, months before the Bad Faith Assertions Act was passed.
- MPHJ has not sent demand letters into Vermont after the Act took effect, so the State cannot (and has not threatened to) file suit against MPHJ under the Act.
- MPHJ also halted sending letters nationally while its patents are challenged on *inter partes* review before the Patent Trial and Appeal Board.[3]
- Two of the patents that MPHJ asserted in its previous letters into Vermont have been largely invalidated by the Patent Trial and Appeal

[3] Ryan Davis, Law360, *'Patent Troll' To End Deceptive Tactics In Deal With FTC* (Nov. 6, 2014).

Board – including the claims MPHJ primarily described and relied upon in its prior letters.[4]

- If MPHJ resumes sending communications in Vermont, it will not send the same letters attached to its complaint, Docs. 1-6, 1-7, and 1-8, both because of the ruling invalidating the patents and because its settlement with the Federal Trade Commission requires other changes to the letters.[5]

MPHJ does not have standing to seek either declaratory or injunctive relief, where it does "not claim that [it has] ever been threatened with prosecution, that a prosecution is likely, or even that a prosecution is remotely possible." *Younger*, 401 U.S. at 42. Here, where MPHJ asserts an anticipatory challenge to the Bad Faith Assertions Act, standing "will depend on whether the threat of prosecution under the ordinance is 'genuine' or 'imaginary' and 'speculative.'" *See Leverett v. City of Pinellas Park*, 775 F.2d 1536, 1538 (11th Cir. 1985). Any threat of prosecution that

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[4] Claims 1-5 and 7-11 of the '426 patent have been invalidated. *Ricoh Americas Corp & Xerox Corp. v. MPHJ Tech. Invs. LLC*, No. IPR2013-00302 (Patent Trial & Appeals Bd. Nov. 19, 2014) (Ex. 1). So were claims 1-12, 14, and 15 of the '381 patent. *Hewlett-Packard Co. v. MPHJ Tech. Invs., LLC*, No. IPR2013-00309 (Patent Trials & Appeals Bd. Nov. 19, 2014) (Ex. 2). MPHJ described claims 1-5 of the '426 patent as "illustrative examples" in its demand letters, and also relied on claims 12 and 15 of the '381 patent. *See* Doc. 1-6, at 3. MPHJ never mentioned claim 6 of the '426 patent or claim 13 of the '381 patent in the letters that it previously sent to Vermonters, and it has not alleged any basis for believing that Vermont businesses and nonprofits are infringing those claims. *Id.* Reviews of two other MPHJ patents are pending. *Ricoh Americas Corp. et al. v. MPHJ Tech. Invs., LLC*, No. IPR2014-00538; *Ricoh Americas Corp. et al. v. MPHJ Tech. Invs., LLC*, No. IPR2014-00539.

[5] *See* Agreement Containing Consent Order, File No. 142 3003, Federal Trade Commission (MPHJ agreed to modify their behavior and cease numerous unfair and deceptive acts in their enforcement letters), *available at* http://www.ftc.gov/system/files/documents/cases/141106mphjagree.pdf; *see also* Assurance of Discontinuance, Assurance No. 14-015, Office of the Attorney General of the State of New York (Jan. 13, 2014), *available at* http://www.ag.ny.gov/pdfs/FINALAODMPHJ.pdf.

MPHJ alleges is purely imaginary, as MPHJ has not engaged in conduct that is proscribed by the Act. Moreover, it is not possible for the Court to look to MPHJ's previous conduct to evaluate the applicability of the Act because the *inter partes* review decisions and agreements with the FTC and New York mean that even if MPHJ resumes sending letters in Vermont, the letters will be materially different from those sent in 2012-13.

MPHJ's generalized allegations of standing (Doc. 1, ¶¶ 13, 99) do not support its challenge to a law that took effect months after MPHJ ceased its activity in Vermont. The relevant question is not whether the state's enforcement action, brought under the Vermont Consumer Protection Act, has had some impact on MPHJ. The issue is whether MPHJ has alleged injury-in-fact caused by the new Act, which is not part of the State's complaint and does not apply to the conduct in the complaint. The Act does not bar MPHJ from sending enforcement letters into Vermont and does not address the monetary value of its patents. Any "chilling effect" caused by the new Act is purely speculative, as MPHJ itself admits that it does not intend to enforce its patents until the "legal clouds [are] cleared up." No. 2:14-cv-192, Doc. 32, at 2. Those "legal clouds" include the *inter partes* review of the patents, which has already invalidated the patent claims cited as "illustrative" in MPHJ's prior demand letters. *See supra* 12 n.4. The fact that MPHJ may want, at some unspecified future date, to take unspecified action to enforce other claims in the patents, is not sufficient to support standing.

MPHJ appears to argue that the Attorney General has enforced or threatened enforcement of the Bad Faith Assertions Act because the State, in the State Action, seeks relief that MPHJ comply with Vermont laws. Although MPHJ would have the Court believe otherwise, the State has not alleged a violation of the Bad Faith Assertions Act, nor contended that MPHJ's actions do not comply with that particular law. Furthermore, the State has not requested an injunction enforcing compliance with the Act. The scope of any injunctive relief arising from the State Action can only be determined after an adjudication of the merits of the consumer protection claim. And any injunction issued by the state court will be tailored to address the violations found. *See, e.g., City of N.Y. v. Mickalis Pawn Shop, LLC*, 645 F.3d 114, 144 (2d Cir. 2011) (explaining "that the court must mould each decree to the necessities of the particular case" and that "[a]n injunction may not enjoin all possible breaches of the law" (quotations omitted)); *Patsy's Brand, Inc. v. I.O.B. Realty, Inc.*, 317 F.3d 209, 220 (2d Cir. 2003) ("Injunctive relief should be narrowly tailored to fit specific legal violations." (quotation omitted)).

To invalidate a statute "[t]he party who invokes the power must be able to show, not only that the statute is invalid, but that he has sustained or is immediately in danger of sustaining some direct injury as the result of its enforcement . . . ." *Commw. of Mass. v. Mellon*, 262 U.S. 447, 488 (1923); *Virginia v. Am. Booksellers Ass'n*, 484 U.S. 383, 393 (1988) (explaining that standing was met where "plaintiffs have alleged an actual and well-founded fear that the law will be enforced against them"). MPHJ cannot show that it "is immediately in danger of

sustaining some direct injury." To opine at this point would require the Court to issue "an opinion advising what the law would be upon a hypothetical state of facts," which is not sufficient to satisfy the constitutional case or controversy requirement. *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118, 127 (2007) (quotation omitted); *see also Already, LLC v. Nike, Inc.*, 133 S. Ct. 721, 726 (2013) ("In our system of government, courts have 'no business' deciding legal disputes or expounding on law in the absence of . . . a case or controversy.").

In the absence of allegations that it has violated the Bad Faith Assertions Act, intends to violate it, or that Defendants have threatened enforcement, MPHJ lacks standing to challenge the Act. *See Carrico v. City & Cnty. of San Francisco*, 656 F.3d 1002, 1007 (9th Cir. 2011) (finding plaintiff lacked standing because, "[w]ithout any description of intended speech or conduct, we cannot analyze what [plaintiff's] members would like to do," and "an allegation that a plaintiff is 'subject to' the challenged ordinance cannot suffice"); *Glenn v. Holder*, 738 F. Supp. 2d 718, 731 (E.D. Mich. 2010) (dismissing complaint for lack of standing where plaintiffs "[did] not allege that they have violated the [law] in the past, nor that they intend to violate it in the future"), *aff'd*, 690 F.3d 417 (6th Cir. 2012).

B. MPHJ fails to state a claim for relief under the Act.

MPHJ challenges the Bad Faith Assertions Act both facially and as-applied. Either way, it fails to state a claim. "To survive a motion to dismiss, a complaint must contain sufficient factual matter, accepted as true, to 'state a claim to relief that is plausible on its face.'" *Ashcroft v. Iqbal*, 556 U.S. 662, 678 (2009) (quoting *Bell Atl. Corp. v. Twombly*, 550 U.S. 544, 570 (2007)). "Although a court must accept

the truth of factual allegations, it need not credit a legal conclusion couched as a factual allegation." *N.J. Carpenters Health Fund v. Royal Bank of Scotland Grp., PLC*, 709 F.3d 109, 120 (2d Cir. 2013) (quoting *Iqbal*, 556 U.S. at 678). Because MPHJ has "not nudged [its] claims across the line from conceivable to plausible, [its] complaint must be dismissed." *Twombly*, 550 U.S. at 570.

MPHJ has not alleged, and cannot allege, that the Bad Faith Assertions Act has been applied to it or any other entity, nor does it adequately specify the facts necessary to challenge the Act pre-enforcement. *See Justice v. Hosemann*, 771 F.3d 285, 292 (5th Cir. 2014) ("[E]ven when a group of plaintiffs has general standing to challenge the constitutionality of a statute, the plaintiffs might not have developed a sufficiently concrete record to sustain their as-applied challenge."). MPHJ provides a circuitous explanation of how the Bad Faith Assertions Act has been applied to it, contending (mistakenly) that the injunction sought in the State Action would require MPHJ to comply with the Act.[6] This is inadequate to support its pre-enforcement, as-applied challenge. *See Gonzales v. Carhart*, 550 U.S. 124, 167 (2007) (distinguishing a facial from as-applied challenge, the Court explained that an as-applied challenge exists where "it can be shown that in discrete and well-defined instances a particular condition has or is likely to occur in which the procedure prohibited by the Act must be used"). MPHJ is actually asking this Court to make a facial determination that the Bad Faith Assertions Act is

[6] As explained above, the fact that MPHJ describes its claim in this way requires abstention under *Younger*. *See supra* 4 n.1.

unconstitutional and preempted. *See John Doe No. 1 v. Reed*, 561 U.S. 186, 194 (2010) (finding some characteristics of an as-applied challenge where plaintiffs *did not* seek to strike down the act in all applications, and characteristics of a facial challenge because "it is not limited to plaintiffs' particular case, but challenges application of the law more broadly"). Even if the Court were to consider the facial challenge, moreover, MPHJ has not plausibly alleged that the Act is incapable of being construed constitutionally and thus facially invalid.

1. MPHJ has failed to allege facts supporting an as-applied challenge to the Bad Faith Assertions Act.

"[A] plaintiff seeking an injunction in an as-applied challenge generally has the burden to allege enough facts for the Court to decide the constitutional claim while avoiding 'premature interpretation of statutes' requiring speculation or conjecture on a 'factually barebones record.'" *In re Cao*, 619 F.3d 410, 434 (5th Cir. 2010) (quoting *Milavetz, Gallop & Milavetz, P.A. v. United States*, 559 U.S. 229 (2010) (Thomas, J., concurring in part and concurring in the judgment)); *Vt. Right to Life Comm., Inc. v. Sorrell*, 875 F. Supp. 2d 376, 387 (D. Vt. 2012), *aff'd* 758 F.3d 118 (2d Cir. 2014) (rejecting as-applied First Amendment challenge where plaintiff "offer[s] minimal explanation of how the law is unconstitutional as it pertains to the specific communications it either has made or hopes to publish"). For the same reasons that MPHJ lacks standing (discussed in Section II(A), *supra*), MPHJ has failed to allege specific facts necessary to evaluate an as-applied challenge to the Bad Faith Assertions Act. *See GeorgiaCarry.Org, Inc. v. Georgia*, 687 F.3d 1244, 1255 n.20 (11th Cir. 2012) (explaining that a pre-enforcement, as-applied challenge

"could arise when the factual context of the challenge is so clear and uncontroverted that there is no question as to how the statute will be applied. If this is the case, a plaintiff's complaint must include all of the factual allegations necessary to clearly illustrate the context in which the statute will be applied, which Plaintiffs certainly failed to do here").

While as-applied challenges are generally favored, "a developed factual record is essential" because "[p]articularized facts are what allow a court to issue a narrowly tailored and circumscribed remedy." *Justice v. Hosemann*, 771 F.3d at 292. In a pre-enforcement challenge like this one, however, facts are commonly absent, and the claim is not typically treated as "as-applied." *Richmond Boro Gun Club, Inc. v. City of New York*, 97 F.3d 681, 686 (2d Cir. 1996); *GeorgiaCarry.Org,* 687 F.3d at 1255 n.20 (noting that, even assuming "that somehow it is possible to bring an as-applied challenge in a pre-enforcement review of a statute that has yet to be applied – we believe that there are few situations where that type of challenge would prevail"); *Auburn Police Union v. Carpenter*, 8 F.3d 886, 901 n.23 (1st Cir. 1993) ("It is debatable whether plaintiffs can bring an as-applied challenge in the context of a pre-enforcement declaratory judgment action."); *United States v. Gaudreau*, 860 F.2d 357, 360-61 (10th Cir. 1988) ("[A] facial challenge to the constitutionality of a statute may in some instances be appropriate on pre-enforcement review. In a declaratory judgment action no one has been charged so the court cannot evaluate the statute as applied."); *Shew v. Malloy*, 994 F. Supp. 2d 234, 254 n.67 (D. Conn. 2014) ("Challenges mounted 'pre-enforcement,' that is, before the plaintiffs have

been charged with a crime under the legislation, are properly labeled as a 'facial challenge.'").

There is no reason to deviate from the general approach of treating pre-enforcement challenges as facial, because MPHJ has alleged no facts needed to evaluate the Bad Faith Assertions Act as-applied to it. Even if it did, those facts would need to be evaluated in the context of the numerous factors that a state court *may* consider in applying the Act. *See* 9 V.S.A. § 4197(b). "State courts are the principal expositors of state law. Almost every constitutional challenge . . . offers the opportunity for narrowing constructions that might obviate the constitutional problem and intelligently mediate federal constitutional concerns and state interests." *Moore v. Sims*, 442 U.S. 415, 429-30 (1979). The only instance where the price that federal interference "extract[s] in terms of comity" would be overcome, is where "state courts were not competent to adjudicate federal constitutional claims – a postulate we have repeatedly and emphatically rejected." *Id.* at 430. By failing to allege any facts supporting a violation or intended violation of an Act that specifically requires the state court to exercise discretion, MPHJ has failed to state an as-applied claim for relief.

2. The Court should dismiss MPHJ's facial challenge to the Bad Faith Assertion Act because it has failed to allege that it is unconstitutional in all applications.

In a facial challenge, "a plaintiff can only succeed . . . by establish[ing] that no set of circumstances exists under which the Act would be valid, *i.e.*, that the law is unconstitutional in all of its applications." *Wash. State Grange v. Wash. State Republican Party*, 552 U.S. 442, 449-50 (2008) (quotations omitted) (declining to

consider a challenge where "[t]he State has had no opportunity to implement [the statute], and its courts have had no occasion to construe the law in the context of actual disputes arising from the electoral context, or to accord the law a limiting construction to avoid constitutional questions"). Generally, facial challenges are disfavored because they rest on speculation, require courts to anticipate questions of constitutional law in advance of the need to decide it, and "short circuit the democratic process." *Id.* at 450-51; *see also Dickerson v. Napolitano*, 604 F.3d 732, 741 (2d Cir. 2010) ("Facial challenges are generally disfavored.") *Voting for Am., Inc. v. Steen*, 732 F.3d 382, 386 (5th Cir. 2013) ("Courts generally disfavor facial challenges, and for good reason.").

MPHJ contends that, on its face, the Bad Faith Assertion Act is invalid under the First, Fifth and Fourteenth Amendments, as well as the Supremacy and Patent Clauses of the U.S. Constitution, and is preempted by Title 35 of the U.S. Code. This facial claim should be dismissed, first, because MPHJ itself admits that at least one application of the statute would not be unconstitutional.[7] The Act provides that a court may consider, when determining whether a person has made a bad faith assertion of patent infringement, whether "[t]he claim or assertion of patent infringement is meritless, and the person knew, or should have known, that the claim or assertion is meritless." 9 V.S.A. § 4197(b)(6). MPHJ concedes that a state law would not be preempted if the state plead and proved "bad faith," (Doc. 1, at

[7] The Bad Faith Assertions Act is not unconstitutional in any application, but the Court need not reach this question – MPHJ's facial challenge fails if there is at least one application of the statute that is constitutional.

¶62), and it contends that "bad faith" requires a showing that the conduct was both "objectively baseless" and "subjectively baseless, *id.* at ¶63. While MPHJ may not approve of the wording in the Act, it is certainly reasonable to assume that a state court, when evaluating whether an assertion of patent infringement was meritless, could apply the objective and subjective baselessness standard for which MPHJ advocates.

Second, since the Act merely lists factors for the state court to consider, and also allows the court to consider "[a]ny other factor the court finds relevant," there is no reasonable dispute that a state court can and would construe the Act to comply with any relevant constitutional requirements. Indeed, the Act could be applied in numerous circumstances where a court would consider only those factors that even MPHJ does not allege are unconstitutional.

Third, MPHJ has not asserted a First Amendment overbreadth claim, so that standard does not apply here. *See Wash. State Grange*, 552 U.S. at 449 n.6 ("We generally do not apply the 'strong medicine' of overbreadth analysis where the parties fail to describe the instances of arguable overbreadth of the contested law.").[8] Even if the Court considered an overbreadth claim not mentioned in the complaint, the claim should be dismissed. The Act applies to purely commercial

[8] MPHJ does allege that the Bad Faith Assertions Act is "unconstitutionally vague." Doc. 1, at ¶ 98(l). As the Supreme Court has recently clarified, a vagueness challenge is distinct from a First Amendment overbreadth claim. *Holder v. Humanitarian Law Project*, 561 U.S. 1, 18-20 (2010). "A facial vagueness challenge will succeed only when the challenged law can never be validly applied." *Vt. Right to Life Comm., Inc. v. Sorrell*, 758 F.3d 118, 128 (2d Cir. 2014).

communications (assertions of patent infringement) and the potential factors are primarily addressed to the disclosure of information and accuracy in those communications. *See, e.g.,* 9 V.S.A. § 4197(b)(1), (3), (5), (7), (c)(1)-(3). The fact that the Act is limited to "bad-faith" patent assertions – which are unprotected –confirms that the Legislature recognized and respected federal patent rights. MPHJ thus cannot plausibly allege that "a substantial number of [the Act's] applications are unconstitutional, judged in relation to the statute's plainly legitimate sweep." *United States v. Stevens*, 559 U.S. 460, 473 (2010).

MPHJ has failed to assert a plausible as-applied or facial challenge to the Bad Faith Assertions Act, and Count I should be dismissed.

III. Defendant Asay is an improper defendant in this case and all claims against her should be dismissed.

The claims against Defendant Asay, an assistant Attorney General, should be dismissed because MPHJ cannot obtain the relief it seeks against a subordinate of the Attorney General. The Attorney General has statutory authority to enforce state law and represent the State in litigation. 3 V.S.A. § 152; 9 V.S.A. § 2458 (granting the attorney general authority to bring an action in the name of the state against a person violating the consumer protection act). Enjoining Defendant Asay would in no way prevent full enforcement of either the Bad Faith Assertions Act or the Consumer Protection Act by Attorney General Sorrell. In her "official capacity," Defendant Asay acts at the discretion and direction of the Attorney General. Litigation filings are made in the name of the Attorney General as counsel for the State. Defendant Asay has no authority in her official capacity as an assistant

Attorney General to initiate litigation or to terminate it. Moreover, any injunctive relief against Defendant Asay would simply be duplicative of relief against Defendant Sorrell since Defendant Sorrell has the authority to direct the official activities in which Defendant Asay engages and to replace Defendant Asay with a different assistant at any time. Therefore, any injunctive relief that MPHJ seeks against Defendant Asay would be meaningless and inadequate to change the behavior of the Attorney General.

Accordingly, suit against Defendant Asay does not fit within the limited exception to sovereign immunity under *Ex Parte Young*, 209 U.S. 123 (1908). *Ex Parte Young* allows in certain circumstances a "suit for injunctive relief challenging the constitutionality of a state official's actions in enforcing state law under the theory that such a suit is not one against the State." *Ford v. Reynolds*, 316 F.3d 351, 354-55 (2d Cir. 2003) (quotation omitted). Under this limited exception, "the state officer against whom a suit is brought 'must have some connection with the enforcement of the act' that is in continued violation of federal law." *In re Dairy Mart Convenience Stores, Inc.*, 411 F.3d 367, 372-73 (2d Cir. 2005) (quotation omitted).

Here, Defendant Asay is not charged with enforcement of the Vermont Consumer Protection Act or the Bad Faith Assertions Act. Asay lacks the official authority to have brought the State Action without the Attorney General's approval and similarly lacks the authority to voluntarily dismiss or stop enforcement in that case. Therefore, MPHJ would be unable to obtain from her the type of "prospective

injunctive relief from violations of federal law" available under *Ex Parte Young*. *In re Deposit Ins. Agency*, 482 F.3d 612, 617 (2d Cir. 2007) (quotation omitted). "Retroactive relief, even if styled as equitable in nature, is barred by the Eleventh Amendment." *Clark v. Kitt*, 2014 WL 4054284, at *9 (S.D.N.Y. Aug. 15, 2014) (citing *Edelman v. Jordan*, 415 U.S. 651, 665-68 (1974)). The relief that MPHJ seeks – declaratory judgments regarding the constitutionality of the Bad Faith Assertion Act and the State Action, as well as injunctive relief enjoining Defendants "from further prosecuting the First Amended Complaint" – is not relief that Defendant Asay can provide. Rather, the relief it seeks relates to enforcement authority that lies with the Attorney General himself, not his subordinates.

Defendant Asay does represent the State of Vermont in the State Action, at the direction of the Attorney General, but that role is insufficient to justify application of the *Ex Parte Young* exception. *See Doe v. Sorsai*, 2012 WL 2954107, at *13 (S. D. W. Va. June 18, 2012) (dismissing *Ex Parte Young* claim against staff attorney because role was limited to "providing legal consultative services," including making recommendations, but ultimate decision statutorily rested with Superintendent of Education); *Nabers v. Morgan*, 2011 WL 359069, at *4-5 (S.D. Miss. Feb. 2, 2011) (finding that general counsel for tax commission was improper *Ex Parte Young* defendant because he was "merely an advisor" empowered neither to direct the activities of the commission nor exercise any enforcement authority). Allowing claims against subordinate state employees that neither direct nor control the work that they are assigned promotes harassment and intimidation of these

employees. Here, rather than seek relief solely from the Attorney General – the state official charged with the authority of enforcing the State's laws, 3 V.S.A. § 152 – MPHJ targets Defendant Asay, an assistant Attorney General acting at the direction of the elected official for whom she works. This should not justify an "official capacity" claim.

To the extent the Court allows any of MPHJ's claims to proceed, Defendant Asay should be dismissed as a defendant. To the extent MPHJ has any colorable claim for prospective relief, its claim is properly directed against Defendant Sorrell, in his official capacity as the Attorney General.

CONCLUSION

The Court should dismiss MPHJ's claims.

Dated: December 10, 2014

STATE OF VERMONT

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