

EXHIBIT A

UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF VERMONT

MPHJ TECHNOLOGY INVESTMENTS,)
LLC, inclusive of its subsidiaries,)

Plaintiff)

v.)

WILLIAM SORRELL, in his official capacity)
as Attorney General of the State of Vermont,)

Defendant.)

Docket No. 2:14-cv-191

**PLAINTIFF MPHJ TECHNOLOGY INVESTMENTS, LLC'S SUPPLEMENTAL
MEMORANDUM IN OPPOSITION TO DEFENDANT'S MOTION TO DISMISS**

Plaintiff MPHJ Technology Investments, LLC (“MPHJ”) respectfully submits this supplemental memorandum in opposition to Defendant William Sorrell’s (“Defendant”) Motion to Dismiss. Below MPHJ briefly addresses certain new arguments raised by Defendant in his Reply, and incorporates recent authority on the issues presented. *See* Doc. 33.

ARGUMENT

I. Recent Authority Makes Clear That MPHJ’s Amended Complaint Is Not Barred By *Younger*

Defendant argues that this Court should dismiss MPHJ’s entire case (including claims MPHJ brings under the Vermont Bad Faith Assertions of Patent Infringement Act (“BFAPIA”), 9 V.S.A. § 4197), because the *Sprint* standard is met and no exception to abstention applies. Defendant is wrong in both regards, as recent authority demonstrates.

For the first time since *Sprint*, a district court has had the opportunity to analyze whether a state attorney general’s investigation and interference with a company’s First Amendment rights pursuant to a state consumer protection act, prompts the bad faith exception to *Sprint Communications, Inc. v. Jacobs*, 134 S. Ct. 584 (2013), for which *Younger* applies. *See Google, Inc. v. Hood*, No. 3:14-cv-981, Dkt. 88 (S.D. Miss. Mar. 27, 2015) (order denying AG’s motion to dismiss) (a copy of which is attached hereto as Exhibit A). In *Hood*, just as Defendant has done here, the Mississippi AG investigated Google, including threatening to sue Google unless it agreed to block certain content from its search engine system, and served a subpoena upon the company. *Id.* at 2. Google, like MPHJ, filed a declaratory judgment action against the Mississippi AG, asking the court to hold that Google is shielded from the state consumer protection laws and the AG’s actions violate its Constitutional rights – including its First Amendment rights, in part, on the basis of preemption. *Id.* at 1. Like Defendant here, the AG moved to dismiss the suit, arguing lack of subject matter jurisdiction, abstention, ripeness, and the reach of the applicable law. *Id.* at 1.

With respect to the AG’s argument that the court lacked subject matter jurisdiction, because Google had not asserted claims arising under 28 U.S.C. § 1331, but instead only asserted

defenses to state law claims, and that the claims were not ripe for adjudication, the court found that it did have jurisdiction. In reaching this conclusion, the court reviewed the lengthy history of interaction between the AG and Google, including the AG's efforts to pressure Google to make significant changes to how it operates, the issuance of the subpoena, and public statements made by the AG of his disapproval of Google's practices. *Id.* at 9. It held that Google was not "required to expose itself to civil or criminal liability before bringing a declaratory judgment action to establish its rights under federal law, particularly where the exercise of those rights have been threatened or violated." *Id.* at 11 citing *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118, 128-29 (2007) ("The dilemma posed by [governmental] coercion – putting the challenger to the choice between abandoning his rights or risking prosecution – is a 'a dilemma that it was the very purpose of the Declaratory Judgment Act to ameliorate' ... [the law] does not require a plaintiff to expose himself to liability before bringing suit to challenge the basis for the threat").

The court then turned to the *Younger* abstention inquiry. The *Hood* court addressed the bad faith exception to *Younger*, and on Google's presentation of nearly identical evidence of bad faith conduct on the part of the Mississippi AG as MPHJ presents here, found that the bad faith exception did apply. The court concluded that Google "presented significant evidence of bad faith," including that the AG's investigation and issuance of the subpoena represented an effort to coerce Google to comply with the AG's content removal requests, and that the AG had made statements showing his intent to take legal action against Google for its perceived violations. *Google*, No. 3:14-cv-981, Dkt. 8 at 14 citing *Sprint*, 134 S. Ct. at 588 (following the Supreme Court's directive that federal courts should not "refus[e] to decide a case in deference to the States") & *Pennzoil Co. v. Texaco, Inc.*, 481 U.S. 1, 12 (1987) ("The various types of abstention are not rigid pigeonholes into which federal courts must try to fit cases"). MPHJ has presented similar evidence here – that Defendant admittedly acted to deter constitutionally protected conduct, ignored relevant evidence (including an abundance of discovery in response to Defendant's CID) that demonstrated MPHJ's patent enforcement efforts were not unlawful or objectively and subjectively baseless, ignored relevant preemption law, and made repeated

derogatory public statements about MPHJ demonstrating Defendant's ill-motive.¹ Clearly, even if abstention was applicable (which it is not), like in *Hood*, the bad faith exception applies here.

Importantly, bad faith aside, contrary to Defendant's assertions, *Younger* simply cannot apply to bar MPHJ's claims under the BFAPIA or its claims solely related to the new Claim 6 letters – as neither are part of the state suit, nor will disposition of either here interfere with the state suit.² Regarding MPHJ's claims under the BFAPIA, Defendant's only justification that *Younger* applies to these claims is because MPHJ has adhered to its position that it believes the BFAPIA is part of the state suit. Doc. 33 at 6. But, as Defendant points out, what MPHJ believes in this regard is irrelevant. It is what this Court concludes that matters, and as even Defendant recognizes, this Court has held that "the State did not plead a claim under the BFAPIA." *Id.* It is clear then that the Court can grant relief to MPHJ without any concern regarding whether the state court has the authority to grant similar relief under the BFAPIA. Thus, no interference. Further,

¹ Contrary to Defendant's assertions in his Reply (Doc. 33, p. 4 n.1), MPHJ has not "inaccurately characterized" Defendant's public statements. Defendant claims that "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." *Id.* Merely reading a direct quote of his answer to the question regarding what brought the problem with NPEs to the forefront demonstrates that it was the AG's dealings with these businesses that encouraged Defendant to take action:

I had never really heard of patent trolls until I heard a piece on National Public Radio maybe two, three years ago...[I] had no clue that there were patent troll issues in Vermont until spring of 2012. A group of tech-savvy Vermont companies – and I'll mention one because they've gone public with it – MyWebGrocer. These Vermont companies asked the Vermont secretary of commerce and me if we would attend a meeting with them. And we did. We talked about patent trolls and how they [the Vermont companies] were being victimized...And basically they asked if it was possible for Vermont to take action to make Vermont a less friendly environment for patent trolls. And I said, "Well, patents are creatures of federal statute, but we'll take a look."

Doc. 22-14. It is thus clear that these businesses not only "played a role in the investigation of MPHJ [and other NPEs like MPHJ]," but they were the instigators of the AG's investigation. Clearly the AG has admitted working with these businesses "to take action to make Vermont a less friendly environment" for patent owners. And it is these businesses, specifically, MyWebGrocer, who funded research regarding "Potential Vermont-Based Patent Troll Solutions." Doc. 22-13.

² Importantly, even the *Hood* court acknowledged that "[e]ven where a state-court proceeding involves the same subject matter as the action filed in federal court, abstention is not necessarily warranted." *Id.* at 14 citing *Sprint*, 134 S. Ct. at 588.

Defendant fails to explain how the relief MPHJ seeks with respect to its new letters would interfere with the state proceedings. An injunction requiring the AG to have reasonable grounds to assert objective and subjective baselessness with respect to any new letters MPHJ sends would not even affect the state suit, which is premised on different letters altogether.³ Just because the State seeks an injunction in state court requiring MPHJ to comply with the VCPA does not mean that this Court cannot award MPHJ its requested relief requiring Defendant to comply with federal preemption law before bringing suit. Both requests for relief could be granted without interfering with the other. Abstention does not apply here.⁴

II. MPHJ Has Standing And Its Claims Are Justiciable

Defendant contends there is no “case or controversy” here and MPHJ lacks standing for its BFAPIA claims because the draft proposed letters submitted by MPHJ are materially different than its past letters. He now surrenders on his prior claim, and contends that unlike those letters, the new letters do not violate the BFAPIA because the new letters do not indicate infringement is “likely” or threaten suit for infringement.⁵ Doc. 33 at 7-8. But in taking this position, Defendant actually provides clear evidence that standing does exist.⁶ First, Defendant plainly indicates that he considers MPHJ’s prior letters to be barred by the BFAPIA. Given that a federal court has already ruled that sending those exact same letters was not objectively or subjectively baseless, and that MPHJ had a First Amendment right to send them, Defendant’s position makes it plain on

³ Defendant himself argues in his Opposition that the new Claim 6 letters are materially different than the letters at issue in the state suit. *See, e.g.*, Doc. 33 at 8.

⁴ It likewise does not apply to MPHJ’s remaining claims, as already explained in its Opposition. *See* Doc. 22 at 32-46.

⁵ It must be noted that the new letters, however, assert that it is “possible” the company infringes—language, MPHJ asserts, is not materially different from language in the first letters, which asserted that the recipient “appears to be using patented technology,” was “likely infringing,” and “almost certainly” is using the technology. At a minimum this Court’s intervention is necessary to set forth exactly which language constitutes a “threat” that would violate the BFAPIA (rather than forcing patentees to blankly rely solely upon Defendant’s subjective opinion on which language he believes violates the statute on any given day).

⁶ Importantly, MPHJ raises two distinct claims with respect to the BFAPIA: (1) that the proposed letters would not violate the BFAPIA (which Defendant appears to concede); and (2) that the statute itself is unconstitutional (which still needs to be determined, as further explained below). A concession on one does not require dismissal of the other.

its face he contends the BFAPIA would stop constitutionally protected activity.⁷ Thus, MPHJ's suit to declare the statute unconstitutional plainly has standing, and plainly at a minimum states a claim.⁸

Second, Defendant's comparison is flawed. According to Defendant, the new letter proposed by MPHJ does not threaten an infringement suit, where the prior letter did – and, as a result, the new letter, compared to the old letter, would not violate the BFAPIA. But this comparison is simply incorrect, and the distinction is important. MPHJ did not threaten suit in its prior letter, just as it does not in its new letter, as the court can see just by comparing them – *Cf.* Doc. 18-6 to Doc. 18-13. Instead, it was MPHJ's counsel that sent follow-up correspondence to inform recipients who had ignored two prior letters that in the absence of a response to a third letter, the client intended to bring suit. *See* Doc. 18-8. This is plainly something MPHJ, and counsel acting on its behalf, has the right to do. It has both the right to bring suit in the absence of a response to an infringement inquiry,⁹ and the right to notify the recipient of its intent to bring suit.¹⁰ But not only does MPHJ have the right to do this, most courts would prefer that MPHJ do so.

⁷ *See Activision TV, Inc. & MPHJ Technology Investments, LLC v. Bruning*, slip op. at 4-7 (D. Neb. Sept. 2, 2014). Even the FTC conceded that MPHJ could send those letters, where the FTC imposed only the condition that MPHJ document the representations about past experience and royalties was true and that MPHJ intend to sue if it threatened to sue (which it did). *See* Doc. 18-11. Thus, even under MPHJ's consent agreement, in which MPHJ did not admit any wrongdoing, MPHJ could send the exact same letter provided it established the statements made were true.

⁸ And, as explained, it is a claim not barred by *Younger* because, regardless of the parties' respective positions on the issue, this Court has held that the BFAPIA is not part of the state case.

⁹ *See, e.g., Hoffmann-La Roche Inc. v. Invamed Inc.*, 213 F.3d 1359, 1363-65 (Fed. Cir. 2000); *Arrival-Star, Inc. v. Descartes Sys. Group, Inc.*, No. 04-CIV-0182, 2004 U.S. Dist. LEXIS 22433 at *36 (S.D.N.Y. Nov. 5, 2004); *SRI Int'l, Inc. v. Advanced Tech. Labs., Inc.*, 127 F.3d 1462 (Fed. Cir. 1997); *Judin v. United States*, 110 F.3d 780, 784 (Fed. Cir. 1997).

¹⁰ *See Globetrotter Software, Inc. v. Elan Computer Croup, Inc.*, 362 F.3d 1367, 1374 (Fed. Cir. 2004) (“A patentee that has a good faith belief that its patents are being infringed violates no protected right when it so notifies infringers.”); *see also Virtue v. Creamery Package Mfg. Co.*, 227 U.S. 8, 37-38 (1913) (“Patents would be of little value if infringers of them could not be notified of the consequences of infringement”); *Concrete Unlimited v. Cementcraft, Inc.*, 776 F.2d 1537, 1539 (Fed. Cir. 1985) (“patent owner has the right to . . . enforce its patent, and that includes threatening alleged infringers with suit”); *Virginia Panel Corp. v. MAC Panel Co.*, 133 F.3d 860, 869 (Fed. Cir. 1997) (similar).

Consider the circumstances. MPHJ reasonably suspects a company of infringing, but cannot sue because it cannot confirm the infringement from public sources.¹¹ Under *Judin*, MPHJ is required to make inquiry before bringing suit. Under *Hoffman*, it is then permitted to bring suit if the subject of the inquiry fails to respond. MPHJ reasonably believes that most courts would strongly prefer that MPHJ at least inform a non-responding recipient that a suit could be filed, before doing so.¹² Such notice could spur a non-infringing recipient to respond, thereby negating any need for a suit. And it could spur an infringing recipient to respond, which might result in a settlement without requiring suit, or might more narrowly tailor the issues. Defendant's stated position is now that while the new letter MPHJ proposes to send may not violate the BFAPIA, that a follow-up letter by MPHJ's counsel, identical to the prior follow-up letters, would violate the BFAPIA. Given, again, that these follow-up letters have already been held to be constitutionally protected, and that Defendant even now contends that sending them would violate the BFAPIA, it is evident that MPHJ has both standing and ripeness to challenge the constitutionality of the BFAPIA as it would apply to its current letters, and any reasonable follow-up letters its counsel might send.

Any suggestion by Defendant that MPHJ has not alleged a "credible threat of enforcement" under the BFAPIA because Defendant has not stated the new letters violate the Act is simply without merit. As explained, merely comparing the old letters with the new letters

¹¹ Contrary to Defendant's assertions, the Saul Acevedo declaration supports that this is the case and demonstrates that MPHJ has established a reasonable basis that Vermont businesses using these common systems would infringe, sufficient to send a letter under *Judin* inquiring as to that infringement. Defendant's argument regarding the declaration demonstrates why the regulation of federal patent law is not left up to the states – because the states have absolutely no expertise in the patent law arena. For example, Defendant claims that the review panel did not "reaffirm the validity of Claim 6," and the declaration "raises serious questions as to validity." Doc. 33 at 8-9. But, of course, Defendant ignores well-settled federal law that patents, by law, are presumed valid. 35 U.S.C. § 282. Thus, there is no question whether MPHJ's patents are valid. This is especially the case when the Patent Office upheld the validity of Claim 6 of the '426 patent after reviewing all of the prior art submitted by the major scanner manufacturers.

¹² See, e.g., *Sosa v. DirectTV, Inc.*, 437 F.3d 923, 933 (9th Cir. 2006) (describing the "breathing space" that should be accorded and explaining that "[w]hile responding to demands to settle unfounded claims is burdensome, it is less likely burdensome than if the opposing party, fearing liability in tort for demanding settlement of a possibly weak claim, proceeded directly to litigation").

seriously calls into question the legitimacy of Defendant's outcries that the new letters concern "entirely different activity." Which specific statements would violate the BFAPIA is based on the subjective decision of Defendant at any given time, and nothing prevents Defendant from changing his mind and deciding to file suit once the new letters are sent.¹³ See Doc. 22 at 19-23. There is no doubt that such threats of civil liability for disfavored speech are sufficient to sustain a claim for injunctive and declaratory relief. See, e.g., *Zieper v. Metzinger*, 474 F.3d 60, 65-66 (2d Cir. 2007); *Hartman v. Moore*, 547 U.S. 250, 256 (2006); *Bantam Books, Inc. v. Sullivan*, 372 U.S. 58, 67-69 (1963).¹⁴

CONCLUSION

Based on the arguments presented herein and those presented in MPHJ's Opposition (Doc. 22), MPHJ respectfully requests that this Court grant deny Defendant's Motion to Dismiss.

¹³ Importantly, MPHJ also emphasized that the Claim 6 letter was an example letter of one it might send. Any sort of alteration with the language would necessarily transform the letter, in Defendant's eyes, to one which violates the BFAPIA. Clearly it is necessary for this Court to establish and make clear which types of statements made in similar letters would violate the BFAPIA – for MPHJ and future patent owners alike.

¹⁴ As explained above, similar arguments regarding subject matter jurisdiction advanced by Defendant here were presented by the Mississippi AG in *Hood* and were rejected. See *Google*, No. 3:14-cv-981, Dkt. 88, at p. 11 citing *MedImmune*, 549 U.S. at 128-29

Respectfully submitted,

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