

**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.)	

Civil Action No. 2:14-cv-191

DEFENDANT’S REPLY MEMORANDUM IN SUPPORT OF MOTION TO DISMISS

STATE OF VERMONT

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I. MPHJ’s amended complaint is barred by *Younger* abstention.

Younger abstention applies here. MPHJ’s amended complaint is squarely directed at, and seeks to enjoin and otherwise interfere with, the State’s pending civil enforcement action (“State Action”). Among other things, MPHJ asks this Court to: (1) declare the Vermont Consumer Protection Act (“VCPA”) unconstitutional as applied to its conduct; (2) hold that MPHJ did not violate the VCPA; (3) hold that the state court does not have personal jurisdiction over MPHJ; (4) enjoin the State’s prosecution of its action; (5) order the State to pay MPHJ’s attorneys’ fees incurred in the state-court action; and (6) find that the State’s filing of the State Action effected an unlawful taking. Am. Compl. ¶¶ 143-44, 148-52, 153-57, 168-184, 190-202, 212-38, & pp. 44-50. None of MPHJ’s arguments against *Younger* are persuasive. First, this case easily satisfies the *Sprint* standard and no exception to abstention applies. Second, given the nature of MPHJ’s claims and its requests for relief, the Court should dismiss all claims based on *Younger*, including claims directed at the Bad Faith Assertions of Patent Infringement Act.

A. *Younger* applies because the State is prosecuting a civil enforcement action.

In *Sprint Communications, Inc. v. Jacobs*, 134 S. Ct. 584 (2013), the Supreme Court explained that *Younger* abstention applies to “three categories of state court proceedings: (1) ‘state criminal prosecutions’; (2) ‘civil enforcement proceedings’; and (3) civil proceedings that ‘implicate a State’s interest in enforcing the orders and judgments of its courts.’” *Peters v. Neroni*, 2015 WL 1344650, at *1 (2d Cir. Mar. 26, 2015) (summary order) (quoting *Sprint*, 134 S. Ct. at 588, 591). The State’s consumer protection action, seeking penalties and injunctive relief, is a civil enforcement proceeding to which *Younger* applies.

1. The State Action is “akin to a criminal prosecution” in “important respects,” *Sprint*, 134 S. Ct. at 592, because, among other things, the State acting in its “sovereign capacity” conducted an investigation and then filed a formal court complaint seeking to “sanction the

federal plaintiff” for “wrongful” conduct. *See id.* The State seeks penalties and injunctive relief that may not be obtained by a private party. *See MyInfoGuard, LLC v. Sorrell*, 2012 WL 5469913, at *8 (D. Vt. Nov. 9, 2012) (holding that *Younger* abstention applies to state action brought under VCPA). MPHJ responds to none of these points, asserting instead that there “is no analogous criminal statute.” MPHJ Opp. (Doc. 22) 47. In fact, the State’s criminal prohibition on false advertising, 13 V.S.A. § 2005, is closely related to the civil Vermont Consumer Protection Act. Regardless, *Sprint* does not limit *Younger* abstention to those cases in which the State could have brought a criminal prosecution. MPHJ relies on *NCAA v. Corbett*, but there the court expressly noted that the state-court case was not brought to “sanction the federal plaintiff,” and no state actor “conducted an investigation or involved law enforcement.” No. 1:13-cv-457, slip op. at 14 (M.D. Pa. June 12, 2014). Here, all of the factors identified in *Sprint* are present, and federal courts have applied *Younger* to consumer-protection and similar claims. *See* Doc. 13-1, at 7-10.

2. MPHJ’s alleged preemption defense (Opp. 48-52) does not change the *Younger* analysis. MPHJ asserts conflicting and inconsistent arguments on this point. MPHJ contends, for example, that *Sprint* “cautioned against” emphasizing the “important state interest” factor in the *Younger* analysis, Opp. 49 n.50, but then argues that “[i]mportantly, the burden is on Defendant to establish that an important state interest is implicated,” *id.* at 49. MPHJ acknowledges that the Second Circuit looks to the importance of the “generic proceeding,” not the particular case, *id.* at 49 n.52, yet contends that “[t]he importance of the generic proceedings to the State is not the relevant question,” *id.* at 49. Further, MPHJ asserts, without any citation or support, that the State’s enforcement action “is being prosecuted in defiance of the federal court’s own orders in the same case.” Opp. 51. This Court has not issued any “orders” that the State is defying.

Setting aside MPHJ's unsupported allegations and inconsistent legal arguments, the gist of MPHJ's argument appears to be that the Court should not abstain because MPHJ asserts that the State's consumer-protection claim is preempted by federal patent law. The Supreme Court, however, held in *New Orleans Pub. Serv., Inc. v. Council of New Orleans* ("NOPSI"), 491 U.S. 350, 365, 367 (1989), that even "substantial" claims of federal preemption do not "compel the exercise of federal jurisdiction." The *Younger* analysis does not turn on the nature of the particular case, as MPHJ suggests, but rather on "the importance of the generic proceedings to the State." *Id.* at 365. The State's enforcement action implicates Vermont's important interest in "prevent[ing] and eradicat[ing] unfair and deceptive business practices." *MyInfoGuard*, 2012 WL 5469913, at *8. *Younger* applies notwithstanding MPHJ's alleged preemption defense.

Further, MPHJ's suggestion that its preemption defense is "facially conclusive" is mistaken. *Cf. NOPSI*, 491 U.S. at 367 (declining to decide whether "facially conclusive" preemption claim would make abstention inappropriate). Federal law does not preempt all state-court consideration of issues that may be related to patents. *See Gunn v. Minton*, 133 S. Ct. 1059, 1068 (2013) ("Federal courts have exclusive jurisdiction of all cases arising under the patent laws, but not of all questions in which a patent may be the subject-matter of the controversy" (quotation omitted)). This Court held, in remanding the State's action, that the "State's complaint here is premised solely on Vermont state law, not federal patent law, and none of the claims for relief concern the validity of MPHJ's patents." *State v. MPHJ Tech. Inv. LLC*, No. 2:13-cv-170, Doc. 61, at 10. Thus, even if a facially conclusive preemption defense might change the *Younger* analysis – which the Supreme Court has not held – that reasoning has no relevance here.

3. MPHJ has not made a showing sufficient to warrant the rarely applied "bad faith" and "extraordinary circumstances" exceptions to *Younger*. *See Diamond "D" Const. Corp. v.*

McGowan, 282 F.3d 191, 198 (2d Cir. 2002). To establish bad faith, MPHJ “must show that the state proceeding was initiated with and is animated by a retaliatory, harassing, or other illegitimate motive.” *Id.* at 199. The emphasis is on the prosecutor’s “subjective motivation” because a “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.” *Id.* *Diamond “D”* distinguished between a prosecutor’s “straightforward application” of state law, for which abstention is warranted even if the state law is unconstitutional, and “strictly *ad hominem*” prosecutions brought with “malevolent intent.” *Id.* at 199-201. MPHJ’s assertion that the State’s suit is preempted (Opp. 53-54) does not come close to showing bad faith. And Attorney General Sorrell’s press interview, which describes the State’s action against MPHJ, does not show any bad faith or improper motive.¹ Doc. 22-14. MPHJ’s inaccurate descriptions of Sorrell’s statements (Opp. at 54 & n.61) should be ignored.

With respect to extraordinary circumstances, MPHJ briefly asserts irreparable harm, but does not argue that it lacks a remedy in state court. *See Diamond “D,”* 282 F.3d at 201-02 (federal courts should assume state court remedies are adequate, absent “unambiguous authority to the contrary”). MPHJ also recycles its preemption argument, but its conclusory assertions do not approach the showing required in *Younger*, that a state law is “flagrantly and patently violative of express constitutional prohibitions in every clause, sentence, and paragraph.”

¹ MPHJ inaccurately characterizes both the press article (Doc. 22-14) and another attachment to the Manitsky Declaration, a memorandum prepared by private attorneys, not the Attorney General (Doc. 22-13). For example, MPHJ claims that the Attorney General “has admitted he was working behind the scenes with Vermont business powerhouses . . . to specifically prevent MPHJ (and non-practicing entities like MPHJ), from enforcing their patents in Vermont.” Opp. 15. In fact, although the Attorney General described meeting with some Vermont businesses concerned about patent trolling, he did not say or imply that those businesses played a role in the investigation of MPHJ. Rather, the Attorney General noted that the Office received complaints about MPHJ’s letters and described that as “independent” of the meetings. Doc. 22-14, at 4.

Younger v. Harris, 401 U.S. 37, 53-54 (1971). Again, even a substantial claim of preemption is not enough to avoid *Younger*.

4. MPHJ's claims should be dismissed, not stayed, because MPHJ seeks declaratory and injunctive relief that would interfere with and enjoin the state-court proceeding. *See, e.g., MyInfoGuard*, 2012 WL 5469913, at *7-10 (dismissing claims). MPHJ claims that a stay is appropriate because the state court may rule against it. That position cannot be reconciled with the federalism principles that underlie *Younger*. MPHJ also asserts that its damages claim should be stayed. However, any damages claim against Defendant Sorrell, who is sued only in his official capacity, is barred by sovereign immunity and fails to state a claim under § 1983. *See infra* 20; Doc. 19-1, at 24-25 (explaining why damages are not available in this action); *DLX, Inc. v. Kentucky*, 381 F.3d 511, 526-28 (6th Cir. 2004) (sovereign immunity bars damages award for alleged taking against state and state officials).

B. *Younger* abstention applies to all of MPHJ's claims.

MPHJ contends that the Court should not dismiss Count I, because that claim is addressed to potential future letters and because the State takes the position that its pending enforcement action is not brought under the Bad Faith Assertions of Patent Infringement Act ("BFAPIA"). This argument fails, for two reasons.

First, MPHJ's assertion that "[t]he relief sought by Count I raises issues not involved in the State Action" (Opp. 13) is wrong. MPHJ seeks relief on all three counts that would interfere with the State's prosecution of the pending action and the state court's continuing authority to enforce any judgment entered in the case. MPHJ has asked this Court to enjoin the Attorney General "from asserting or bringing suit against MPHJ under Vermont State law unless he has reasonable grounds to allege and prove that MPHJ's conduct is objectively and subjectively baseless." Mot. Prelim. Inj., Doc. 24, at 1. That requested relief, if granted, would control the

pending State Action, in which the State “assert[s]” a state-law claim against MPHJ and seeks prospective injunctive relief under the VCPA. Further, MPHJ asks this Court to hold the VCPA unconstitutional and to overturn the state court’s finding of personal jurisdiction. Am. Compl. 44-45 (Count I, B-D). And MPHJ seeks injunctive relief to control and limit any enforcement action for any future letters, as well as an injunction barring the Attorney General from “further discriminating” against MPHJ. *Id.* at 44-46 (Count I, B-F). While MPHJ tries at times to distinguish between the pending action and future action, that distinction is meaningless, because a crucial aspect of the relief sought by the State under the VCPA is an injunction to restrain and prevent *future* violations. 9 V.S.A. § 2458(a). The state court has continuing jurisdiction to penalize violations of injunctions entered under the VCPA. *Id.* § 2461(a). The relief MPHJ seeks in Count I would prevent the state court from granting prospective injunctive relief, and would bar the Attorney General from taking action to enforce such an injunction. Accordingly, this case fits within two of the categories identified by *Sprint*: the state’s case is an enforcement action akin to a criminal proceeding, and the case “implicate[s] a State’s interest in enforcing the orders and judgments of its courts.” *Sprint*, 134 S. Ct. at 588.

Second, MPHJ has inserted the BFAPIA into the pending state-court case and entwined the issues in a manner that requires dismissal of all claims. MPHJ alleges *in this case* that the State’s complaint seeks an injunction “requiring MPHJ’s compliance with the Vermont Patent Assertions Act.” Am. Compl. ¶¶ 109, 111. Even after amending its filing, MPHJ has thus adhered to its position that the state court may enter relief under the BFAPIA. MPHJ takes the same position in its defenses and counterclaims filed in state court, alleging there, too, that the State Action implicates the BFAPIA. Docket No. 2:14-cv-00192, Doc. 20, at 1, 11-12, 16-20, 23, 25. As this Court has recognized, the State did not plead a claim under the BFAPIA. MPHJ’s

insistence that the State has done so, however, means that this Court cannot grant relief to MPHJ without first construing and potentially limiting the scope of the state court's authority to grant relief. The fact that this is a problem created by MPHJ is irrelevant. MPHJ simultaneously alleges that the state-court action seeks relief under the BFAPIA *and* seeks declaratory and injunctive relief that would prevent the state court from granting such relief. *Younger* applies.

II. MPHJ lacks standing and its claims are not justiciable.

A. MPHJ lacks standing to challenge the BFAPIA or make other claims related to its proposed Claim 6 letter.

MPHJ has not adequately alleged either that Claim 6 of the '426 patent is valid or that it has a reasonable basis to suspect infringement. Absent sufficient allegations that Claim 6 is valid and infringement is reasonably suspected, MPHJ has no basis to "assert[] or claim[] that [a Vermont person] has engaged in patent infringement," 9 V.S.A. § 4196, and thus no standing to challenge the BFAPIA. Contrary to MPHJ's assertion, there is no "irony" (Opp. 31) to Defendant's position on this issue. The State's position, as summed up by this Court, is that the *State Action* does "not challenge the validity or scope of MPHJ's Patents" or "require any determination of whether infringement has actually occurred." *State v. MPHJ Tech. Inv. LLC*, No. 2:13-170, Doc. 61, at 14. *This* case has been brought by MPHJ, and MPHJ (1) bears the burden of establishing a justiciable, ripe controversy, and (2) has, accordingly, made allegations (albeit conclusory ones) relating to validity and infringement in its complaint (*e.g.*, ¶¶ 46, 119-20, 123-24, 159-61). But conclusory allegations are not enough. MPHJ has not alleged sufficient facts to support its standing.

1. MPHJ's proposed letter (Doc. 18-13) confirms its lack of standing to challenge the BFAPIA. The BFAPIA applies to demand letters, which are defined as "a letter, e-mail, or other communication asserting or claiming that the target has engaged in patent infringement." 9

V.S.A. § 4196(1). MPHJ's proposed letter regarding Claim 6 does not assert or claim patent infringement. The letter says in relevant part: "Our understanding of the nature and size of your business leads us to believe that it is possible your company may be using a system which would be covered by at least claim 6 of the '426 patent. However, whether this is the case cannot be determined from publicly available information." Doc. 18-13, at 2. The letter then asks the recipient for information about whether the recipient is infringing. *Id.* at 2-3.² It does not threaten litigation. The letter is not a communication "asserting or claiming that the target has engaged in patent infringement" and thus the BFAPIA would not apply to it. Given that after two complaints and a stack of supplemental materials, MPHJ has still not shown that it intends to engage in conduct that comes within the BFAPIA, its claims should be dismissed.

2. MPHJ attempts to bolster its conclusory and vague allegations regarding future enforcement plans with a lengthy but largely irrelevant declaration from Saul Acevedo. The declaration, even if properly before the Court, does not support MPHJ's allegation that it "reasonably suspect[s]" six Vermont businesses of infringing Claim 6 of the '426 patent. Am. Compl. ¶ 120. Claim 6 is the only claim of the '426 patent that was not invalidated in a recent review proceeding. *See* Doc. 13-1, at 14 n.4; Doc. 22-1. In MPHJ's previous demand letters, sent nationwide, MPHJ asserted Claims 1-5 of the '426 patent, not Claim 6. Doc. 18-6, at 3.

The Acevedo Declaration is inadequate for at least three reasons. First, it provides no basis for MPHJ's conclusory allegation that Claim 6 is not invalid. Am. Compl. ¶ 159. Contrary to MPHJ's assertion, the review panel did not "reaffirm[]" (Opp. 16) the validity of Claim 6. The panel concluded only that Claim 6 was not anticipated by the prior art submitted in that

² MPHJ's prior letters, which are the subject of the state's enforcement action, stated among other things that the recipient "appears to be using the patented technology," was "likely" infringing", and "almost certainly" using the technology, and threatened imminent litigation supported by a draft complaint. Doc. 16-7, at 2, 5; Doc. 16-9.

proceeding. Doc. 22-1, at 9, 44, 52. The panel did not decide other aspects of validity, such as obviousness and patentability. The aspect of Claim 6 that the panel concluded was not anticipated by the proffered prior art was the following: “a list of said input, output, and process modules . . . being read on startup.” *Id.* at 43-44. Acevedo says this requirement is met in two scanners by “installed standard interfaces.” Doc. 22-16, at 18-19. The attached claims chart lists standard Microsoft Windows operating systems under this language. Doc. 22-19, at 109. The declaration on its face thus raises serious questions as to validity, namely, whether the claim is obvious and whether it is even patentable. *Cf. Alice Corp. v. CLS Bank Int’l*, 134 S. Ct. 2347, 2359 (2014) (addressing patentability in the context of claims that instruct a practitioner to implement an “abstract idea” on a “generic computer”).

Second, despite their length, the declaration and attached “claim charts” do not provide the detail necessary to show that any scanning systems infringe Claim 6 – much less show that businesses are “infringing with impunity” (Opp. 16). Acevedo makes no assertions about infringement and does not construe the terms used in Claim 6 – a standard practice for analyzing infringement. *See, e.g., Wavetronix LLC v. EIS Electronic Integrated Sys.*, 573 F.3d 1343, 1354 (Fed. Cir. 2009) (“Infringement analysis involves a two-step process: the court first determines the meaning of disputed claim terms and then compares the accused device to the claims as construed.”). His assertions that certain scanners meet the requirements of Claim 6 are conclusory and lack necessary supporting detail. For example, ¶ 47, which addresses the third requirement of Claim 6, merely recites the claim language, and asserts that the features of the scanner that satisfy this requirement “include the installed standard interfaces.” Doc. 22-16, at 18. The referenced part of the claim chart, pp. 108-121 (Doc. 22-19, 109-22), similarly repeats the claim language and then reprints various excerpts from the user guide, with no attempt to

map features of the system to the claim requirements. Among other things, the declaration does not identify the “list of available module means for maintaining a registry,” where the “list is read on startup,” or where “another copy of the list is maintained.” *See* Doc. 22-19, at 109-130. The proffered exhibits are claim charts in name only.

Third, the 30-page declaration in the end says nothing about whether MPHJ has a reasonable basis to suspect Vermont businesses of infringing Claim 6. The first 57 paragraphs discuss Acevedo’s views on the two scanners. Doc. 22-16, at 1-23. He does not attest, however, that any Vermont business uses those machines; in fact, he disavows knowledge of these companies’ IT systems. *Id.* at 26-29. Instead, Acevedo makes two conclusory assertions: that most “multifunctional document imaging devices” would meet all of the requirements of Claim 6, *id.* at 23-25; and that “most small to medium size, or larger, businesses make use of scanning technology.” *Id.* at 24-26. Acevedo’s opinion is not based on any relevant information or investigation regarding the Vermont businesses, but instead merely reflects his view that most American businesses (small, medium, or “larger,” *id.* at 26) use a scanner that meets the requirements of Claim 6. That kind of broad, conclusory opinion, offered without claim construction by a person lacking patent expertise, adds nothing to the conclusory allegations in the complaint.

3. MPHJ has not alleged any credible threat of enforcement under the BFAPIA. The fact that the State brought a VCPA action based on MPHJ’s prior letters is irrelevant; MPHJ’s proposed Claim 6 letter is materially different from its prior letters. The Attorney General did not even see MPHJ’s proposed letter until it was filed with this Court, and has not taken the position that the letter violates the BFAPIA. Again, the proposed Claim 6 letter does not assert or claim

patent infringement. *See* 9 V.S.A. § 4196. MPHJ’s unsupported speculation is not enough to establish a credible threat of enforcement.

B. MPHJ’s claims are not ripe or otherwise justiciable.

Even if MPHJ has pled sufficient facts to establish standing – and it has not – any challenge to the BFAPIA is not ripe. Defendant Sorrell has taken no action with respect to MPHJ’s alleged plan to send its Claim 6 letter. He has not threatened “imminent suit” nor has he “admitted that the [BFAPIA] was passed to curtail MPHJ’s patent enforcement efforts.” Opp. 36-37. The State has not taken the position in the State Action or elsewhere that MPHJ must cease its patent enforcement activity; rather, as this Court has recognized, the State seeks “not to prevent MPHJ from lawfully enforcing its patent rights in the state, but rather to prevent MPHJ from engaging in activity that violates state law.” *Vermont v. MPHJ Tech. Inv. LLC*, No. 2:13-cv-170, Doc. 61, at 19-20.

Given the paucity of MPHJ’s allegations, there is, again, no basis to find that MPHJ faces a credible threat of enforcement under the BFAPIA. Although MPHJ asserts that it has been “chilled,” its own proposed standard is not met by its allegations. While MPHJ has previously “engaged in the type of speech affected by the threatened government action,” it has only stated a current desire to engage in entirely different activity. *See Initiative and Referendum Institute v. Walker*, 450 F.3d 1082, 1089 (10th Cir. 2006) (requiring plaintiff to have “affidavits or testimony stating a present desire, though no specific plans, to engage in such activity”). While MPHJ suggests that its proposed conduct is the “exact same conduct, the sending of patent letters,” (Opp. 36), a comparison of its previous letters with the proposed future letter shows this is not so. *Compare* Docs. 18-6, 18-7, and 18-8 *with* Doc. 18-13. The pending State Action, filed

under a different statute and addressed to different conduct, does not support MPHJ's standing to challenge the BFAPIA.

Likewise, the prudential standing test is not met here, because MPHJ's challenge to the BFAPIA is not ready for judicial resolution. *See* Doc. 19-1, at 12-13. As explained above, MPHJ's proposed letter does not come within the BFAPIA, and MPHJ has not adequately alleged a reasonable basis to suspect Vermont businesses of infringement. Any consideration of the BFAPIA would be speculative.

MPHJ's other claims related to its proposed Claim 6 letter are similarly flawed.

Personal jurisdiction. MPHJ cites no authority holding that a declaratory judgment regarding personal jurisdiction is justiciable – it is not. Personal jurisdiction is a fact-specific inquiry evaluating the contacts that a defendant has with the forum state. *See Metropolitan Life Ins. Co. v. Robertson-Ceco Corp.*, 84 F.3d 560, 570 (2d Cir. 1996) (“The assessment of minimum contacts is fact-specific and must necessarily be tailored to the circumstances of each case.”). This court cannot determine personal jurisdiction broadly with respect to a wide range of hypothetical conduct and facts.³ Further, MPHJ fails to address settled law requiring that declaratory judgment claims “completely resolve” challenges, rather than simply carve out pieces of a potential controversy. *See* Opp. 41 n.41 (acknowledging that personal jurisdiction is only “part” of dispute). This request for a declaratory judgment regarding personal jurisdiction

³ MPHJ contends that “the Vermont Long Arm Statute is unconstitutional under the Fourteenth Amendment where it permits MPHJ to be sued in Vermont when MPHJ's only contacts with Vermont were the sending of patent communications,” Opp. 41, but then asserts that this is not an advisory opinion. It is either an advisory opinion regarding hypothetical future litigation, or it is a backdoor appeal of the state court's decision in the State Action, *see* Doc. 19-1, at 6. Neither is appropriate. *See Exxon Mobil Corp v. Saudi Basic Industries Corp.*, 544 U.S. 280, 283-84 (2005) (explaining the *Rooker-Feldman* doctrine that federal district courts “are empowered to exercise original, not appellate jurisdiction” and that federal district courts cannot “review and reverse unfavorable state-court judgments”).

asks the court not to resolve a controversy, but to rule on a collateral issue related to potential litigation, and therefore “fall[s] outside the constitutional definition of a ‘case’ in Article III.” *Calderon v. Ashmus*, 523 U.S. 740, 747 (1998). Any question of personal jurisdiction “would be an issue, which, so far as it could ever become material, would properly arise only in a suit” against MPHJ, “where it could be appropriately decided.” *Coffman v. Breeze Corp.*, 323 U.S. 316, 323-24 (1945).

Takings. The cases cited by MPHJ demonstrate that its takings claim is unripe. In *Southview Associates, Ltd. v. Bongartz*, 980 F.2d 84 (2d Cir. 1992), the Second Circuit explained that “the Vermont Supreme Court recognizes a cause of action for a taking generally, even if it has yet to decide whether recovery can be had for a regulatory taking.” *Id.* at 100. Just as in *Bongartz*, here, “Vermont has an adequate procedure that [plaintiff] must use – a suit in state court – before it asserts a section 1983 claim based on a regulatory taking. Because [plaintiff] has never sought compensation in the Vermont courts, its taking and substantive due process claims . . . are not ripe.” *Id.* Similarly, in *Franco v. District of Columbia*, 456 F. Supp. 2d 35, (D.D.C. 2006), the court concluded that “[a]lthough the plaintiffs assert that they ‘have no adequate or available state remedies,’ they offer no argument that state remedies are unavailable or inadequate.” And, in *Pascoag Reservoir & Dam, LLC v. Rhode Island*, 337 F.3d 87, 93 (1st Cir. 2003), the First Circuit concluded that plaintiff “did not seek compensation through the state court” and “cannot show that Rhode Island’s remedies were inadequate or unavailable.” MPHJ has not raised a takings claim in state court, and absent this step, or any indication that Vermont’s courts would fail to consider its alleged taking, MPHJ’s claim is unripe.⁴

⁴ MPHJ suggests that the Attorney General, not the state court, makes “a final decision that MPHJ has violated Vermont law.” Opp. 42, n. 42. But only the state court, not the Attorney General, has authority to enjoin MPHJ’s future conduct.

The Court also lacks jurisdiction over MPHJ's takings claim against Defendant Sorrell (sued only in his official capacity) because MPHJ seeks money damages and that relief is barred by sovereign immunity. *See infra* 19-20.

Validity and infringement claims. MPHJ has not shown that its requests for declaratory judgments related to patent validity and infringement are justiciable. Its filing does not address *Calderon*, which controls here and holds that parties may not “carve out” issues in a dispute and seek advisory opinions. *See* Doc. 19-1, at 14-15 (citing *Calderon*, 523 U.S. at 747, 749). MPHJ itself describes its requested relief as going to an “element” of the case. Opp. 39. *Calderon* bars any effort to obtain piecemeal declaratory rulings of this kind. *See* 523 U.S. at 747.

Further, MPHJ's arguments flatly conflict with the Article III case-or-controversy requirement. According to MPHJ, it makes no difference that the State has not challenged validity or infringement in the State Action.⁵ *See, e.g.*, Opp. 38-39 & nn. 36-37. In fact, the lack of adversity between the parties on this issue means that MPHJ has not alleged an actual case or controversy. *See, e.g., Niagara Mohawk Power Corp. v. Tonawanda Band of Seneca Indians*, 94 F.3d 747 (2d Cir. 1996) (“For a court to have subject matter jurisdiction over a declaratory judgment action, there must be a substantial controversy, between parties having adverse legal interests, of sufficient immediacy and reality to warrant the issuance of a declaratory judgment.” (quotation omitted)); Doc. 19-1, at 16.

⁵ MPHJ's assertion that Defendant Sorrell has “conceded” validity and infringement (Opp. 38) is inaccurate. The State's consistent position has been that the State is not challenging the validity or scope of MPHJ's patents in the State Action. At no time has the State or Sorrell “conceded” that MPHJ's patents are valid – and, indeed, patent claims asserted in MPHJ's prior letters have now been invalidated. *See* Doc. 13-1, at 14 n.4.

III. MPHJ's claims should be dismissed under Rule 12(b)(6).

MPHJ wrongly suggests that Defendant “completely ignore[s]” the pleading standards. Opp. 18 n. 11. MPHJ fails to recognize that it cannot meet its burden of pleading a plausible claim for relief with conclusory allegations and legal arguments. “While it is true that the Court must accept all factual allegations listed in the complaint as true for purposes of a 12(b)(6) motion, mere legal conclusions create inadequate grounds for relief.” *Beaulieu v. Vermont*, 2010 WL 3632460, at *2 (D. Vt. Aug. 5, 2010). “[A] plaintiff armed with nothing more than conclusions” does not satisfy the pleading standard set forth in *Ashcroft v. Iqbal*, 556 U.S. 662, 679 (2009). Rather, a complaint’s “well-pleaded factual allegations” must be sufficient to state a plausible claim for relief. *Id.* at 680. While MPHJ takes issue with Defendant’s use of the term “demonstrate,” (Opp. 24-25), this Court has recognized that a “[c]omplaint must demonstrate more than the mere theoretical possibility that the Plaintiff is entitled to relief from the Defendant.” *Beaulieu*, at *2. As explained below, MPHJ’s claims lack adequate factual development and fail to demonstrate a plausible entitlement to relief.

A. MPHJ’s challenge to the BFAPIA fails to state a claim.

MPHJ asserts both a facial vagueness challenge and an as-applied challenge to the BFAPIA. Both fail as a matter of law. The facial challenge fails to state a claim because the standard for invalidating a statute as unconstitutionally vague is demanding, and MPHJ’s own arguments show that the standard is not met here. The as-applied challenge must be dismissed because MPHJ has not plausibly alleged adequate facts for the Court to decide its constitutional claim.

1. MPHJ is wrong about the standard for a facial vagueness challenge. Its argument confuses a facial vagueness challenge, which it asserts (Opp. 18-20), with a First Amendment

overbreadth challenge, which it does not assert. *See Holder v. Humanitarian Law Project*, 561 U.S. 1, 18-20 (2010) (distinguishing vagueness from First Amendment overbreadth and clarifying respective standards).⁶ A “facial vagueness challenge will succeed only when the challenged law can never be validly applied.” *Vt. Right to Life Comm. v. Sorrell*, 758 F.3d 118, 128 (2d Cir. 2014); *see also Holder*, 561 U.S. 19-20; *United States v. Farhane*, 634 F.3d 127, 136 (2d Cir. 2011) (“A statute whose application is clear is not rendered unconstitutionally vague because it proscribes expression protected by the First Amendment.”). MPHJ has asserted a facial vagueness claim, and, therefore, does not escape the general rule disfavoring facial challenges.

Accordingly, as previously argued (Doc. 13-1, at 21-24), MPHJ’s facial challenge must be dismissed because as a matter of law the statute may be applied constitutionally, which is all that is needed to overcome a facial challenge. MPHJ’s cursory assertion that the BFAPIA is unconstitutional in every application must be rejected. MPHJ suggests that the requirements of *Globetrotter Software, Inc. v. Elan Computer Group, Inc.*, 362 F.3d 1367 (Fed. Cir. 2004), must be in the text of the statute. But *Globetrotter*, even if it applies, has no such requirement. It explains that “to avoid preemption bad faith must be alleged and ultimately proven, *even if bad faith is not otherwise an element of the tort claim.*” *Id.* at 1374 (emphasis added; quotation omitted). MPHJ’s position – that state statutes can never be construed to avoid federal preemption – is not the law. The *Globetrotter* standard, if it applies as MPHJ asserts, can be raised and considered by a court when determining the applicability of the BFAPIA in a particular case. The BFAPIA acknowledges that “Vermont is preempted from passing any law

⁶ MPHJ’s reliance on *Kolender v. Lawson*, 461 U.S. 352, 359 n. 8 (1979), is misplaced because *Humanitarian Law Project*, 561 U.S. at 18-2, is more recent and expressly clarified this issue.

that conflicts with federal patent law,” 9 V.S.A. § 4195(a)(3), thus directing a court interpreting the statute to do so consistently with federal patent law.

2. MPHJ has not adequately alleged an as-applied challenge. The question of whether an as-applied challenge has been properly pled is not identical to standing, but here the concerns are related. MPHJ has not alleged facts sufficient for a court to evaluate the statute as applied (*see* Doc. 13-1, at 19-21) because (1) there has been no enforcement or threatened enforcement relating to MPHJ’s newly proposed activity; and (2) MPHJ’s proposed activity is not governed by the BFAPIA. MPHJ claims that its amended complaint makes it “clear as to how the [BFAPIA] will be applied to it.” Opp. 22. But, in fact, the proposed Claim 6 letter neither “assert[s] [n]or claim[s] that the target has engaged in patent infringement,” 9 V.S.A. § 4196, a requirement for application of the BFAPIA.⁷ MPHJ has also failed to allege any enforcement action, or even likely enforcement action, that would support an as-applied challenge to the BFAPIA. “[I]t is the Plaintiffs’ burden in an as-applied challenge of this nature to produce the facts upon which he bases his challenge,” *In re Cao*, 619 F.3d 410, 414 (5th Cir. 2010), and MPHJ has not met that burden.

B. MPHJ has not stated a claim under the Dormant Commerce Clause, a takings claim, or a claim for selective prosecution.

1. *Dormant Commerce Clause.* MPHJ argues that the BFAPIA’s application to Vermont residents, and not out-of-state businesses targeted by demand letters, violates the Dormant Commerce Clause. Opp. 24. MPHJ has this backwards – the Dormant Commerce Clause does

⁷ MPHJ’s failure to identify the proper party to send future patent correspondence is also relevant. MPHJ contends that “[c]learly any sender of a future letter will have the exclusive right to enforce the ‘426 Patent.” Opp. 32, n.27. This statement is inconsistent with MPHJ’s prior practice, where numerous letters were sent by subsidiaries that did not hold an exclusive right to enforce the patents. *See* Doc. 1-9, ¶¶ 49-52.

not require extraterritorial legislation; it restricts it. Vermont statutes do not govern out-of-state transactions involving residents of other states. For example, state usury laws prevent predatory lenders from charging excessive interest rates. Contrary to MPHJ's logic, the fact that Vermont's usury law does apply in Vermont does not violate the Dormant Commerce Clause by "impos[ing] a disparate impact on companies outside of Vermont." Opp. 24. MPHJ's argument is contrary to settled law.⁸ Further, MPHJ's assertion that Defendant Sorrell's interpretation of the Consumer Protection Act and BFAPIA "entirely preclude[s] the enforcement of *Judin*⁹ patents in Vermont," Opp. 24, is neither true, nor relevant to a Dormant Commerce Clause analysis. Again, MPHJ has not alleged that out-of-state businesses are treated differently than Vermont businesses when doing business in Vermont. Its claim must be dismissed.

2. Takings Claim. While MPHJ contends that cases related to regulatory takings "simply have no relevance to this case," Opp. 25, its claim that the State Action somehow affected its patent rights can only be characterized as an (unsuccessful) effort to allege a regulatory taking. *Michelotti v. United States*, 557 F. App'x 956 (Fed. Cir. 2014) is directly on point. Just as MPHJ alleges that Defendant Sorrell has denied it the ability to exercise its patent rights, the plaintiff in *Michelotti* alleged that the federal government denied it the rights and benefits of intellectual property ownership. *Id.* at 962. *Michelotti* confirms that this claim fails as a matter of law.

⁸ Moreover, MPHJ's alleged disparate impact is not an injury that it allegedly would suffer, but rather an injury that would be suffered by non-Vermont businesses that it accuses of patent infringement.

⁹ Although MPHJ repeatedly uses the term "*Judin* patent," the Federal Circuit's *Judin* decision does not describe a category of patents. *Judin* imposed Rule 11 sanctions where a plaintiff filed an infringement action without first making any effort to obtain a sample of the accused device from a vendor or the user. *Judin v. United States*, 110 F.3d 780, 781, 784 (Fed. Cir. 1997); *see also Intamin Ltd. v. Magnetar Tech. Corp.*, 483 F.3d 1328, 1338 (Fed. Cir. 2007) (explaining that *Judin* did not create a "blanket rule" for pre-suit investigation).

MPHJ relies heavily on a decision from its litigation with Nebraska, which is not precedential, and further does not support its takings claim. First, there is a key dissimilarity between these cases – the Nebraska Attorney General issued a cease and desist letter, imposing a legal obligation with respect to enforcement of the intellectual property rights. Here, Defendant Sorrell filed litigation, but at no time has MPHJ been enjoined or otherwise required to stop enforcing its patents. Second, MPHJ substantially overstates the Nebraska decision, which provides no analysis of whether there was an unconstitutional taking under the Fifth Amendment. *See Activision TV, Inc. & MPHJ Technology Investments, LLC v. Bruning*, (D. Neb. Sept. 2, 2014) (finding preemption, finding § 1983 violation because of the cease-and-desist letter, and issuing partial injunction). Although MPHJ did assert a Fifth Amendment claim, there is no analysis, as MPHJ implies, of whether the actions of the Nebraska Attorney General constituted a taking and the court did not order compensation for an alleged taking.

3. Selective Prosecution. MPHJ, as the plaintiff alleging selective prosecution, has an obligation to plead the elements of that claim. And, as previously shown, the standard for establishing these elements is particularly demanding, given the Executive Branch’s broad prosecutorial discretion. Doc. 19-1, at 22. One such element is that “[the state actor] must single out a person belonging to an identifiable group . . . even though he has decided not to prosecute persons not belonging to that group in similar situations.” *United States v. Anderson*, 923 F.2d 450, 453 (6th Cir. 1991). MPHJ has not alleged a prohibited classification, or that Defendant Sorrell improperly singled out MPHJ for prosecution while not prosecuting other similarly situated entities. In fact, MPHJ has not identified a single other entity, NPE or non-NPE, that engaged in similar conduct and Defendant Sorrell decided not to prosecute. MPHJ’s assertion that the BFAPIA discriminates against NPEs is irrelevant to a claim of selective prosecution, as

Defendant Sorrell has not prosecuted MPHJ or any other entity under that statute. MPHJ's selective prosecution claim must be dismissed.

IV. MPHJ's damages claims are barred by sovereign immunity and not cognizable under § 1983.

MPHJ seeks money damages in at least two respects: as compensation for an alleged takings claim (*see* Opp. 56-57), and for its fees and costs "related to the ongoing State Action" (Opp. 57). As previously argued, however, money damages may not be awarded against Defendant Sorrell, who is sued only in his official capacity. Doc. 19-1, at 24-25. Retrospective monetary relief is barred by sovereign immunity and not available in an official-capacity claim under § 1983. *Id.* That MPHJ asserts a takings claim does not change this analysis. *See DLX, Inc. v. Kentucky*, 381 F.3d 511, 526-28 (6th Cir. 2004) (sovereign immunity bars damages award for alleged taking against state and state officials). MPHJ's assertion that its request for fees incurred in the State Action falls under 42 U.S.C. § 1988 has no merit. Section 1988 permits a fee award as "part of the costs" to a prevailing plaintiff in an "action or proceeding to enforce" § 1983. It does not authorize – and sovereign immunity would bar – a damages award to compensate for attorneys' fees incurred in the past.

CONCLUSION

The Court should dismiss MPHJ's claims.

Dated: April 3, 2015

STATE OF VERMONT

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CERTIFICATE OF SERVICE

I hereby certify that on the 3rd day of April, 2015, I electronically filed Defendants' Reply Memorandum in Support of Motion to Dismiss with the Clerk of the Court using the CM/ECF system, which will send notification of such filing to Andrew D. Manitsky, Esq., W. Bryan Farney, Esq., and Cassandra L. Klingman, Esq.

Dated: April 3, 2015

STATE OF VERMONT

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