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Defendant MPHJ Technology Investments, LLC (“MPHJ”) respectfully submits this opposition to the motion to remand filed by Plaintiff State of Vermont (the “State”). Doc. 9.

This case is unprecedented. For the first time in the United States, a state attorney general has sued to prevent an owner of valid U.S. Patents from contacting potential infringers. The patent system was established by Congress under the Patent Clause in the U.S. Constitution (Art. I, § 8, cl. 8), with the Founders’ express intention of having a patent system that was nationally uniform.¹ Congress has implemented that intention for over 200 years.²

Vermont, now, seeks to disrupt the nationally uniform patent system, at least as to one specific type of patent owner that it unjustifiably has chosen to disfavor. This case necessarily raises federal issues of utmost importance, and presents claims over which this Court has federal question jurisdiction, as MPHJ explains below.

BACKGROUND

1. The Klein Patents

The fundamental facts underlying this case are that Defendant MPHJ is the owner of certain U.S. patents covering inventions by a Mr. Laurence Klein. These patents relate to ground-breaking inventions in the area of networked scanning systems. More specifically, the Klein patents relate to networked scanning systems that are connected and interfaced such that they permit the automatic and seamless transmission of a scanned document image into application software running on a destination computer.³ A common example of a modern system that would infringe could be found in a business having a Local Area Network (or

¹ *Florida Prepaid Postsecondary Educ. Expense Bd. v. College Sav. Bank*, 527 U.S. 627, 648-51 (1999) (Stevens, J., dissenting) (discussing Justice Story’s and James Madison’s explanation that Patent Clause was included in Constitution because a nationally uniform patent system was considered important).

² *See Campbell v. Haverhill*, 155 U.S. 610, 620 (1895); *Fla. Prepaid*, 527 U.S. at 648-49.

³ The scope of the patents is, by law, defined by their respective claims. This general description is provided for convenience and quick reference only. *See* the Klein Patents, Exhs. A-E.

“LAN”), and a scanner and employee computers running email software such as Microsoft Outlook connected to the LAN, where a document may be scanned and transmitted via the LAN directly as an attachment into the email on an employee’s computer with the push of a button.

Such systems are now in widespread use. But they were *not* at the time of invention. Indeed, the Patent Office deemed the system novel and non-obvious at the time of invention, and has awarded five patents on aspects of the invention. Significantly, despite the State’s implicit view that the patents are invalid, that fifth patent was issued by the Patent Office on July 18, 2013, after a review of all of the prior art cited by most of the major scanner and information technology companies in the world. *See* Declaration of J. Mac. Rust (“Rust Decl.”), at ¶ 3.

2. Enforcement and Licensing Considerations Presented by the Klein Patents

The inventions covered by the Klein patents are now in widespread use. Indeed, there are many likely infringers in Vermont.⁴ But seeking remedy for that infringement presents challenges for the patent owner. First, because the Klein Patents cover the entire networked system, no single manufacturer of a scanner, or a server, or any employee computer, has liability for the infringement.⁵ Only the businesses that have or use the entire covered system would infringe.⁶

For those businesses that can be identified as likely having an infringing system, the Klein patents then present a second consideration. To bring suit for infringement against such a

⁴ The State does not deny this. It does not deny MPHJ is the owner of the patents. It cannot deny the patents are “presumed valid” under federal law. 35 U.S.C. § 282. And, the State does not deny that at least some Vermont companies may infringe the Klein patents. Doc. 9, pp. 1, 12.

⁵ For each, there are uses for their products other than in a system covered by the Klein patents. Thus, MPHJ cannot bring suit against the scanner manufacturers directly, as they have no liability for their customer’s use of the scanners in the patented system. Canon, Inc., who has entered into an agreement with MPHJ, made this clear in their press release: “MPHJ’s patents are related to the whole ‘enterprise system’ for accomplishing the goal, and are not directed at an MFP or scanning device alone.” Exh. F (Canon Press Release, June 21, 2013).

⁶ In rare cases, a third party IT system that provided an entire system to a particular business might have separate liability for “making” and “selling” the entire system. 35 U.S.C. § 271.

company, the Federal Rules require, as a predicate, that a pre-suit investigation be conducted to confirm the infringement, as even the State concedes. *See* FED. R. CIV. P. 11; Doc. 9, p. 19, n.4. But because the covered networked system is internal to the business, public proof of infringement is not typically available.⁷ In the case of such private infringement, however, the law does not leave a patent owner without a remedy. Instead, it requires an extra step in the pre-suit investigation process.

The courts have held, and the Federal Circuit has confirmed, that in this situation, the patent owner can satisfy its Rule 11 obligation by sending a letter to the potential infringer explaining the potential infringement, and asking the recipient, if it does not infringe, to simply inform the patent owner of that fact (and to provide sufficient support if needed). *See e.g., Arrival Star, Inc. v. Descartes Sys. Group, Inc.*, 2004 U.S. Dist. LEXIS 22433, at *36 (S.D.N.Y. Nov. 5, 2004) (where potentially infringing process is not publicly available, sending letter seeking review of alleged infringer's technical documentation reasonably satisfied Rule 11).

Separate and apart from this Rule 11 right and obligation, the patent owner, of course, also has its First Amendment and patent law rights to simply inform likely infringers of the patents, and to offer a license. *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

⁷ In rare cases, a company's system might be sufficiently described in public documents. Also, in some cases, primarily larger companies, experts might be able to confirm the existence of an infringing system from surrounding circumstances. Neither of those circumstances were relevant to the recipients of the letters accused here.

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).

A third consideration presented by the Klein Patents and their widespread infringement is the sheer number of infringers. There are a substantial number of likely infringers. Thus, to better address this challenge, MPHJ chose to organize its licensing efforts, and to divide the licensing efforts among subsidiaries, each with a right to license specific companies of a certain type. It was these licensing entities that sent the patent letters upon which the State bases its Complaint.⁸

3. The Klein Patents Licensing Effort Followed Federal Law

With this background, it can be seen that the letters sent by MPHJ’s licensing entities were simply carrying out a lawful and reasonable attempt to seek remedy for the widespread infringement of the Klein Patents. The letters sent served several lawful and permitted purposes. First, they gave notice to recipients of the patents, something MPHJ is permitted to do. Indeed, to preserve certain rights, it is required to do so under 35 U.S.C. § 287. *See Mikohn Gaming Corp. v. Acres Gaming, Inc.*, 165 F.3d 891, 897 (Fed. Cir. 1998) (“federal authority makes clear that it is not improper for a patent owner to advise possible infringers of its belief that a particular product may infringe the patent.”). The letters offered a license, which MPHJ was permitted to do under 35 U.S.C. § 287, and the First Amendment. *See Globetrotter Software, Inc.*, 362 F.3d at 1376 (explaining that the same First Amendment policy reasons that justify the extension of *Noerr* immunity to pre-litigation conduct of a patent holder apply in the context of state-law tort claims). Finally, where the recipient did not respond, the third letter, in particular,

⁸ A good example of the many incorrect claims made by the State is the claim that MPHJ created these entities to somehow “hide the true owner” of the patents. This is refuted easily by merely pointing out that MPHJ at all times was identified as the owner of the patents in the publicly available records of the U.S. Patent and Trademark Office. *See Rust Decl.*, at ¶¶ 4, 5; Exh. G (PTO Assignment Record). Nothing about ownership was hidden.

additionally satisfied the Rule 11 pre-suit investigation obligation under the cases cited above, such as *Arrival-Star*.

Because it is these letters that form the entire basis of the State's Complaint, it will be helpful to the Court to briefly consider each of these letters in turn.⁹ When the Court reads the first letter sent by an MPHJ subsidiary, it can see that the letter explains that the Klein patents relate to a particular form of networked scanning system, and that the sender believed it was likely that the recipient had a system that would be covered by the Klein patents. Doc. 6-1, Exh. A. The letter then conveyed its "essential message" that if the recipient did have an infringing system, a license was needed, and that the sender was willing to grant such a license.¹⁰ But, importantly, the letter also conveyed that if the recipient did not have an infringing system, no license was needed, and the sender wished only to be so informed by the recipient so it would know to discontinue contact. Doc. 6-1, Exh. A. This first letter was thus consistent with a lawful and appropriate licensing campaign, as it provided to the recipient, a likely infringer, proper notice of the patents and offered a license. *See, e.g., Mikohn Gaming Corp.*, 165 F.3d at 897 ("A patentee has a right to inform a potential infringer of the existence of the patent, whereby the recipient of the information may adjust its activities, perhaps seek a license, or otherwise act to protect itself.").

The second letter was sent only to recipients who did not respond to the first letter.

⁹ The first and third letters are attached to a Complaint and may be considered here. Doc. 6-1, Exhs. A, B. The second letter is attached (Exh. H) and as it is relevant to the State's claim, may be considered also. *See Heathcote Assocs. v. Chittenden Trust Co.*, 958 F. Supp. 182, 184 (D. Vt. 1997) (explaining that a court may consider any documents attached as exhibits to the complaint and "the Second Circuit has . . . permitted District Courts . . . to consider written instruments outside the four corners of the complaint when the plaintiff's claims rely on such instruments and the opposing party has notice of them"). *See also Broder v. Cablevision Sys. Corp.*, 418 F.3d 187, 196 (2d Cir. 2005).

¹⁰ As explained, *infra*, at Section I (C), assessing alleged violations under VCPA of accused communications requires considering whether their "essential message," and not any statement(s) in isolation, was false and deceptive.

Exh. H. The Court can see from review of that letter that counsel simply advised the recipient that its client had sent the first letter, and asked for a response. *Id.* In that letter, too, it was stressed again to the recipient that if it did not have an infringing system, the client merely wished to be so informed so that it would know to discontinue contact. *Id.* It also made clear that if, on the other hand, the recipient did have an infringing system, a license was required. *Id.* Thus, the “essential message” of the second letter was the same as that of the first letter.

The third letter was sent only to recipients who did not respond to the first letter and the second letter. Doc. 6-1, Exh. B. The Court can read that third letter to see that it had, in effect, two purposes. The first purpose was much the same as that of the second letter. It explained to the recipient that neither the client nor its counsel had received a response from the recipient to either the first or the second letter, and requested a response. *Id.* Again, the “essential message” of this portion of the third letter was again that if the recipient had an infringing system, it needed to take a license, and that if it did not have an infringing system, it did not need a license, and only needed to so inform the sender so that the matter could be closed.

But the third letter also had a second purpose. That purpose was to ensure that a later Court would conclude that MPHJ and its related licensing entity had taken thorough and reasonable steps to make a reasonable pre-suit inquiry sufficient to satisfy its Rule 11 obligation under cases such as *Arrival-Star*. Thus, to that end, the letter made clear to the recipient that in the absence of a response to the third letter, the sender would make the reasonable assumption of infringement, and would believe it had a basis to bring suit. So that this would be clear to the recipient, a draft complaint was included. Doc. 6-1, Exh. C. That complaint contained within it the recitation that the letters, particularly the third letter, served to provide the basis for suit.¹¹

¹¹ Such a letter is clearly lawful. *Sinclair v. StudioCanal, S.A.*, 709 F. Supp. 2d 496 (E.D. La. 2010) (sending a letter specifically threatening legal action if the plaintiff did not respond within

Doc. 6-1, Exh. C.

Thus, in sum, this case involves circumstances where a patent owner owned patents that were widely infringed, reasonably allocated licensing responsibility among different entities, and then those entities sent correspondence to notify likely infringers of the patents, to offer a license, and if rebuffed, to make sufficient inquiry as to the private infringement to satisfy the pre-suit investigation obligation imposed by Rule 11. As will be explained further, the courts have held that the entirety of this conduct is an appropriate way for a patent owner to enforce its patents, and is both entirely lawful and protected by the First Amendment.

4. The State's Suit and Its Claims

The State now brings this suit, contending that MPHJ has violated the Vermont Consumer Protection Act ("VCPA") (Doc. 6). The entirety of the State's Complaint is based upon the three patent inquiry and licensing letters. As explained above, and more fully in Section I, *infra*, all of these letters had a lawful purpose under the federal patent system. Thus, one might think it odd that the State of Vermont now seeks to interfere with the functioning of the federal patent system.

The reason is found in that the State of Vermont recently has decided that it wishes to discriminate between different types of owners of U.S. patents, namely to impede the licensing efforts of patent owners who acquire patents but do not operate a business in the patented technology.¹² Such "Non-Practicing Entities" (NPEs) are referred to by Vermont using a slang

two weeks to the letter was insufficient to confer personal jurisdiction over the non-resident defendant); *Big Air Pylons, Inc. v. Correct Craft, Inc., et al.*, No. 12-cv-00068 (W.D. OK, June 21, 2012) (defendant's sending an unfiled complaint to the plaintiff in addition to cease-and-desist letters, fails to even give rise to personal jurisdiction in the recipient state).

¹² This Complaint represents one prong of Vermont's attempt to attack the type of patent owner which the State refers to as "patent trolls." The other is the State's enactment of an "anti-troll" bill the same day this suit was served. *See* Art. 44, "Bad Faith Assertions of Patent Infringement" (9 V.S.A. § 4195). Both efforts, this Suit and the new Bill, were orchestrated by multiple companies in Vermont that appear to be repeat patent infringers. *See* Exh. I.

pejorative term – “patent trolls.” *See* Exh. I. The use of this slang term merely highlights the State’s intention to discriminate against one type of patent owner over another.

Whether or not Vermont likes the NPE business model, it is clear the U.S. Supreme Court itself has endorsed this business model as lawful, and has made it clear that such patent owners are entitled to enforce their patents. *See eBay, Inc. v. MercExchange, LLC*, 547 U.S. 388 (2006) (non-practicing entity entitled to monetary relief, if not injunctive relief). District courts that hear large numbers of patent cases recognize this principle, and consistently reject efforts to have non-practicing entities treated differently under the patent laws.¹³ The State of Vermont has decided it disagrees with these courts, and now interjects itself into the federal patent system to interfere with this principle, and to have what it calls “patent trolls” afforded less rights than other patent owners.

Outside the confines of this Court, the Vermont Attorney General has made it clear that this case is a calculated attack on a class of patent owners disliked by the State. He even has made it clear that this suit is undertaken for the express purpose of helping make Vermont a “patent haven” where it is more difficult to enforce patents against infringers in Vermont than in other states. In words of the Attorney General, “[i]f Vermont succeeds in scaring trolls away, it will give companies there an advantage.” Exh. J.

¹³ *See, e.g., Cradle IP, LLC v. Tex. Instruments, Inc.*, 2013 U.S. Dist. LEXIS 19245, at *6 (D. Del. Feb. 13, 2013) (“many businesses and academic institutions enforce their patent rights through [non-practicing entities]; such a business strategy is not nefarious. The court declines to treat such non-practicing entities as anything less than holders of constitutionally protected property rights, those rights having been legitimized by the Patent & Trademark Office”); *Advanced Processor Tech, LLC v. Atmel Corp.*, 2013 U.S. Dist. LEXIS 43050, at *20 (E.D. Tex. Mar. 26, 2013) (same); *Parallel Networks, LLC v. Netflix, Inc.*, 2008 U.S. Dist. LEXIS 123563, at *20 (E.D. Tex. Dec. 23, 2008) (plaintiff’s “status as a non-practicing entity has no bearing on whether it will be prejudiced by a stay because every patentee has equal rights under the law to enforce his patent rights.”); *Tex. Data Co., L.L.C. v. Target Brands, Inc.*, 771 F. Supp. 2d 630, 638 (E.D. Tex. 2011) (“the ‘patent troll’ label [is] often ascribed to entities created solely to buy patents and then license them or bring patent infringement suits. But these entities own a legitimate property right—the patent—that they are seeking to enforce. The Court is not aware of any rules that apply differently to them.”).

With this background, it is easy to see that the State’s protestations that this case is about “consumer fraud” and “not patent law” are simply disingenuous.¹⁴ For example, the primary relief sought by the State is a “permanent injunction requiring Defendant to stop threatening Vermont businesses with patent-infringement lawsuits.” Thus, the State does not seek here to address the form of patent inquiry letters sent by MPHJ’s licensing entities, or any particular statement in its letters that the State might consider deceptive. Instead, the State’s express goal is to obtain relief that would forever prevent MPHJ from enforcing its patents in Vermont at all. The State pursues this goal, despite the fact that it does not deny that there may be infringers in Vermont, and that the patents may be valid.

MPHJ has now lawfully removed this case to federal court where it should be heard. As will be shown, this Court is much better positioned to consider the issues the State’s action raises regarding its attempted disruption of the entire national patent system. MPHJ thus demonstrates herein that its removal was proper, that this Court has federal question jurisdiction, and that the State’s Motion to Remand should be denied.

ARGUMENT

I. THE STATE’S COMPLAINT INCLUDES CLAIMS THAT NECESSARILY RAISE A FEDERAL ISSUE

This Court has jurisdiction over this action because the State’s Complaint includes at least one claim whose resolution depends upon a substantial federal issue. *See* 28 U.S.C. §§ 1331 & 1338. If at least one such claim entails exercise of federal question jurisdiction, this Court would have supplemental jurisdiction over any remaining state law claims, if any. 28 U.S.C. §

¹⁴ Here the Court is not precluded from applying its common sense. As the court in *Holiday Matinee* noted, where the complaint contained no less than 63 references to “patent” or derivations (*i.e.*, “infringement,” “royalty,” “license”), it was not determinative, but certainly suggestive that the claims may form on federal issues of patent law). *Holiday Matinee, Inc. v. Rambus, Inc.*, 118 Cal. App. 4th 1413, 1425 (Cal. App. 6th Dist. 2004). MPHJ submits the State’s Complaint by comparison contains no less than 125 such references.

1367; *City of Chicago v. Int'l College of Surgeons*, 522 U.S. 156, 164-65 (1997).

In *Grable & Sons Metal Products, Inc. v. Darue Engineering & Manufacturing*, the Supreme Court unanimously reaffirmed the “longstanding” and “commonsense” principle that “a federal court ought to be able to hear claims recognized under state law that nonetheless turn on substantial questions of federal law.” 125 S. Ct. 2363, 2367 (2005). *See also Merrell Dow Pharmaceuticals, Inc. v. Thompson*, 478 U.S. 804, 808 (1986)(a state claim “arises under” federal law “where the vindication of a right under state law necessarily turned on some construction of federal law.”).

The Supreme Court this year in *Gunn vs. Minton*, 133 S.Ct. 1059 (2013), recently succinctly summarized the *Grable* test. *Gunn* held that federal question jurisdiction exists over any “claim” in which a federal issue is: (1) necessarily raised; (2) actually disputed; (3) substantial; and (4) capable of resolution without disrupting the federal-state balance approved by Congress. Here, the parties agree the *Gunn* test applies. Doc. 9-1, pp. 7-8. But the parties disagree on the predicate question of what should be considered the State’s “claims” as that term is used in *Gunn*, and whether those claims raise issues of federal law that satisfy the *Gunn* criteria.

A. A Claim Refers To A Set of Operative Facts Giving Rise To A Right – Here The State Asserts Multiple “Claims” Raising Federal Issues

The first question to consider in assessing whether this Court has federal question jurisdiction under *Grable* and *Gunn* is to determine just what are the State’s “claims.” The State’s Complaint is written to appear as if it asserts two counts, one for deceptive trade practices under VCPA, and a second claim for consumer fraud under VCPA. Doc. 6, pp. 8, 9. According to the State, these counts comprise one “claim” under VCPA which are supported by “alternative theories.” The so-called “alternative theories” apparently are the accused statements and actions

identified in Paragraphs 56 & 57 of its Complaint.

The State admits it takes this position so that it may argue it does not assert any “claim” that necessarily raises a federal issue.¹⁵ But the State’s efforts plainly fail. *See Rivet v. Regions Bank*, 522 U.S. 470, 475 (1998) (“A plaintiff may not defeat removal by omitting to plead necessary federal questions”). Such “artful pleading” cannot defeat federal jurisdiction. *See* 14B Wright, Miller, Cooper, Federal Practice and Procedure, § 3722 at 274 (4th ed. 2009) (“The doctrine provides that a plaintiff cannot frustrate a defendant’s right to remove by pleading a case without reference to any federal law when the plaintiff’s claim is necessarily federal.”)

In arguing that it has but one “claim” supported by many alternative “theories,” the State confuses the difference between a “claim” and a “theory.” Contrary to the State’s position, the law is that a claim is the “facts giving rise to a right enforceable by a court,” BLACK’S LAW DICTIONARY 264 (8th ed. 2004). A legal theory is the legal basis upon which those facts constitute a cause of action.¹⁶ *See generally*, 5 Charles A. Wright & Arthur Miller, FEDERAL PRACTICE AND PROCEDURE: Civil 2d §§ 1215-1216 (1990); *see also Original Ballet Russe, Ltd. v. Ballet Theatre, Inc.*, 133 F.2d 187, 189 (2d Cir. 1943) (“For the traditional and hydraheaded phrase ‘cause of action’ the Federal Rules of Civil Procedure have substituted the word ‘claim.’ It is used to denote the aggregate of operative facts which give rise to a right enforceable in the courts.”).

¹⁵ It does so, of course, because the State knows that its claims will not withstand even cursory review by a federal court. There is no personal jurisdiction here over MPHJ; preemption plainly applies; and given the patents and the patent law, nothing about the letters violated the VCPA.

¹⁶ *See e.g., A-1 Advanced Moving & Storage, Inc. v. Norvergence, Inc.*, 424 B.R. 663, 705 (Bankr. D.N.J. 2010) (“As a legal theory” assignees may be liable under the New Jersey Consumer Fraud Act for their conduct); *Chamberlain v. Am. Tobacco Co.*, 1999 U.S. Dist. LEXIS 22636, at *55 (N.D. Ohio Nov. 19, 1999) (“The final legal theory under which plaintiffs seek recovery is plaintiffs’ alleged claim for violations of Ohio’s consumer protection statutes...”); *Chandler v. Southwest Jeep-Eagle*, 162 F.R.D. 302, 308 (N.D. Ill. 1995) (“In this case, the legal theory underlying Chandler’s class claims is that the standard retail installment contract provided to him and all other proposed class members violated TILA and/or the Consumer Fraud Act.”).

Here, the State alleges a number of factual *claims* (or “different grounds”), but it asserts in its Complaint and in its brief only a single legal theory: violation of the VCPA. With this understood, one can then turn to consideration of what claims the State makes that would give rise to liability under its single VCPA-based theory. In a very similar removal case, the Second Circuit agreed that this Court should first “ascertain which portions of [the] complaint comprise distinct ‘claims.’” *Broder v. Cablevision Sys. Corp.*, 418 F.3d 187, 194 (2d Cir. N.Y. 2005). If one federal aspect of the complaint is a logically separate claim, it is sufficient for removal. *Id.* (citing *Exxon Mobil Corp. v. Allapattah Servs., Inc.*, 502 U.S. 546 (2005); *City of Chicago*, 522 U.S. 156).

The Second Circuit decision in *Broder* is helpful in this regard because it is directly on point in determining what claims the State has asserted here. *Broder*, 418 F.3d at 187. In *Broder*, the plaintiff Broder was a Cablevision customer who alleged he had not been treated by Cablevision consistent with their contract. That contract incorporated by reference certain “uniform rates” provisions defined by federal law, and certain “notice” provisions defined by New York state law. *Id.* at 194-96. Broder brought suit in New York state court alleging, *inter alia*, a violation of the New York Deceptive Trade Practices Act. *Id.* Cablevision, like MPHJ here, removed the case to federal court.

As the State does here, Broder argued for remand on grounds that his New York DTPA claim was one “claim” for deceptive trade practices under state law. For that “claim” he argued he had “two alternative theories” – the violation of the federal uniform rates provision, and the violation of the New York notice provision. *Id.* at 192. The district court, and the Second Circuit, disagreed. In holding that Broder’s apparent single New York DTPA claim was not one claim supported by two alternative theories, but instead two distinct claims, the Second Circuit

explained that “what a plaintiff presents as one ‘count’ may be understood to encompass more than one ‘claim’.” *Id.* “The question is whether at least one federal aspect of Broder’s complaint is a logically separate claim, rather than merely a separate theory that is part of the same claim as a state-law theory.” *Id.*

To decide this, the court noted that even though Broder styled his complaint as having “one claim” for violation of the New York DTPA, in fact there were two claims – one for violating the DTPA by failing to give the “uniform rates” provided by federal law, and a second for violating the DTPA by failing to give “notice” required by state law. Each was based upon the same theory that there was a violation of the New York DTPA law. But the claim for violation of the DTPA based upon failure to satisfy the contract’s incorporation of federal “uniform rates” provisions comprised a distinct claim. As that claim requires resolution of a federal issue, the *Broder* court held federal jurisdiction applied to deny remand.¹⁷ *Id.*

Here, the same can be seen with respect to the State’s Complaint. The State relies upon only one legal theory – violation of the VCPA. The different wrongful acts alleged by the State under that single theory comprise distinct claims, at least some of which, as in *Broder*, present “logically separate claims” that present “at least one federal aspect.” *Id.* Thus, for example, consider the allegation in ¶56(d) that MPHJ violated the VCPA because it sent patent inquiry letters “that threatened patent-infringement litigation with no independent evidence that the recipients were infringing.” That allegation is a “claim” because it recites operative facts which

¹⁷ The Federal Circuit applied the same reasoning and came to the same conclusion in *Davis v. Brouse McDowell, L.P.A.*, 596 F.3d 1355 (Fed. Cir. 2010). The Plaintiff brought a state law malpractice “cause of action” which accused two acts: missing deadlines in a foreign patent application, and negligence in preparing a U.S. patent application. Applying the Black’s Law Dictionary of “claim,” the Federal Circuit found Plaintiff’s case included two distinct claims. Because the claim for negligence in the U.S. application preparation required consideration of federal patent law issues, it was proper to deny remand. While *Davis* was decided prior to the *Gunn* decision, and may not have sufficiently considered whether the federal issue was “substantial,” it is still good law for how to identify a “claim.”

the State contends gives rise to an enforceable right. *See Davis*, 596 F.3d at 1360 (citing Black’s Law Dictionary at 264); *Original Ballet*, 133 F.2d at 189. It is also clear that this “claim” necessarily raises a federal issue. The State could not prove this claim without showing MPHJ or its licensing entities lacked evidence of infringement under 35 U.S.C. 271, and without construing federal law to determine how much evidence was needed to be considered sufficient under federal law to send the letters. Plainly these are federal issues.

Indeed, the State’s claim represents a misunderstanding of federal law and the purpose of the letters. As explained in the Background, the letters had two purposes. One was to provide notice of MPHJ’s patents and to offer a license. This activity is permitted by federal law and the First Amendment. *See Globetrotter Software, Inc.*, 362 F.3d at 1374; *Virtue*, 227 U.S. at 37-38; *Concrete Unlimited*, 776 F.2d at 1539.

But the second purpose also was one required by federal law. Here, where there was likely infringement, but it was private, a patent owner still has an obligation to satisfy Rule 11. But it may satisfy that obligation by inquiry of the potential infringer as to its potential infringement. *See e.g., Arrival Star, Inc.*, 2004 U.S. Dist. LEXIS 22433 at *36 (where potentially infringing process is not publicly available, sending letter inquiry seeking review of alleged infringer’s technical documentation reasonably satisfied Rule 11); *Hoffmann-La Roche Inc. v. Invamed Inc.*, 213 F.3d 1359, 1363-65 (Fed. Cir. 2000) (where evidence of suspected infringement not publicly available, patentee’s inquiry to suspected infringer seeking information regarding infringement satisfies its Rule 11 obligation). *See also SRI Int’l, Inc. v. Advanced Tech. Labs., Inc.*, 127 F.3d 1462 (Fed. Cir. 1997) (permissible to send a letter stating the recipient may be an infringer, offering a nonexclusive license, and requesting confirmation if recipient did not believe it infringed).

The *Hoffmann* court explained this common sense rule. It is based upon the idea that if there is at least a justiciable controversy as to infringement, then suit was proper, and the recipient could not be prejudiced by the inquiry. If instead the recipient does not infringe, it is easily within the recipient's control to inform the patent owner of that fact and avoid the suit. Indeed, some Vermont recipients did just that, and MPHJ closed the matter with respect to those recipients. Rust Decl., at ¶ 6. Indeed, the Federal Circuit in *Hoffmann* made it clear that in such a situation it is difficult to see what else a patent owner could do to satisfy its Rule 11 obligation other than to send such letters.¹⁸ *Hoffmann*, 215 F.3d at 1363-65.

Thus in the claim presented by the State in ¶ 56(d), federal issues abound. They include infringement (which includes patent claim construction), and legal issues as to the scope and nature of required and proper pre-suit investigation in patent cases, particularly, as here, where the infringement is private.¹⁹

This same analysis holds true for many of the other claims made by the State. These include, but are not limited to, the following: ¶ 56(a) (not “prepared” for “litigation” – *infringement, claim construction & Rule 11*); ¶ 56(b) (inadequate “pre-suit investigation” – *infringement, claim construction & Rule 11*); ¶ 56(e) (shifting burden of “pre-suit investigation” – *Rule 11 rights and obligations*); ¶ 56(f) (seeking “information” from businesses claiming “not to infringe the patents” – *Rule 11 rights and obligations*); ¶ 56(g) (identity of true owner of patents (35 U.S.C. § 261 – *patent ownership*)); ¶ 57(c) (“reasonable bases for identifying the target businesses as infringing” – *infringement, claim construction & Rule 11*); and ¶ 57(h) (fair price

¹⁸ Whether or not such a letter inquiry is required (*see Judin v. U.S.*, 110 F.3d 780 (Fed. Cir. 1997)), or instead is simply permitted (*see DE Technologies, Inc. v. Dell Inc.*, 2006 U.S. Dist. LEXIS 7553 (W.D. Va. Feb. 28, 2006)), it is clear that on these circumstances it is lawful.

¹⁹ It is worth noting that a Rule 11 investigation is not required prior to sending pre-suit communications between parties. *See* FED. R. CIV. P. 11; *Pac. Sci. Energetic Materials Co. LLC v. Ensign-Bickford Aero. & Def. Co.*, 281 F.R.D. 358, 362 n.2 (D. Ariz. 2012) (explaining that Rule 11 does not apply to pre-suit communications regarding patent licensing agreements).

for a license – 35 U.S.C. § 284 – *reasonable royalty*). Plainly, following the law in *Broder*, this Court can see that the State’s so-called theories actually comprise distinct claims. Many of these claims not only raise federal issues, but they solely involve federal issues.²⁰

To avoid this conclusion, the State relies heavily on *Christianson* that “[i]f on the face of a well-pleaded complaint there are . . . reasons completely unrelated to the provisions and purposes of the patent laws why the plaintiff may or may not be entitled to the relief it seeks, then the claim does not ‘arise under’ those laws.” 486 U.S. at 810. The State cites this to contend its claims are supported by “alternative theories” and that MPHJ must show patent law is essential to each of those theories. But the State does not actually identify any alternative legal theories. Rather, the State argues that because it has “several different grounds for finding a violation of the *Consumer Protection Act*,” patent law issues are not necessary to its complaint. Doc. 9-1, p. 11 (emph. added). The State’s argument simply fails to recognize the distinction between a claim and a legal theory, as defined clearly in *Broder*.

B. The State’s Request for a Permanent Injunction to Prevent MPHJ From Enforcing Patents Further Demonstrates that It Asserts Claims Which Necessarily Raise Federal Issues

1. The Relief Requested by the State Can Be Used to Determine Whether Its Claims Raise Federal Issues

Additional support for concluding the State’s Complaint asserts claims raising federal issues may be found from considering what relief the State requests. The *Broder* Court explained that even if there were any ambiguity on the issue of what “claims” were asserted based upon its analysis explained above, one could resolve any such ambiguity by looking to the

²⁰ MPHJ agrees that not every claim recited by the State in its Complaint in Paragraphs 56 & 57 on their face necessarily raise federal issues. For example, one of these might be the State’s claim that VCPA was violated by statements that MPHJ had received a positive response to its licensing efforts (§ 57(f)). But, as *Broder* makes clear, the presence of any claims that may not include federal issues does not support remand, if there is any claim that does raise a federal issue, even if the respective claims arise under the same legal theory. *Broder*, 418 F.3d at 194.

relief requested. As the Court explained, “[o]ne of the key characteristics of a mere ‘theory,’ as opposed to a distinct claim, is that a plaintiff may obtain the relief he seeks without prevailing upon it.” *Id.*

Applying this rule in *Broder*, the Court observed that one of Broder’s requests for relief was for a declaratory judgment that Cablevision had violated the federal “uniform rates” statute. Plainly, the court noted, finding that Cablevision had violated the NY state notice provisions would not support the “uniform rates” declaratory relief sought by Broder. Such relief could only be had by proving a violation of the federal “uniform rates” provision. Thus, even though Broder styled his complaint as having only one DTPA claim supported by alternative theories, one could determine that at least one of the so-called alternative theories was in fact a distinct claim because the other alleged alternative theories could not support the relief requested. *Id.* at 195. Thus, the *Broder* decision demonstrates that one good way to resolve the “claim” vs. “theory” distinction is to rely upon the relief requested. *Id.* (citing *Christianson*, 486 U.S. at 810-13).²¹ For at least this reason, the Supreme Court has been consistent that a plaintiff’s requested relief can provide the measure of whether the plaintiff asserts any claim giving rise to a federal issue.²²

²¹ That reference to the relief requested can be helpful is illustrated by the confusion in this area, which may have confused the State as well. For example, even the *Christianson* decision, while advancing the rule that a claim can be identified by the relief requested, shed little if any light on the distinction between a “claim” vs. a “legal theory.” In fact, *Christianson* indiscriminately interchanges the terms as if they had no importance at all. *See Christianson*, 486 U.S. at 811-12 (referring to the “monopolization theory” and “monopolization claim” in the same paragraph).

²² *See, e.g., Franchise Tax Board v. Construction Laborers Vacation Trust*, 463 U.S. 1, 13 (1983) (“[e]ven though state law creates appellant’s causes of action, its case might still ‘arise under’ the laws of the United States if a well-pleaded complaint established that its **right to relief** under state law requires resolution of a substantial question of federal law in dispute between the parties.”). *See also, e.g., Jones v. R.R. Donnelley & Sons Co.*, 541 U.S. 369, 376 (2004) (“a claim arises under federal law if federal law provides a necessary element of the plaintiff’s **claim for relief**”); *Christianson*, 486 U.S. at 808 (determination of whether claim arises under patent law can be determined by consider whether “plaintiff’s **right to relief** necessarily depends on resolution of a substantial question of federal law”) (emphasis added).

2. The State Seeks a Permanent Injunction Against MPHJ With Respect to Any and All Patent Enforcement Activity

With this in mind, one can consider that the State's Complaint seeks the following relief: **"A permanent injunction requiring Defendant to stop threatening Vermont businesses with patent-infringement lawsuits."** Doc. 6, p. 10. (emph. added). This sweeping relief does not seek to prevent MPHJ from making any particular statement in a letter, or to possess any particular information before sending a letter. Instead, it seeks to prevent MPHJ from ever sending a patent enforcement letter, no matter what the content, ever again. The question, then, is whether to establish entitlement to this relief, federal issues are necessarily raised.

3. The Permanent Injunction Sought by the State Could Not Be Decided Without Necessarily Considering Federal Issues

To understand what claims the State would be making to entitle it to such relief, one can first look to what right MPHJ, and its licensing entities, have to make such "threats" (to use the State's term). It is clear that a patent owner has a right protected by the First Amendment and the patent laws to bring suit for infringement, to "threaten" suit for patent infringement, and to provide notice of, and offer a license to, its patents. *See, e.g., Mikohn Gaming Corp.*, 165 F.3d at 897. Thus the State seeks, by its second request for relief, a "prior restraint" on MPHJ's First Amendment rights, and to interfere with MPHJ's federal property rights. *See Florida PrePaid*, 527 U.S. at 641-42 ("patents are property"); 35 U.S.C. § 261.

Further, where Rule 11 requires a pre-suit investigation regarding private infringement, MPHJ cannot satisfy those requirements without sending such a letter. *See, e.g., Arrival Star*, 2004 U.S. Dist. LEXIS 22433; and discussion at Section I (A), *supra*. Thus in these instances, the State seeks to bar MPHJ's access to the Courts.²³ And, where federal law permits, and even

²³ Simply put, if a court enjoins a patent owner from contacting infringers, the court has made the patent unenforceable in many circumstances. Notably here, the relief sought by the State is so

requires, giving pre-suit notice – *see* U.S.C. § 287 – the State seeks to bar that right as well.

The VCPA does not ordinarily permit such relief, and could do so, if at all, only if there were no communication MPHJ that could make threatening suit on its patents that was not “deceptive” and “false” and “material.” This could only be the case if the patents were shown to be not infringed, not valid, or unenforceable.²⁴ *See GP Indus. v. Eran Indus.*, 500 F.3d 1369, 1373 (Fed. Cir. 2007) (federal law requires that communications related to patents can only be barred if they are shown to be a sham, that is “objectively baseless” and “subjectively baseless.”). *See Zenith Elecs. Corp. v. Exzec, Inc.*, 182 F.3d 1340, 1352 (Fed. Cir. 1999) (statements regarding patent rights are privileged and not actionable unless made in bad faith); *Hunter Douglas, Inc. v. Harmonic Design*, 153 F.3d 1318, 1336 (Fed. Cir. 1998) (similar); *Globetrotter Software, Inc.*, 362 F.3d at 1375-76 (similar). Resolution of any of these three points plainly necessarily requires resolution of those federal issues.²⁵

C. An Understanding of the Requirements to Prove a Violation of VCPA In This Case Also Demonstrates the State’s Claims Necessarily Raise Federal Issues

Further evidence that the State asserts at least one claim that raises a federal issue can be seen by considering the State’s single legal theory – which is that MPHJ violated the VCPA.

broad that it seeks not only to preclude MPHJ from enforcing the Klein Patents, but also from enforcing in Vermont any patents that MPHJ may possess in the future. Compl., p. 10.

²⁴ Only a few of the State’s claims could even arguably support such relief. *See e.g.*, ¶ 56(d)(no independent evidence of infringement), ¶ 56(e)(shifting pre-suit investigation burden to recipient), and ¶ 57(c)(no reasonable basis for identifying potential infringers). MPHJ contends that even those claims may not support relief as the broad as the State seeks.

²⁵ The State’s assertion that “the State’s claim for relief” does not require the court to “evaluate the validity of MPHJ’s patents,” is simply incorrect. The State cites only one case for this proposition. *See* Doc. 9-1, p. 11 (citing *Doukas v. Ballard*, 825 F. Supp. 2d 377, 382 (E.D.N.Y. 2011)). In *Doukas*, the court remanded because: “none of the relief sought implicates the validity of the patent . . . Plaintiff does not seek invalidation of the patent or any relief that would impact the validity of the patent.” In contrast, the relief the State seeks here undoubtedly would impact the validity of the patents –it would effectively render them invalid and unenforceable in Vermont, where in *Doukas* the plaintiff merely sought monetary damages and a declaration of ownership that did not affect patent validity.

While the discussion so far has been of the State’s specific claims, or what it wrongly refers to as “alternate theories,” it must be kept in mind that the State’s entire theory, and any claims related to that theory, all are based upon two letters sent by or on behalf of MPHJ’s licensing entities to potential infringers in Vermont (the “first” and “third” letters). Doc. 6-1, Exhs. A, B.

Vermont law is clear that these letters could violate VCPA only if their “essential message” was materially deceptive, false or unfair. *See State v. R. J. Reynolds Tobacco Co.*, 2010 Vt. Super. LEXIS 11, 250 (Vt. Super. Ct. Mar. 10, 2010) (“The court must look to the entirety of the statements or representations made, and the overall context and circumstances, to determine the **essential message** imparted to and reasonably understood by the average consumer”) (emphasis added); *Kaiser v. Cyr*, 2008 Vt. Super. LEXIS 76, PP 22 (Vt. Super. Ct. Dec. 29, 2008) (“When determining whether a representation is deceptive, the representation must be interpreted in the context of all of the other facts communicated by the defendant, and the plaintiff must show that the representation was deceptive in light of all of the information they were given.”) (citing *Jordan v. Nissan N. Am.*, 176 Vt. 465, 468 (Vt. 2004)).

The Vermont Supreme Court has made this principle clear. In *Jordan*, 176 Vt. at 468, 469-70, the Court endorsed the following jury instruction:²⁶

In considering whether a statement or omission had the capacity or tendency to deceive, there’s a general rule of law that individual words and phrases in a larger message cannot themselves determine the meaning of a statement or representation. Each claim delivered to the consumer must be interpreted as a whole in the context of all the other facts communicated. Thus the [plaintiffs] must prove that the claim was deceptive in light of all of the information they were given. *Id.*

²⁶ Further, Vermont intends construction of the VCPA to be guided by federal antitrust law (*See* 9 V.S.A. § 2453(a)), and federal law on this point is consistent. *See Federal Trade Comm’n v. Sterling Drug, Inc.*, 317 F.2d 669, 674 (2d Cir. 1963) (cautioning that, in the context of the Federal Trade Commission Act, courts must consider the allegedly unfair advertisement “in its entirety and not . . . engage in disputatious dissection” and that “[t]he entire mosaic should be viewed rather than each tile separately”); *Avis Rent A Car Sys., Inc. v. Hertz Corp.*, 782 F.2d 381, 385 (2d Cir. 1986) (similar).

Thus, with respect to the accused letters, the State's claim(s) under a VCPA legal theory will require it to prove that the "essential message" of those letters made: (1) a representation or omission that is likely to mislead customers, (2) the consumer reasonably interpreted the representation or omission under the circumstances, and (3) the misleading representation was material to the consumer's decision.

With this in mind, it is clear that the State's VCPA-based legal theory, however it defines the associated claim(s), will require it to demonstrate that the "essential message" of the accused letters was materially deceptive, false or unfair.²⁷ Here, a reasonable recipient would understand the letters to convey the following essential message: (1) we believe you may infringe; (2) if you are infringing, you need a license; (3) if you are not, you don't need a license (and need only to so inform us); and (4) that if you do not respond, we believe we have made sufficient inquiry to permit our bringing suit. Such a message could scarcely be materially considered deceptive.²⁸

The only possible arguments that such a message could be materially false, deceptive or unfair might be: (1) if the patents were invalid and the sender knew them to be invalid; or (2) possibly if one proved the sender had no right at all to send the pre-suit investigation letters

²⁷ *In re Innovatio IP Ventures, LLC Litigation*, 921 F. Supp. 2d 903 (N.D. Ill. 2013) vividly illustrates that assessing alleged deceptiveness in a patent letter must consider the essential message, and not peripheral statements. Applying essentially the same test as the Vermont Supreme Court uses for the VCPA, the *Innovatio* court found that each accused misrepresentation, even if false, was not central to the essential message of the letter: that the recipient infringed and needed a license. Unless this essential message was baseless, no state law claim could stand. *Id.* at 921. See also *Bath Petroleum Storage, Inc. v. Market Hub Partners, L.P.*, 129 F. Supp. 2d 578, 593 (to invoke the sham exception the claimed accused misrepresentations must have been significant to the proceeding's ultimate outcome); *Music Center S.N.C. di Luciano Pisoni v. Prestini Musical Instruments Corp.*, 874 F. Supp. 543, 549 (similar). An example *Innovatio* letter is attached hereto for the Court's consideration. Exh. K.

²⁸ Thoughtful consideration would reveal that here there can only be two types of recipients – those that infringe, and those that do not. For infringing recipients, surely the State will not claim they should be exempt from liability. For those recipients who do not infringe, the letters are clear that MPHJ had no intention of seeking a royalty from them and need only notify MPHJ. See Doc. 6-1, Exhs. A, B.; and Exh. H.

for suspected private infringement under *Arrival-Star*. As to the second of these, even the State must concede that seeking a change in the law of *Arrival-Star* and *Hoffmann* would invoke substantial federal issues. But as to the first – patent invalidity – it also plainly invokes a federal issue. Proof of invalidity is decided pursuant to 35 U.S.C. § 102, 103 and 112, and federal case law. That the State recognizes its VCPA theory, at a minimum, depends upon proving invalidity is illustrated by its repeated suspicions expressed as to the validity of the Klein patents in the Complaint. Indeed, the State repeatedly calls the validity of patents into question: Compl., ¶ 18 (“[prior] lawsuits were voluntarily dismissed by the patent-holder prior to any determination of their validity. No court has ruled on the validity of the patents”); ¶ 45 (“Obtaining an opinion from qualified patent counsel as to whether a patent is valid . . . can cost thousands of dollars”).

Thus, here, understanding that the State’s VCPA claim necessarily depends upon the federal patent issue of invalidity,²⁹ it is clear that the Complaint “artfully” hints at the issue, but carefully avoids mentioning it explicitly.³⁰ This is precisely the type of “artful pleading” that the State may not use to avoid federal question jurisdiction. *See* 14B Wright, Miller, Cooper, Federal Practice and Procedure, § 3722 at 274 (4th ed. 2009).

²⁹ Assuming even the State is not willing to go so far as to seek reversal of *Hoffmann, et al.*

³⁰ The State tries to acknowledge this point without conceding it, noting that “established patent law standards may have some relevance to MPHJ’s lack of investigation into the letter recipient’s possible infringement of the patents.” Doc. 9, p. 19. Not only may patent law have “some relevance,” it is the only source of law that can determine whether MPHJ’s pre-suit investigation was sufficient. Therefore, this case is properly in federal court, because it “turn[s] on some construction of federal law.” *Merrell Dow*, 478 U.S. at 808. *See also* *Bracey v. Bd. of Educ.*, 368 F.3d 108, 115-16 (2d Cir. Conn. 2004); *D’Alessio v. N.Y. Stock Exch., Inc.*, 258 F.3d 93, 101 (2d Cir. 2001) (removal proper where duty claimed to have been violated was “created under federal law”). Whether a patent owner has a right or duty to conduct a pre-suit investigation is an issue of federal law. *See, e.g., Hoffmann*, 213 F.3d at 1363-65; *Arrival Star*, 2004 U.S. Dist. LEXIS 22433 at *36.

D. The Federal Courts Clearly Consider the State’s Claims to Raise Federal Issues

A recent decision of the Federal Circuit (considering a case from the District of New Hampshire) leaves no room for doubt that the State’s case necessarily raises federal issues. *See Forrester Env’tl. Servs. Inc. v. Wheelabrator Techs., Inc.*, 715 F.3d 1329, 1334 (Fed. Cir. 2013). In *Forrester*, the defendant Wheelabrator told a customer that the use of Forrester’s product infringed Wheelabrator’s patents. Forrester alleged that Wheelabrator’s statements were false and that they violated the New Hampshire Consumer Protection Act, and several other state-law tort theories (“tortious interference,” etc...). *Id.*

The Federal Circuit readily concluded that such a claim necessarily raised federal issues, because assessing the alleged falsity of the charge of infringement necessarily required resolving the infringement issue. The Court noted that the *Gunn* decision itself found a federal issue was necessarily raised in a malpractice case that required a “case-within-a-case” analysis that included a patent issue. And the Federal Circuit cited as still intact after *Gunn* its prior decisions in *Additive Controls* and *Hunter Douglas*,³¹ that a federal issue is necessarily raised in “state claims premised on allegedly false statements about patents.”³²

II. THE FEDERAL ISSUES NECESSARILY RAISED BY THE STATE’S CLAIMS ARE “ACTUALLY DISPUTED”

The federal issues necessarily raised by the State’s claims include at least patent invalidity, unenforceability, and infringement, as well as a patent owner’s legal rights and

³¹ *See Additive Controls & Measurement Sys., Inc. v. Flowdata, Inc.*, 986 F.2d 476, 479 (Fed. Cir. 1993) (removal proper where state law claim required showing that defendant’s allegations of patent infringement were false); *See Hunter Douglas, Inc.*, 153 F.3d at 1329, 1337 (holding “state law claims premised on allegedly false statements about patents raised a substantial question of federal patent law” – validity and enforceability –are ‘substantial’ enough to convey section 1338(a) jurisdiction”).

³² *Forrester*, like *Gunn*, ultimately decided the specific patent law issue raised in their respective cases did not satisfy the “substantial” requirement on grounds that are not relevant here, as explained in Section III, *infra*. But *Forrester*, decided just in May, makes it clear that the State’s case includes claims that necessarily raise federal issues.

obligations under Rule 11 to conduct a pre-suit investigation of suspected private infringement. All of these issues are disputed, and *Gunn*'s second prong is met.

III. THE FEDERAL ISSUES NECESSARILY RAISED BY THE STATE'S CLAIMS ARE "SUBSTANTIAL"

The third factor in the *Gunn* test is that any federal issue raised must be "substantial." *Gunn*, 133 S.Ct. at 1066. The federal issues presented by the State's claims meet this test. As explained, the State's claims, and the relief requested, necessarily require resolving questions of the scope of the Klein patents, the evidence necessary to prove their infringement, whether those patents are valid, and whether they are enforceable. They even involve whether MPHJ's licensing entities have the right to send the letters the federal courts can require to satisfy Rule 11 where there is suspected private infringement. Further, a decision here will affect MPHJ's ability to license the patents nationwide.

The State attempts to avoid this conclusion by relying on the facts in the *Gunn* case, where the patent issue in that case, though necessary, was held to not be substantial. But the finding of insubstantiality in *Gunn* was based upon the facts of that case. In *Gunn*, the patent in question had already been held invalid. Thus the question of invalidity posed in a subsequent malpractice case could not impact any future enforcement rights of the patent owner. *See Gunn*, 133 S. Ct. at 1066-67 (due to the "backward-looking nature of a legal malpractice case, the question is posed in a merely hypothetical sense."). Further, the federal issue raised (whether potentially invalidating use by the inventor was exempted experimental use) did not involve any new construction of law, but instead a mere application of existing law to agreed-upon facts.

Another recent case from the Eleventh Circuit found a patent law issue "necessary" in a state law breach of contract case, but not "substantial." *MDS (Canada), Inc. v. Rad Source*

Techs., Inc., 720 F.3d 833 (11th Cir. Fla. 2013).³³ There the contract had a provision that required determining whether one party's products infringed the other's patents, in which case certain contractual remedies applied. The *MDS* court noted that the only two parties to the contract were in the case. It thus concluded there was not likely to be any substantial forward-looking impact of the contract construction issue except as to those parties. For this reason, the Court concluded that the federal issue, though necessarily raised, was not "substantial." See *MDS*, 720 F.3d at 841-43.

A. The Federal Patent Issues Raised by the State's Claims With Respect Specifically to the Klein Patents are "Forward-Looking" and "Substantial"

The facts present in *Gunn* and *MDS* are different than those presented here. The federal issues raised here specifically relate to the Klein Patents – validity, infringement, and the like – will be raised between other parties and MPHJ outside this suit. To say that the patent law issues in this case are "posed in a merely hypothetical sense" would be to completely disregard the State's requested relief, which is not backward-looking at all. The State seeks a permanent injunction prohibiting MPHJ from ever threatening Vermont businesses with patent-infringement lawsuits, regardless of the form, content, or lawful basis of the communication. As has been shown, granting this requires a finding of invalidity, or other basis to completely bar patent enforcement. Plainly, the State's requested relief would have obvious and dramatic "real-world" effects on MPHJ's future exercise of its patent rights.

The State itself cites to a recent Federal Circuit case that makes this point, *Forrester*, 715 F.3d at 1334. In *Forrester*, the Federal Circuit recently made this distinction between "forward-looking" issues and "backward-looking" issues related to a particular patent, and their respective

³³ While *MDS* is not specifically a remand case, the Federal Circuit addressed the same issues regarding whether federal or state law should apply to the analysis.

relevance to being substantial.

Unlike the purely “backward-looking” legal malpractice claim in *Gunn* ... permitting state courts to adjudicate disparagement cases (involving alleged false statements about U.S. patent rights) could result in inconsistent judgments between state and federal courts. For example, a federal court could conclude that certain conduct constituted infringement of a patent while a state court addressing the same infringement question could conclude that the accusation of infringement was false and the patentee could be enjoined from making future public claims about the full scope of its patent as construed in federal court.

Forrester, 715 F.3d at 1334. On the particular facts in *Forrester*, the Court concluded this “forward-looking” concern did not arise because the accused conduct occurred outside the United States and no future U.S. patent litigation would occur that could give rise to inconsistent results. Here, that distinction is not present, and *Forrester* strongly compels the conclusion that on the facts present here, the federal issues of validity, infringement and enforcement related to the Klein Patents raised by the State’s claims must be considered “substantial” under *Gunn*.

B. The Federal Patent Issues Raised by the State’s Claims that Impact the Overall Functioning of the Nationally Uniform Patent System are “Substantial”

1. The State’s Claims Would Prevent or Impair *Hoffmann*-Based Rule 11 Pre-Suit Investigation of Suspected Private Infringement

But even beyond the substantiality of the specific patent issues relevant to the Klein Patents, the State’s case raises questions of fundamental importance to the national patent system. As has been explained, the Klein patents cover the type of invention for which pre-suit confirmation of infringement may not always be publicly available. Federal law provides that the Rule 11 pre-suit obligation may in these cases be satisfied by making reasonable inquiry of a suspected infringer. *See Arrival Star*, 2004 U.S. Dist. LEXIS 22433; *Hoffmann-La Roche Inc.*, 213 F.3d 1359; Section I (A), *supra*. Certain of the State’s claims, if successful, would upend this law. According to the State, it would be deceptive under the VCPA to send such a company

a patent inquiry letter unless the patent owner first had independent evidence of infringement. By definition, of course, in the case of *Hoffman*-type suspected infringers, this would not be possible. That is the entire point of cases such as *Hoffman*. Thus, the State's claim would make it deceptive under the VCPA to send a patent inquiry letter to a company without prior proof of infringement, and thereby exempt an entire class of likely infringers (those whose infringement is private) from their responsibility under federal law to pay royalties for their infringement. Such a change to the nationally uniform patent system certainly would be "substantial."³⁴

2. The State's Claims Would Create an Unprecedented Patent Infringement Immunity Based upon Company Size or Sophistication

Other claims by the State would change the federal patent law system in even more fundamental ways. In ¶ 56(c), the State makes the claim that it is deceptive act under the VCPA to send letters to businesses "unlikely to have the resources to fight patent-litigation, or even to pay patent counsel." Plainly, if these companies are functioning as businesses, and are likely to be infringing, it cannot be deceptive under the VCPA to notify them of that fact or seek a license. There is no exemption based upon size, or legal resources, in the patent system. Thus, if such conduct were found to be deceptive, Vermont would create an ill-defined class of patent infringers who are given immunity from federal patent liability under 35 U.S.C. §§ 271 & 284.

3. The State's Claims Would Impair or Prevent the Sending of Patent Notice Letters in a Manner Presently Allowed by Federal Patent Law

Yet another substantial change presented by the State's claims would be that, currently, the federal law is that a patent owner may send a patent notice letter, or licensing letter, without

³⁴ The State claims that a decision in state court "would have little precedential effect and would not govern any future effort by MPJH [sic] to enforce its patents in federal court." Doc. 9-1, p. 21. However, if the State receives the relief it seeks in state court of "[a] permanent injunction requiring Defendant to stop threatening Vermont businesses with patent-infringement lawsuits," it would clearly prevent MPHJ from forever enforcing its patents in Vermont for the reasons explained *supra* (including that MPHJ must communicate with Vermont businesses prior to filing suit to meet its Rule 11 requirements).

conducting an investigation of the level of detail necessary to satisfy Rule 11. *See Pac. Sci. Energetic Materials Co. LLC*, 281 F.R.D. at 362 n.2 (explaining that Rule 11 does not apply to pre-suit communications regarding patent licensing agreements). In other situations, a patent owner can be required to give notice of its patents to preserve certain rights. *See* 35 U.S.C. § 287. *See* Background, Sec. 3, *supra*; *State Indus. v. A.O. Smith Corp.*, 751 F.2d 1226 (Fed. Cir. 1985) (finding no willful infringement because the defendant did not have notice of the plaintiff's patent). Many of the State's claims, such as that in ¶ 56(b) (implying adequate pre-suit investigation to send a letter); or ¶ 56(d) (threatening infringement suits without independent evidence), would make these letters against the law in Vermont. Here again, this would be a "substantial" change to the U.S. patent system. *See, e.g., Mikohn*, 165 F.3d at 894, ("a notice of patent rights that is protected under federal law cannot be held violative of state law on a different legal standard"); *SRI*, 127 F.3d at 1469-70 (similar).

4. The State's Claims Reflect the Underlying Goal of the State To Effect Changes In the National Patent System With Respect To a Certain Class of Patent Owners It Disfavors

That the State's claims interfere in so many ways with a patent owner's rights and obligations is not a coincidence. The State's stated purpose in bringing this suit is to interfere with the lawful patent enforcement efforts of a particular disfavored class of patent owners. Indeed, if Vermont were successful here, many other States likely would soon follow suit.³⁵

Plainly, the claims by the State raise many federal issues which are substantial. They are substantial both to future enforcement of the Klein Patents, but also important to preserving the national uniformity of the patent system.

³⁵ This is not abstract concern; the Vermont AG has made it clear he is actively seeking to have other State's assert similar claims against disfavored classes of patent owners. Exh. I.

IV. RESOLUTION BY THIS COURT OF THE FEDERAL ISSUES NECESSARILY RAISED BY THE STATE’S COMPLAINT WILL NOT DISRUPT ANY FEDERAL-STATE BALANCE APPROVED BY CONGRESS – INDEED IT WILL PRESERVE THAT BALANCE

Under *Gunn*, once a court has determined that an ostensibly state-based claim necessarily raises federal issues which are disputed and substantial, the court has federal question jurisdiction unless the resolution of the federal issues would disrupt the state-federal balance approved by Congress. *Gunn*, 133 S. Ct. at 1061, 1065. Plainly here that is not the case. Retaining jurisdiction over the federal issues raised by the State’s claims would in fact preserve and promote that balance. Granting the State’s Motion, on the other hand, would irreparably damage that balance.³⁶

As noted in the opening of this Memorandum, the Founders put the Patent Clause into the U.S. Constitution for the express purpose of preserving a nationally uniform patent system. *See* n.1, *supra*. For over 200 years, Congress has faithfully adhered to that goal, consistently acting to maintain a nationally uniform patent system. *Id.* Indeed, the federal courts have long recognized that it is an important goal of Congress to have a national patent system in which uniform federal standards govern. *See Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 231, n. 7 (1964) (“The purpose of Congress to have national uniformity in patent [] laws can be inferred from such statutes as that which vests exclusive jurisdiction to hear patent [] cases in federal courts, 28 U. S. C. § 1338 (a).”); *Fla. Prepaid*, 527 U.S. at 644 (explaining Congress’s fear that “a patchwork of State laws” would undermine “the goal of national uniformity in our patent system”); *see Bonito Boats v. Thunder Craft Boats*, 489 U.S. 141, 162 (1989) (“One of the fundamental purposes behind the Patent and Copyright Clauses of the Constitution was to

³⁶ *Grable* instructs that a “federal issue will ultimately qualify for a federal forum only if federal jurisdiction is consistent with congressional judgment about the sound division of labor between state and federal court . . .” *Id.* at 2367. Here, Congress has never sanctioned a balance of judicial responsibilities favoring state courts with respect to patent law matters.

promote national uniformity in the realm of intellectual property”) (citing *The Federalist* No. 43, p. 309 (B. Wright ed. 1961)).

That the State’s claims here would interfere with the Congressional goal was made clear in *Tamoxifen*: “If state courts were able to make rulings on any anti-competitive theory that could nullify patent rights, uniformity of the patent law would be a mirage.” *In re Tamoxifen Citrate Antitrust Litig.*, 222 F. Supp. 2d 326, 333 (E.D.N.Y. 2002) (denying motion to remand). *See also, Sears*, 376 U.S. at 231 (“Just as a State cannot encroach upon the federal patent laws directly, it cannot, under some other law, such as that forbidding unfair competition, give protection of a kind that clashes with the objectives of the federal patent laws.”).

In *Forrester*, the Federal Circuit just recently also explained that “permitting state courts to adjudicate disparagement cases (involving alleged false statements about U.S. patent rights) could result in inconsistent judgments between state and federal courts.” *Forrester*, 715 F.3d at 1334. Yet that is precisely what the State is attempting to achieve. If the State were to prevail on its requested relief, it would abrogate the essential rights that federal patent law and the U.S. Constitution have created and are intended to protect, and would effectively accomplish its stated goal of making Vermont a safe haven for patent infringers. Exh. J (quoting the AG as stating “Vermont is trying to attract new businesses to the state, and that scaring off trolls might help.”).

In 1982, the Federal Circuit itself was created to promote national uniformity in the patent system, when the concerns over national uniformity in the patent system related only to differences between the regional courts, which could have been resolved by the Supreme Court. *See Florida PrePaid*, 527 U.S. at 651. Surely Congress, who created an entirely new court of appeals to promote national uniformity in the patent system, does not intend that the issues being raised here should to be decided by each of the fifty separate states. *See, e.g., Florida PrePaid*,

527 U.S. at 659 (“State judges have never had the exposure to patent litigation that federal judges have experienced for decades... Surely this Court would not undertake the task of reviewing every state court decision that arguably misapplied patent law.”).

This is precisely the type of state law claim that should be heard in federal court. Even though state law provides the bare cause of action under the VCPA, this case presents the unresolved issue of whether a state can regulate and enjoin a particular class of lawful federal patent holders from notifying infringers of their patent rights in that state. The issues raised by the State’s claims would cause infringers in one state, Vermont, to have immunities that they would not be afforded in other State’s that adhered to the federal patent system. That this is an action brought by the State, and not a private party, further compels the conclusion that it should be heard in federal court.³⁷

This is a case of first impression. *See* Exh. L (Vermont AG Press Release regarding this suit – “‘Patent Troll’ in Ground Breaking Lawsuit”). It represents an aggressive attempt by the State to make substantial changes in the federal patent system through the exercise of state police powers.³⁸ If remanded, this case will open a Pandora’s box,³⁹ and usher in a wave of litigation from other States and their Attorney Generals, in an unprecedented and unwarranted attempt to

³⁷ *See, e.g. Florida PrePaid*, 527 U.S. at 660 (citing Chief Justice John Marshall in *Cohens v. Virginia*, 19 U.S. 264, 6 (1821), where he noted “when there is a conflict between a State’s interest and a federal right, it ‘would be hazarding too much to assert, that the judicatures of the states will be exempt from the prejudices by which the legislatures and people are influenced, and will constitute perfectly impartial tribunals.’ *Id.* at 386.”)

³⁸ Because no other AG has brought an action of this nature, federal courts have not had an opportunity to analyze this type of claim for removal purposes. This Court has, however, previously found that a state-law claim under the Vermont Consumer Fraud Act was properly removed to federal court because it necessarily depended on interpretation of federal law. *Alford v. Fedex Ground Package System, Inc.*, No. 2:05-cv-252 (D. Vt. Feb. 1, 2006).

³⁹ Indeed, the State’s action is already having that effect. MPHJ has been approached by Attorney Generals of other states suggesting that while they do not assert Vermont’s claims, they are considering claims of their own. These include positions wholly unheard of in patent law, and completely at odds with that law. The State has made it clear it is actively encouraging other States to follow its lead and to interfere with the exercise of patent rights by patent owners such as MPHJ. Exh. I

regulate the enforcement of patents within their borders – resulting in “a patchwork of State laws” that undermine “the goal of national uniformity in our patent system,” a result that Congress, since the federal patent system was created pursuant to the Constitution, has sought to prevent. *Fla. Prepaid*, 527 U.S. at 644.

Preserving federal question jurisdiction does not mean that Vermont will not have its suit properly considered. But it does mean it will have the issues raised by its claims considered by the federal courts, consistent with the balance intended by Congress.⁴⁰

CONCLUSION

For the reasons stated herein, MPHJ respectfully requests that this Court retain jurisdiction over this case and deny the State’s Motion to Remand.

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⁴⁰ The availability of a federal forum for the resolution of this case should be based on “common sense” judgment and an honest review of the Complaint, which reveals that the claims asserted by the State necessarily raise issues of fundamental importance to maintaining the nationally uniform patent system. *See Grable*, 545 U.S. at 314, 317 (disclaiming the adaption of “a single, precise, all-embracing test for jurisdiction”) (internal quotation marks omitted).