

No. _____

**In The
Supreme Court of the United States**

—◆—
STATE OF VERMONT,

Petitioner,

v.

MPHJ TECHNOLOGY INVESTMENTS, LLC,

Respondent.

—◆—
**On Petition For Writ Of Certiorari
To The United States Court Of Appeals
For The Federal Circuit**

—◆—
PETITION FOR A WRIT OF CERTIORARI

—◆—
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QUESTION PRESENTED

In the America Invents Act, Congress amended the jurisdictional statutes relating to patent cases in response to this Court’s decision in *Holmes Group, Inc. v. Vornado Air Circulation Systems, Inc.*, 535 U.S. 826 (2002). In *Holmes Group*, the Court held that a defendant’s compulsory counterclaim for patent infringement did not establish “arising under” jurisdiction for purposes of the Federal Circuit’s appellate jurisdiction under 28 U.S.C. § 1295. The America Invents Act amended § 1295(a) to provide Federal Circuit jurisdiction over an appeal from a final decision of a district court “in any civil action arising under, or in any civil action in which a party has asserted a compulsory counterclaim arising under, any Act of Congress relating to patents.” Here, the Federal Circuit considered whether § 1295(a) afforded jurisdiction over an appeal from a district court order remanding this consumer-protection case to state court for the second time. The Federal Circuit interpreted § 1295(a) to provide jurisdiction based solely on a “counterclaim” that asserts federal preemption as a defense to the State’s claim. The Federal Circuit reached – and wrongly decided – this jurisdictional issue despite holding that there were no grounds for the defendant’s second removal to federal court. The question presented is:

Did the Federal Circuit erroneously take jurisdiction over this appeal of the remand order?

PARTIES TO THE PROCEEDING

Petitioner State of Vermont is the plaintiff and was the appellee in the Federal Circuit. MPHJ's answer, filed together with its second removal notice, named Attorney General William H. Sorrell as a "counterclaim defendant." App. 133. Attorney General Sorrell has never been served as a party in state or federal court, and the Federal Circuit removed him from the case caption. App. 1.

Respondent MPHJ Technology Investments, LLC is the defendant and was the appellant in the Federal Circuit.

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The State of Vermont, through its Attorney General, respectfully petitions for a writ of certiorari to review the judgment of the United States Court of Appeals for the Federal Circuit.



INTRODUCTION

Vermont’s groundbreaking consumer-protection action against respondent MPHJ is directed at a troubling form of “patent trolling” – threats and demands targeted at unsophisticated end-users of common products like scanners and wireless routers. The complaint sets forth a purely state-law claim alleging false and deceptive communications; that claim has nothing to do with the validity or potential infringement of MPHJ’s patents. Yet the Federal Circuit concluded that MPHJ created federal jurisdiction merely by asserting preemption as a defense and labeling that defense a “counterclaim.” Its reasoning conflicts with this Court’s precedents and disregards principles of comity and federalism.

Although the America Invents Act expanded Federal Circuit and removal jurisdiction in patent cases, it did not sweep state-law enforcement actions into federal court merely because – however labeled – a defendant asserts a potential defense of preemption. While the Federal Circuit’s decision affirms the remand of this case to state court – where it certainly belongs – that court’s mistaken jurisdictional ruling has broad and unfortunate consequences that call for

this Court's review. It has created substantial additional delay and uncertainty in this case, and more importantly, undermines future state enforcement efforts in an area of growing concern. If the Federal Circuit's decision is left in place, States likely will no longer be able to litigate consumer fraud and similar claims against patent trolls in state court. The mere pleading of preemption as a counterclaim – even inaccurately – may suffice for removal and, ultimately, adjudication in the Federal Circuit in Washington, D.C., instead of the state-court system. That outcome will deter if not outright end any meaningful state enforcement efforts in this area.

This Court's review is warranted.



OPINIONS BELOW

The opinion of the court of appeals (App. 1-34) is reported at 803 F.3d 635. The memorandum opinion and order of the district court (App. 35-56) is not reported, but is available at 2015 WL 150113.



JURISDICTION

The judgment of the court of appeals was entered on September 28, 2015. The jurisdiction of this Court is invoked under 28 U.S.C. § 1254(1). As explained below, petitioner disputes the jurisdiction of the court of appeals.



CONSTITUTIONAL AND STATUTORY PROVISIONS INVOLVED

The relevant jurisdictional and removal statutes, 28 U.S.C. §§ 1295, 1331, 1338, 1442, 1446, 1447, and 1454, are set forth at App. 100-14.

◆

STATEMENT

1. The term “patent troll” generally describes a firm that uses its “patents not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees.” *See Commil USA, LLC v. Cisco Sys., Inc.*, 135 S. Ct. 1920, 1930 (2015) (stating that “[t]he Court is well aware that [such] an industry has developed” (quotation omitted)). At their worst, patent trolls like MPHJ assert questionable patents “against numerous potential infringers, relying on the high cost of threatened litigation to extract quick settlements.” Paul R. Gugliuzza, *Patent Trolls and Preemption*, 101 Va. L. Rev. 1579, 1581 (2015) (citing Mark A. Lemley & Douglas Melamed, *Missing the Forest for the Trolls*, 113 Colum. L. Rev. 2117, 2126 (2013)). Such dubious tactics are often effective. Indeed, members of this Court have recognized the “*in terrorem* power of patent trolls.” *Commil*, 135 S. Ct. at 1932 (Scalia, J., dissenting).

Patent trolls inflict a high cost. As a diverse group of *amici* have illustrated in this Court’s recent patent cases, there is widespread agreement that abusive patent practices stifle innovation and inflict

significant harm on targeted businesses.¹ For example, one study estimates that, in 2011, patent assertions by these entities were responsible for approximately \$29 billion in direct costs alone. See James Bessen & Michael Meurer, *The Direct Costs from NPE Disputes*, 99 Cornell L. Rev. 387, 389 (2014). Significant indirect costs also exist. Companies targeted by abusive patent assertions often face measurable drops in share price, reduce spending on research and development in the area targeted, and redirect resources and attention away from their core businesses. See Exec. Office of the President, *Patent Assertion and U.S. Innovation*, 9-12 (June 2013). These burdens are faced by Fortune 500 businesses, small tech start-ups, and in some cases, like here, small businesses and nonprofits. See Gugliuzza, *Patent Trolls and Preemption*, 101 Va. L. Rev. at 1581 (noting that “bottom feeder trolls such as MPHJ have begun to target not the manufacturers of allegedly infringing technology, but the businesses, organizations, and individuals who are the end users of that technology”).

¹ See, e.g., Br. for the United States, *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749 (12-1184), at 18-20; Br. of Apple Inc., *Highmark, Inc. v. Allcare Health Mgmt. Sys., Inc.*, 134 S. Ct. 1744 (12-1163), and *Octane Fitness*, 134 S. Ct. 1749, at 9-21; Br. of Google Inc., *Highmark*, 134 S. Ct. 1744, and *Octane Fitness*, 134 S. Ct. 1749, at 18-21; Br. of Blue Cross Blue Shield Ass’n, *Highmark*, 134 S. Ct. 1744, at 20-23; Br. of Elec. Frontier Found., *Alice Corp. Pty. v. CLS Bank Int’l*, 134 S. Ct. 2347 (13-298), at 22-29; Br. of Law, Bus., and Econ. Scholars, *Alice Corp.*, 134 S. Ct. 2347, at 14-17.

This case illustrates patent trolling’s national impact. MPHJ’s licensing campaign extended far beyond Vermont and attracted scrutiny from other government authorities. Both the Federal Trade Commission and the New York Attorney General addressed MPHJ’s conduct through settlement agreements.² Documents made public in connection with those investigations show that MPHJ, operating through 81 shell companies, targeted more than 16,000 small businesses and nonprofits nationwide in an effort to extract licensing fees for the use of everyday office technology – essentially a networked scanner and a personal computer.³ Indeed, it is MPHJ’s position that virtually every American business is infringing its “scanner” patents.⁴

² See Press Release, F.T.C., FTC Approves Final Order Barring Patent Assertion Entity From Using Deceptive Tactics (Mar. 17, 2015), *available at* <https://www.ftc.gov/news-events/press-releases/2015/03/ftc-approves-final-order-barring-patent-assertion-entity-using>; Press Release, N.Y. Att’y Gen., A.G. Schneiderman Announces Groundbreaking Settlement With Abusive “Patent Troll” (Jan. 14, 2014), *available at* <http://ag.ny.gov/press-release/ag-schneiderman-announces-groundbreaking-settlement-abusive-%E2%80%9Cpatent-troll%E2%80%9D>.

³ See Compl. 3-6, *In re MPHJ Tech. Invs., LLC*, No. C-4513, 2015 WL 1346185 (F.T.C. Mar. 13, 2015), *available at* <https://www.ftc.gov/system/files/documents/cases/141106mphjcmpt.pdf>; Assurance of Discontinuance 1-8, *In re Investigation of MPHJ Tech. Invs., LLC*, Assurance No. 14-015 (N.Y. Attorney Gen. Jan. 13, 2014), *available at* http://ag.ny.gov/pdfs/FINAL_AODMPHJ.pdf.

⁴ Acevedo Decl., *MPHJ Tech. Invs., LLC v. Sorrell*, No. 14-cv-191 (D. Vt.), ECF Doc. No. 22-16, at 24 ¶ 59 (“Most present-day
(Continued on following page)

2. Vermont's state-court enforcement action. In May 2013, Vermont sued MPHJ in state court alleging that MPHJ's unfair and deceptive communications violate the Vermont Consumer Protection Act, Vt. Stat. Ann. tit. 9, §§ 2451-61. *See* App. 75, 120. The complaint describes letters MPHJ sent to numerous Vermont businesses and nonprofits regarding the scanner patents. App. 77-80, 123-31. These letters asserted that the targets were infringing the patents, demanded substantial licensing fees, and threatened immediate litigation. App. 123-26. Two targets, both nonprofits that serve disabled

multifunctional document imaging devices include the hardware that satisfies the requirements of [the claims in MPHJ's patents]. In fact, in order to satisfy all of these requirements, the necessary hardware includes only a scanner, a printer, a memory and a processor. Present-day multifunctional document imaging devices routinely include this hardware.”); *id.* at 26 ¶ 64. A number of scanner manufacturers have challenged MPHJ's patents in *inter partes* review proceedings before the Patent and Trademark Office. The PTO has already invalidated many of the claims in MPHJ's patents, *see Ricoh Ams. Corp. et al. v. MPHJ Tech. Invs., LLC*, Case IPR2013-00302 (Patent Trial & Appeals Bd. Nov. 19, 2014); *Hewlett-Packard Co. v. MPHJ Tech. Invs., LLC*, Case IPR2013-00309 (Patent Trials & Appeals Bd. Nov. 19, 2014); *Ricoh Ams. Corp. et al. v. MPHJ Tech. Invs., LLC*, Case IPR2014-00538 (Patent Trial & Appeals Bd. Aug. 12, 2015); *Ricoh Ams. Corp. et al. v. MPHJ Tech. Invs., LLC*, Case IPR2014-00539 (Patent Trial & Appeals Bd. Aug. 14, 2015), and another challenge remains pending, *see Ricoh Ams. Corp. et al. v. MPHJ Tech. Invs., LLC*, Case IPR2015-001178 (Patent Trial & Appeals Bd.). The PTO proceedings confirm that Vermont's state-law action has nothing to do with the validity of MPHJ's patents. Those issues are being litigated in the proper federal forums.

Vermonters, complained to the Attorney General's Office about the letters. App. 123. Those complaints prompted an investigation that led to the filing of the enforcement action.

Vermont alleges that MPHJ's letters contained materially false and deceptive statements unrelated to the validity of the patents.⁵ App. 126, 130-31. Among other things, the complaint alleges that MPHJ's assertions regarding licenses purchased by other businesses were false and deceptive. App. 127, 131. The complaint also alleges that MPHJ's threats of litigation (accompanied by draft complaints) were unfair and deceptive. App. 127-29, 130-31. MPHJ had no local counsel in Vermont and lacked information about the targets' alleged use of the patented technology. App. 126-27, 130. In short, MPHJ's threats of imminent litigation if the targets did not respond and pay money were deceptive. App. 130-31.

3. MPHJ's first unsuccessful removal. MPHJ removed the case to federal court under 28 U.S.C. § 1441, asserting that federal question jurisdiction existed because the action arose under the federal patent laws. The State moved to remand. *See* App. 75.

While the remand motion was pending, MPHJ moved to dismiss for lack of personal jurisdiction. *Id.*

⁵ The letters were sent in the name of numerous different shell corporations, all wholly owned by MPHJ. MPHJ has not contested that it was responsible for sending the letters.

The State, in turn, moved to amend its complaint to remove one part of its request for relief.⁶ App. 76. The proposed amendment made no other changes, and did “not change the character of the litigation in any way.” App. 46; *see also* App. 32.

The district court remanded, holding that Vermont’s enforcement action did not “arise under” the federal patent laws. The State’s complaint was “premised solely on Vermont state law, not federal patent law, and none of the claims for relief concern the validity of MPHJ’s patents.” App. 84. Accordingly, “the State may prevail on its [Vermont Consumer Protection Act] claims without reliance on the resolution of a federal patent question.” App. 94. The federal-law issues raised by MPHJ were potential defenses that supplied no basis for federal jurisdiction. App. 93-94 & n.5. The district court further held that even if the State’s complaint had necessarily raised a federal question, any such question would not be “substantial” under *Gunn v. Minton*, 133 S. Ct. 1059 (2013). App. 95-96.

⁶ The proposed amendment removed from the complaint a request for: “A permanent injunction requiring Defendant to stop threatening Vermont businesses with patent-infringement lawsuits.” *Vermont v. MPHJ Tech. Invs., LLC*, No. 13-cv-170 (D. Vt.), ECF Doc. No. 45-1, at 10. The motion to amend reiterated that the State contested federal jurisdiction, and indicated that the case could be remanded with the amendment pending, to take effect in state court “as a matter of course” because MPHJ had not yet filed its answer. *Id.* ECF Doc. No. 45, at 2, 5 & n.3; *see* Vt. R. Civ. P. 15(a).

The district court's remand for lack of subject matter jurisdiction was "not reviewable on appeal or otherwise." 28 U.S.C. § 1447(d); see *Kircher v. Putnam Funds Trust*, 547 U.S. 633, 640 (2006) ("[W]e have relentlessly repeated that any remand order issued on the [ground that subject matter jurisdiction is lacking] is immunized from all forms of appellate review." (quotation and alterations omitted)). MPHJ nonetheless appealed the first remand order to the Federal Circuit. App. 69. The Federal Circuit granted the State's motion to dismiss the appeal, holding that 28 U.S.C. § 1447(d) precluded second-guessing the district court's determination that no federal subject matter jurisdiction existed. App. 69, 73-74. In dismissing the appeal, the Federal Circuit did not consider the scope of its appellate jurisdiction under 28 U.S.C. § 1295. See *id.*

4. State court proceedings in 2014. MPHJ asked the state court to stay all proceedings pending its first appeal to the Federal Circuit. On August 28, 2014, shortly after the Federal Circuit dismissed MPHJ's appeal, the state court denied the stay as moot and denied MPHJ's motion to dismiss for lack of personal jurisdiction. App. 58, 66-67. That order also addressed all other pending motions; it granted the motion to amend the complaint that the State had

filed in district court and directed the parties to submit a proposed scheduling order. App. 67.⁷

5. MPHJ's second unsuccessful removal.

Rather than litigate the merits of this case in state court, MPHJ removed a second time. It filed an answer, asserting defenses and counterclaims, and a notice of removal, citing the federal title removal statute, 28 U.S.C. §§ 1442(a)(2); the civil rights removal statute (MPHJ argued the State was discriminating against non-practicing entities – *i.e.*, patent trolls – in violation of the Equal Protection Clause), 28 U.S.C. § 1443; and the patent removal statute, 28 U.S.C. § 1454. App. 9, 133-72; *Vermont v. MPHJ Tech. Invs., LLC*, No. 14-cv-192 (D. Vt.), ECF Doc. No. 1, at 5. MPHJ's second removal was premised on the theory that the State's amended complaint – which *only* removed a request for relief, and made no other changes – somehow introduced a new claim under a different statute that triggered a new opportunity to remove under 28 U.S.C. § 1446(b)(3). *See* App. 39-41, 45-46.

The State again moved to remand. The district court held that “the Amended Complaint did not change the character of the litigation in any way, and thus did not revive MPHJ's ability to remove the case.” App. 46. For the same reason – that the State's amended complaint did not change or add to the

⁷ The State had already filed the amended complaint as of right, as permitted under Vt. R. Civ. P. 15(a), but the motion to amend remained pending on the docket following the remand.

State's claim – MPHJ's second notice of removal was untimely. App. 48. In the alternative, the court held that no basis for removal existed under the statutes cited by MPHJ. App. 49-56. MPHJ appealed again to the Federal Circuit, challenging only the district court's decision that removal was improper under 28 U.S.C. § 1442.⁸ App. 11. Despite the remand order, the district court clerk's office did not send the case back to state court while the appeal was pending at the Federal Circuit. All told, MPHJ's second removal delayed litigation in the state court for over a year.

6. Federal Circuit's assumption of jurisdiction and affirmance. On appeal, the State argued that the Federal Circuit lacked jurisdiction and that, because the State's claim was unchanged, the second removal was an impermissible and untimely attempt to re-litigate the first remand. Ct. App. Br. 23-34.

The court of appeals held that it had jurisdiction under 28 U.S.C. § 1295(a)(1), as amended by the America Invents Act, because MPHJ's Counterclaim Five – which seeks a declaratory judgment that the State's consumer-protection claim is preempted – was “a compulsory counterclaim arising under [an] Act of Congress relating to patents.” App. 11-22. According to the court, Congress amended § 1295 as part of the *Holmes Group* “fix” specifically to expand the Federal Circuit's jurisdiction “over claims arising under the

⁸ Although 28 U.S.C. § 1447(d) generally prohibits appealing remand orders, there is an exception for remands under 28 U.S.C. §§ 1442 and 1443.

patent laws *even* when asserted in counterclaims, rather than in an original complaint.” App. 16. The court then reasoned that Counterclaim Five – which is nothing more than MPHJ’s preemption defense repackaged as a counterclaim – was itself a cause of action; was a compulsory counterclaim; and satisfied the test for “arising under” jurisdiction. App. 16-22. Applying this Court’s precedent in *Gunn v. Minton*, the court concluded that the preemption question was necessarily raised and actually disputed; was of substantial importance to the federal patent system; and that “[a]llowing a state court to resolve a patent law preemption question risks inconsistent judgments between state and federal courts” and thus would disrupt the federal-state balance. App. 20-22 (stating “[w]e cannot permit such a result”).

The court acknowledged, however, that MPHJ had not even asserted Counterclaim Five as a basis for jurisdiction. App. 12 n.1. Indeed, MPHJ’s notice of removal did not even cite Counterclaim Five as a basis for federal jurisdiction, although it contended that other counterclaims provided a basis for removal under 28 U.S.C. § 1454. *See Vermont v. MPHJ Tech. Invs., LLC*, No. 14-cv-192 (D. Vt.), ECF Doc. No. 1, at 5.

After holding that it had jurisdiction, the Federal Circuit affirmed the remand. The court agreed with the district court that the State’s amended complaint did not assert any new claim; rather, the amendment “narrow[ed] the scope of the complaint.” App. 32. Because the amendment created no new basis for removal, the court affirmed the remand to state

court. App. 33-34 (finding “no grounds for removal to federal court” and affirming remand).

7. MPHJ’s collateral attack on the state-court action. When it removed the second time, MPHJ also filed a separate lawsuit in federal district court under 42 U.S.C. § 1983, seeking to enjoin the Attorney General from enforcing Vermont’s consumer-protection laws against MPHJ. The district court dismissed under *Younger v. Harris*, 401 U.S. 37 (1971), all claims relating to the state-court action.⁹ After the Federal Circuit issued its decision in this case, MPHJ asked the district court to reverse the *Younger* holding and to enjoin the state-court action – citing the Federal Circuit’s ruling.¹⁰ MPHJ has also asked the

⁹ The court declined to dismiss one of MPHJ’s claims, because the court concluded that claim was not directed at the state-court action. *MPHJ Tech. Invs., LLC v. Sorrell*, No. 14-cv-191 (D. Vt.), ECF Doc. No. 42, Op. & Order, at 8-9.

¹⁰ See *MPHJ Tech. Invs., LLC v. Sorrell*, No. 14-cv-191 (D. Vt.), ECF Doc. No. 50-1, at 7 (arguing for an injunction under the All Writs Act because “the Federal Circuit’s recent decision . . . is decisive that the state court does not have subject matter jurisdiction over issues raised by certain counterclaims in that action”); see also *id.*, ECF Doc. No. 56, at 6-8 (contending that Federal Circuit “forbade consideration” of preemption by state court, even as a defense); *id.* ECF Doc. No. 55, at 14 (contending that state-court proceeding must be enjoined by federal district court, and the federal court must decide whether Vermont’s consumer-protection claim is preempted).

state court to further delay its proceedings because of the motions filed in the federal-court action.¹¹



REASONS FOR GRANTING THE WRIT

I. **The Federal Circuit’s jurisdictional ruling intrudes on traditional state authority and has important consequences for future cases.**

The Court should grant the writ to reverse the Federal Circuit’s interpretation of its jurisdiction under 28 U.S.C. § 1295(a). The decision below disregards fundamental principles of comity and federalism and has potentially far-reaching consequences that warrant review by this Court.

First, the prospective impact of the Federal Circuit’s decision is substantial. When small business, nonprofits, and other end-users of common technology are targeted by patent trolls, they often complain to their elected official responsible for consumer protection: their state attorney general.¹² Even the U.S. Patent and Trademark Office advises

¹¹ *State v. MPHJ Tech. Invs., LLC*, No. 282-5-13 Wncv (Vt. Super. Ct.), MPHJ’s Motion for Stay (filed Dec. 15, 2015).

¹² *See, e.g.*, Nat’l Ass’n of Attorneys General, Letter from 42 Attorneys General to Senate Judiciary and Commerce Committees (Feb. 24, 2014) (describing complaints about patent trolling received from constituents, including “small businesses and nonprofits”), <http://www.naag.org/assets/files/pdf/signons/Patent%20Trolling%20Legislation%20Final%20Sign%20On.pdf>.

recipients of patent demand letters that, if they “think the letter is deceptive, predatory, or in bad faith,” they “may consider filing a complaint with [a] state attorney general’s office.”¹³ Vermont’s lawsuit against MPHJ marked the first time that a State sought to enforce its consumer fraud laws against a patent troll. The outcome of this important case – which has been delayed through procedural tactics for over two-and-a-half years – will have a substantial impact on the ability of state attorneys general to hold patent trolls to accepted standards for honest commercial conduct.¹⁴

The Federal Circuit’s reasoning and decision stand as a serious obstacle to future cases of this kind. In addition to amending § 1295(a), the America Invents Act authorized removal to federal court of certain civil actions in which a party asserts a patent-law counterclaim. The Act added 28 U.S.C. § 1454(a), which provides for removal of a “civil action in which any party asserts a claim for relief arising under any Act of Congress relating to patents.” By holding that a defendant’s request for “relief from application of state law on preemption grounds,” App. 16, may be

¹³ See United States Patent and Trademark Office, *I Got a Letter* . . . <http://www.uspto.gov/patents-maintaining-patent/patent-litigation/i-got-letter>.

¹⁴ Vermont sued MPHJ under existing consumer-protection law. Subsequently, over half the states have passed statutes that address some of the worst aspects of patent trolling. See Gugliuzza, *Patent Trolls and Preemption*, 101 Va. L. Rev. at 1582. The decision below threatens to undermine enforcement of these new laws.

treated as a counterclaim that arises under federal patent law, the Federal Circuit has substantially expanded the potential scope of § 1454(a). Indeed, although the court's holding is necessarily limited to § 1295, its decision, which treats §§ 1295, 1338, and 1454 as a unit, may well control future cases that defendants remove to federal court under § 1454(a).¹⁵ See App. 16 (stating that §§ 1295, 1338, and 1454 “were intended to provide federal courts, and this court specifically, with a broader range of jurisdiction” including “claims arising under the patent laws *even* when asserted in counterclaims”).¹⁶ Simply put, the decision provides a roadmap for the defendant in the

¹⁵ Ironically, the decision may have greater relevance for future cases than for this case. In this case, consistent with the remand order and principles of *Younger* abstention, the state court should decide its own jurisdiction, and the state court is not bound by Federal Circuit precedent. *But see supra* 13-14 & nn.10-11. (describing MPHJ's efforts to have state-court action enjoined based on the Federal Circuit's decision). In a future case, if a defendant pleads its preemption defense as a counterclaim and removes promptly under § 1454(a), the jurisdictional question will be decided by a federal district court that is governed by Federal Circuit precedent.

¹⁶ In grouping the three statutes together, the Federal Circuit disregarded the fact that Congress used markedly different language in § 1454(a), which is limited to those counterclaims which are “claim[s] *for relief* arising under” the patent laws. (Emphasis added.) The scope of removal jurisdiction under § 1454(a) was not before the court, App. 34, and should not have been discussed. A district court in a future case may nonetheless conclude that it is bound to apply the Federal Circuit's interpretation of “arising under” jurisdiction.

next case (in any State) to counterclaim for “preemption” and remove to federal court under § 1454.

That the Federal Circuit sent this particular case back to state court is thus a pyrrhic victory, the result only of MPHJ’s untimely second removal filings. App. 33-34. The decision has created substantial uncertainty about jurisdiction in future state enforcement actions. The lesson that other States may well draw from Vermont’s experience – years of jurisdictional wrangling, costly litigation, and no progress on the merits – is that procedural obstacles make these cases too time-consuming and difficult to pursue. The Federal Circuit’s adoption of an expansive view of its jurisdiction exacerbates this concern and, absent review by this Court, will inevitably deter future state consumer-protection actions aimed at patent trolling. That is an unfortunate and unnecessary result.

Second, the Federal Circuit’s extraordinary suggestion that state courts not be “permit[ted]” to decide questions of preemption, App. 21-22, disregards bedrock principles of comity and federalism. Vermont’s suit alleges garden-variety consumer fraud: that MPHJ made materially deceptive and misleading statements in connection with its demands for payment. App. 126, 130-31; *see also* App. 79. The case has nothing to do with patent validity or infringement. App. 84, 87. MPHJ’s so-called counterclaim is nothing more than a mislabeled defense – an assertion that the State’s consumer-protection claim is barred by federal law. *See* App. 148, 150 (preemption

pled as defense); App. 166-71 (preemption pled as counterclaim). This Court has long held that preemption defenses to state-law claims must be litigated in state courts. See *Franchise Tax Bd. v. Constr. Laborers Vacation Trust*, 463 U.S. 1, 14 (1983) (“since 1887 it has been settled law that a case may not be removed to federal court on the basis of a federal defense, including the defense of preemption”); see also, e.g., *Beneficial Nat’l Bank v. Anderson*, 539 U.S. 1, 6 (2003) (“defense that relies on the . . . pre-emptive effect of a federal statute will not provide a basis for removal” (citations omitted)); *Merrell Dow Pharm. Inc. v. Thompson*, 478 U.S. 804, 808 (1986) (“defense that raises a federal question is inadequate to confer federal jurisdiction”). By treating a preemption “counterclaim” as anything other than a defense that must be litigated in state court, the Federal Circuit disregarded this settled law. Its decision cannot be reconciled with this Court’s consistent recognition that “[u]nder our federal system, the federal and state courts [are] equally bound to guard and protect rights secured by the Constitution.” *Rose v. Lundy*, 455 U.S. 509, 518 (1982) (quotation omitted).

Indeed, this Court, in its *Younger* abstention jurisprudence, has carefully protected the ability of States to pursue state-court enforcement actions free from federal-court interference. See, e.g., *Huffman v. Pursue, Ltd.*, 420 U.S. 592, 604 (1975) (“interference with a state judicial proceeding prevents the state not only from effectuating its substantive policies, but also from continuing to perform the separate function of providing a forum competent to vindicate any

constitutional objections interposed against those policies”). As the Court has emphasized, “[m]inimal respect for the state processes, of course, precludes any *presumption* that the state courts will not safeguard federal constitutional rights.” *Middlesex Cnty. Ethics Comm. v. Garden State Bar Ass’n*, 457 U.S. 423, 431 (1982), clarified by *Sprint Commc’ns, Inc. v. Jacobs*, 134 S. Ct. 584, 593-94 (2013); *see also, e.g., Younger*, 401 U.S. at 43 (noting Congress’s “desire to permit state courts to try state cases free from interference by federal courts”); *Trainor v. Hernandez*, 431 U.S. 434, 446 (1977) (explaining need for “restraint” by federal courts, to avoid “disruption of suits by the State in its sovereign capacity” and “negative reflection on the State’s ability to adjudicate federal claims”); *Huffman*, 420 U.S. at 604 (cautioning that federal-court interference with state actions “results in duplicative legal proceedings, and can readily be interpreted as reflecting negatively upon the state courts’ ability to enforce constitutional principles” (quotation omitted)). State courts thus routinely decide questions of federal preemption – subject to review by this Court – without disrupting “the federal-state balance.” *See* App. 21; *Franchise Tax Bd.*, 463 U.S. at 12 n.12 (“If the state courts reject a claim of federal preemption, that decision may ultimately be reviewed on appeal by this Court.”).

The Federal Circuit’s unprecedented conclusion that MPHJ’s labeling of its preemption *defense* as a counterclaim supplies federal jurisdiction also raises serious questions about state sovereign immunity. The reasoning endorsed below suggests that a defendant

in a state enforcement action may call its federal defense a “counterclaim”; plead that counterclaim against a sovereign State; and remove, potentially forcing a State to litigate both its principal claims and the so-called counterclaim against it in a federal forum.¹⁷ That outcome cannot be reconciled with the “sovereign immunity enjoyed by States as part of our constitutional framework.” *Federal Maritime Comm’n v. South Carolina State Ports Auth.*, 535 U.S. 743, 753 (2002); *see also Seminole Tribe of Fla. v. Florida*, 517 U.S. 44, 54 (1996) (“[f]or over a century we have reaffirmed that federal jurisdiction over suits against unconsenting States was not contemplated by the Constitution when establishing the judicial power of the United States” (quotation omitted)); *Fla. Prepaid Postsecondary Educ. Expense Bd. v. College Sav. Bank*, 527 U.S. 627, 647 (1999) (holding that Congress lacked authority to abrogate state sovereign immunity in suits for patent infringement).

The America Invents Act addressed a specific and narrow concern: that compulsory counterclaims for infringement or invalidity were not within the Federal Circuit’s “arising under” jurisdiction, potentially undermining national uniformity on central matters of patent law. *See Holmes Group, Inc. v. Vornado Air*

¹⁷ The State briefed its sovereign immunity defense in the district court. *See Vermont v. MPHJ Tech. Invs., LLC*, No. 14-cv-192 (D. Vt.), ECF Doc. Nos. 25-1, 29. Again, MPHJ did not rely on Counterclaim Five as a basis for jurisdiction in either the district court or the court of appeals, *see supra* 12, so the State had no opportunity to address these issues below.

Circulation Sys., Inc., 535 U.S. 826, 828 (2002). The Federal Circuit has interpreted the Act far more broadly, and in a way that substantially intrudes on traditional state authority and state sovereign immunity. This Court should grant review to address the Federal Circuit’s flawed jurisdictional decision and to clarify that the America Invents Act did not affect the States’ longstanding authority to enforce state-law consumer-protection standards in state court.

II. The Federal Circuit’s expansion of its jurisdiction is seriously flawed and contrary to its own and this Court’s precedents.

The Federal Circuit mistakenly concluded that the America Invents Act amendments to 28 U.S.C. § 1295 – known as the *Holmes Group* “fix” – provide a basis for its jurisdiction here. MPHJ’s Counterclaim Five¹⁸ is nothing more than a request for a declaratory judgment on its affirmative defense of preemption. It is not even a proper cause of action, much less a compulsory counterclaim that arises under federal patent laws. The Federal Circuit’s analysis disregarded both this Court’s and its own precedent by treating Counterclaim Five as a freestanding cause of action, rather than a mislabeled defense to the State’s

¹⁸ As discussed above, *supra* 12, the Federal Circuit based its jurisdiction on Counterclaim Five even though MPHJ never asserted that counterclaim as a basis for removal or a basis for Federal Circuit jurisdiction.

claim. The court’s analysis of Counterclaim Five under *Gunn* was both unnecessary and seriously flawed. Moreover, because MPHJ’s second removal of the same case was barred by 28 U.S.C. § 1447(d), the Federal Circuit should have dismissed the appeal on that basis, without addressing the scope of § 1295.

A. The Federal Circuit misconstrued the changes to its jurisdiction made by the America Invents Act and mistakenly treated MPHJ’s preemption “counterclaim” as an independent claim capable of creating jurisdiction.

The America Invents Act broadened the jurisdiction of the Federal Circuit to include patent claims asserted as compulsory counterclaims. 28 U.S.C. § 1295. It did not sweep into the Federal Circuit’s jurisdiction patent preemption defenses to non-patent claims. The Federal Circuit erred by accepting MPHJ’s labeling of its preemption defense as a “counterclaim,” and allowing that formal – but mistaken – designation to control the jurisdictional analysis.

The changes to Federal Circuit jurisdiction in the America Invents Act, known as the *Holmes Group* “fix,” were designed to clarify jurisdiction in light of this Court’s *Holmes Group* decision. See H.R. Rep. No. 112-98, pt. 1, at 54, 81 (2011); Pub. L. No. 112-29, § 19 (2011). In *Holmes Group*, the Court held that Federal Circuit jurisdiction did not include “a compulsory counterclaim alleging patent infringement.” 535 U.S. at 828. As the Court recognized, longstanding precedent

already held that a federal defense cannot create “arising under” jurisdiction. *Id.* at 831. The Court extended that settled principle to counterclaims. *Id.* at 831-34. The America Invents Act changed that result by providing Federal Circuit jurisdiction over compulsory patent-law counterclaims. 28 U.S.C. § 1295(a). It was a targeted measure to address Congress’s concern with the outcome in *Holmes Group*: that patent validity and infringement claims should fall within the Federal Circuit’s jurisdiction, even when raised as compulsory counterclaims.

The Federal Circuit’s reading of the *Holmes Group* “fix” went far beyond this Court’s decision in *Holmes Group*. The Federal Circuit reasoned that “[a]llowing a state court to resolve a patent law preemption question risks inconsistent judgments between state and federal courts” and concluded that it could not “permit such a result.” App. 21-22. This understanding of the America Invents Act amendments would overturn years of Supreme Court precedent. *See supra* 17-19. Indeed, respondent MPHJ contends that the Federal Circuit’s decision is not limited to counterclaims, but also bars the state court from deciding MPHJ’s preemption *defense*. *See MPHJ Tech. Invs., LLC v. Sorrell*, No. 14-cv-191 (D. Vt.), ECF Doc. No. 56, at 6-7 (asserting that the Federal Circuit’s decision bars any state court review of the “preemption question,” whether raised as a counterclaim or a defense). MPHJ is mistaken on this point, but its position highlights the serious error in the Federal Circuit’s analysis. Nothing in the statutory text or in *Holmes Group* suggests that Congress

intended to diminish state-court authority to decide whether state-law claims are preempted by federal law.

1. The Federal Circuit’s treatment of MPHJ’s preemption counterclaim as a separate cause of action, rather than a mislabeled defense, conflicts with decisions of this Court and Federal Circuit precedent.

a. The Federal Circuit’s first mistake was to treat Counterclaim Five as a cause of action or claim for purposes of § 1295. As the Federal Circuit recognized, MPHJ’s preemption counterclaim seeks “to prevent the State from relying on” state consumer-protection law by asserting preemption. App. 12. That is, MPHJ seeks a “declaratory judgment” under the Supremacy Clause that its defense of preemption is valid. *See* App. 148, 150, 171. But as this Court explained in *Armstrong v. Exceptional Child Center, Inc.*, 135 S. Ct. 1378 (2015), “the Supremacy Clause is not the ‘source of any federal rights,’ and certainly does not create a cause of action.” *Id.* at 1383 (citations omitted).

The court of appeals cited *Armstrong* but failed to recognize its import: namely, that MPHJ’s “counterclaim” for a declaratory judgment on preemption is not a claim at all. There is no “implied right of action contained in the Supremacy Clause.” *Id.* at 1384. The court suggested that MPHJ’s counterclaim was somehow equivalent to an equitable claim for an

injunction, but MPHJ did not request an injunction against the State, App. 171, nor could it have.¹⁹

Labels aside, MPHJ's preemption counterclaim is a defense, nothing more. *See* Fed. R. Civ. P. 8(c) (where "party has mistakenly designated a defense as a counterclaim or a counterclaim as a defense," court "if justice so requires, shall treat the pleading as if there had been a proper designation"). Preemption is a potential basis for MPHJ to avoid liability; it does not set up a claim of liability against the State. MPHJ itself asserts that the question posed by Counterclaim Five "is a predicate question that must be answered before Vermont . . . can assert state law claims against MPHJ." *MPHJ Tech. Invs., LLC v. Sorrell*, No. 14-cv-191 (D. Vt.), ECF Doc. No. 55, at 14. A major difference between a defense and a counterclaim is that a "defense cannot possibly be adjudicated separately from the plaintiff's claim to which it

¹⁹ *Armstrong* recognizes that "federal courts may in some circumstances grant injunctive relief against state officers who are violating, or planning to violate, federal law." 135 S. Ct. at 1384. MPHJ's counterclaim is asserted in a state-court action directly against the State of Vermont. Sovereign immunity would bar a counterclaim for injunctive relief against the State. *See, e.g., Alden v. Maine*, 527 U.S. 706, 713, 754 (1999); *see also Agency of Envtl. Conservation v. Casella*, 457 A.2d 633, 634 (Vt. 1983) (holding that defendants had "no remedy" for counterclaim absent legislative waiver of immunity, and affirming dismissal of counterclaim). Indeed, it is the State's position, as briefed in the district court, that all of MPHJ's counterclaims are barred by sovereign immunity. *See Vermont v. MPHJ Tech. Invs., LLC*, No. 14-cv-192 (D. Vt.), ECF Doc. Nos. 25-1, 29.

applies; a counterclaim can be.” *Reiter v. Cooper*, 507 U.S. 258, 265 (1993); *see also* Federal Procedure, Lawyers Ed., § 62:201 (“A counterclaim is not directed at the allegations of the complaint but rather is an independent claim for relief.”). Here, Counterclaim Five cannot be adjudicated separately from the State’s claim. *See* App. 166-71. The Federal Circuit erred by ascribing jurisdictional significance to the erroneous “counterclaim” label.

b. The Federal Circuit’s analysis of Counterclaim Five’s declaratory judgment request conflicts with settled precedent for yet another reason: the court should have, but did not, “flip” the declaratory judgment request and consider the declaratory *defendant’s* hypothetical claim. *See Medtronic, Inc. v. Mirowski Family Venture, LLC*, 134 S. Ct. 843, 848 (2014) (when determining declaratory judgment jurisdiction, federal courts “ask whether ‘a coercive action’ brought by ‘the declaratory judgment defendant’ . . . ‘would necessarily present a federal question’” (citing *Franchise Tax Bd.*, 463 U.S. at 19)); *Skelly Oil Co. v. Phillips Petroleum Co.*, 339 U.S. 667, 672 (1950) (noting that “a suggestion of one party that the other will or may set up a claim under the Constitution or laws of the United States does not make the suit one arising under that Constitution or those laws” (quoting *Tennessee v. Union & Planters’ Bank*, 152 U.S. 454, 464 (1894))). The Federal Circuit’s jurisdiction over declaratory judgment actions is limited to those cases where a claim by the declaratory judgment defendant would arise under federal patent law. *See*,

e.g., *Speedco, Inc. v. Estes*, 853 F.2d 909, 912 (Fed. Cir. 1988) (applying “well-pleaded complaint rule not to the declaratory judgment complaint, but to the action that the declaratory defendant would have brought”); *Biotechnology Indus. Org. v. Dist. of Columbia*, 496 F.3d 1362, 1368 (Fed. Cir. 2007) (same). The Federal Circuit failed even to acknowledge this established rule, much less apply it.²⁰

Once MPHJ’s declaratory judgment request is “flipped,” the Federal Circuit’s error is obvious. The Court need not consider a hypothetical coercive claim by the declaratory defendant. Rather, the declaratory judgment defendant – the State – has already brought that affirmative claim. And that claim, as the district court held in the *first* remand order, does not arise under federal patent laws. App. 84, 96. The district court’s remand for lack of subject-matter jurisdiction, as this Court has “relentlessly repeated,” is final and “immunized from all forms of appellate review.” *Kircher*, 547 U.S. at 640; 28 U.S.C. § 1447(d); App. 72-73. The Federal Circuit could not review whether Counterclaim Five arises under federal patent law, because doing so necessarily required review of the district court’s original remand. Section 1447(d) bars that review.

²⁰ Again, the Federal Circuit mistakenly treated MPHJ’s pleading as if it were a “complaint seek[ing] to enjoin enforcement of state law.” App. 13. It is not. *See supra* 24-25 & n.19.

In short, because Counterclaim Five seeks only a declaratory judgment on MPHJ's defenses to the State's claim, it cannot be the basis for the Federal Circuit's jurisdiction. MPHJ's dressing of its federal patent defense as a counterclaim does not change this analysis. Allowing jurisdiction to be dictated by declaratory relief that artfully "anticipates a defense based on federal law would . . . disregard the effective functioning of the federal judicial system and distort the limited procedural purpose of the Declaratory Judgment Act." *Skelly*, 339 U.S. at 673-74. The Federal Circuit's exercise of jurisdiction over MPHJ's appeal does just that.

2. The Federal Circuit's application of *Gunn* was not only unnecessary but gravely flawed.

As explained above, the Federal Circuit should never have reached *Gunn v. Minton*'s test for "arising under" jurisdiction. *See* 133 S. Ct. at 1065. Regardless, the Federal Circuit's application of *Gunn* departs so substantially from this Court's precedents that further review is warranted to address this error as well.

The Federal Circuit held that a counterclaim asserting preemption falls within that "special and small category" of cases where "arising under" jurisdiction lies even though federal law does not create the cause of action. *See Gunn*, 133 S. Ct. at 1064 (quotation omitted). The court's reasoning rested on two

flawed premises: that MPHJ's assertion of preemption meant resolving a question of federal patent law was "clearly necessary" in this case; and that resolution of that question by the state court would somehow disrupt "the federal-state balance." App. 20-22. The Federal Circuit's reasoning conflicts with this Court's precedents on both points.

First, holding that MPHJ's assertion of preemption is *necessarily* raised in this case conflicts with *Christianson v. Colt Industries Operating Corp.*, 486 U.S. 800 (1988). *Christianson* holds that the "well-pleaded complaint rule . . . focuses on claims, not theories." *Id.* at 811. That a "particular theory might be governed by federal patent law does not mean that the entire . . . claim 'arises under' patent law." *Id.* The Federal Circuit reasoned that proving preemption "would necessarily require proving that the patent laws preclude enforcement of the VCPA as applied." App. 20. But the court disregarded *Christianson* and skipped a crucial threshold question: whether preemption is necessarily raised in this case. It is not. Federal preemption is merely one of numerous state-law and federal-law defenses that MPHJ has raised to the State's claim. App. 146-150. Indeed, preemption is only one of several defensive theories encompassed in Counterclaim Five, which also relies on the First Amendment and other constitutional provisions. App. 171. And the State's claim, in turn, encompasses several alternate theories for finding a violation of

the Consumer Protection Act – at least some of which do not implicate a patent-law defense.²¹ The trial court could resolve the case in MPHJ’s favor without reaching preemption – for example, by ruling against the State on the merits, on MPHJ’s state-law defenses or on First Amendment grounds. Or the court could rule in the State’s favor on grounds that do not implicate MPHJ’s proffered preemption defense. Preemption is a potential issue, but it is not “necessarily raised.”

Second, to say that allowing a state court to resolve a preemption question disrupts the federal-state balance, App. 21-22, gets the *Gunn* analysis backwards and conflicts with over 100 years of this Court’s precedents. *See supra* 17-19. Under *Gunn* and *Grable*, the proper approach is not to ask whether state courts may decide federal-law issues – they do so routinely – but rather to assess “any disruptive portent in exercising *federal* jurisdiction.” *Grable & Sons Metal Prods., Inc. v. Darue Eng’g & Mfg.*, 545 U.S. 308, 314 (2005) (emphasis added). The Federal Circuit gave no consideration at all to the critical state interest in enforcing consumer-protection laws. *Cf. Gunn*, 133 S. Ct. at 1068 (noting states’ special interest in regulating licensed professions). And the

²¹ The State’s complaint, for example, alleges that MPHJ’s letters contained false and deceptive statements about the responses of other businesses to similar demands. App. 124, 127. MPHJ has not pointed to any provision of federal patent law that would authorize false statements of that kind.

Federal Circuit’s concern with potential “inconsistent judgments” between state and federal courts is misplaced, given the unbroken line of precedent holding that state courts may decide preemption defenses to state-law claims. *See supra* 17-19. Indeed, the affirmative defense of preemption pled *in this case*, App. 150, is within the state court’s jurisdiction. It is this Court’s role to review and, if necessary, correct state-court preemption decisions. *See Franchise Tax Bd.*, 463 U.S. at 12 n.12. But interpreting “arising under” jurisdiction as broadly as the Federal Circuit suggests – to include counterclaims seeking declaratory judgment on an underlying defense – would undermine respect for state courts and upset the balance of power between the state and federal judiciary.

B. The Federal Circuit’s discussion of its jurisdiction was unnecessary and the ruling below may be summarily reversed because MPHJ’s second removal was barred altogether by 28 U.S.C. § 1447(d).

The Federal Circuit’s error is all the more glaring because the court did not need to decide whether MPHJ’s preemption “counterclaim” supplied a basis for jurisdiction under 28 U.S.C. § 1295. Its analysis should have begun and ended by addressing the most important aspect of this case: it was MPHJ’s *second* removal of the same state-court action. As both the Federal Circuit and the district court correctly recognized, the State’s amended complaint merely removed a request for relief. App. 6, 30-32, 36, 45-46. It added

no claims or new causes of action, and as a result, it did not provide a second basis for removal under 28 U.S.C. § 1446(b)(3). MPHJ's second removal was baseless and nothing more than an impermissible and untimely effort to re-litigate the first remand order. The Federal Circuit did not need to analyze its jurisdiction to dismiss on these grounds.

The district court's original holding that it lacked subject-matter jurisdiction is not reviewable "on appeal *or otherwise*." 28 U.S.C. § 1447(d) (emphasis added). Because § 1447(d) creates a jurisdictional bar, the Federal Circuit should have dismissed MPHJ's appeal on that basis without reaching § 1295. *See, e.g., Sinochem Int'l Co. v. Malaysia Int'l Shipping Corp.*, 549 U.S. 422, 431 (2007) ("federal court has leeway 'to choose among threshold grounds for denying audience to a case on the merits'" (quoting *Ruhrgas AG v. Marathon Oil Co.*, 526 U.S. 574, 585 (1999))). That is, in fact, what the Federal Circuit did when MPHJ appealed the first remand order. App. 72 (finding no "appellate jurisdiction over this remand order" under § 1447(d)).

MPHJ's successive removals and baseless appeals of two remand orders have delayed evaluation of the merits of the State's claim for over two-and-a-half years. The Federal Circuit's jurisdictional decision has exacerbated that delay, as MPHJ has used the decision to contest yet again the state court's authority. *See supra* 13-14 & nn.10-11. This decision was both an unnecessary and incorrect review of the district court's initial remand. *See* 28 U.S.C. § 1447(d).

It also undermines “[t]he policy of Congress oppos[ing] interruption of the litigation of the merits of a removed cause by prolonged litigation of questions of jurisdiction of the district court to which the cause is removed.” *Kircher*, 547 U.S. at 640 (quotation omitted). Instead of reaching out to decide a significant jurisdictional issue, the court should have once again dismissed MPHJ’s groundless appeal. This Court may summarily reverse and direct dismissal on that basis, without further addressing the scope of § 1295.

III. This case is an appropriate vehicle, because the parties contest the Federal Circuit’s jurisdiction and the State has standing to petition for this Court’s review.

Although the procedural posture of this case is somewhat unique, the jurisdictional issue is squarely presented and vigorously disputed, and the State has standing to petition for a writ of certiorari. This Court’s review is both appropriate and urgently needed to correct a decision that conflicts with this Court’s precedent, intrudes on traditional state authority, and has led to further substantial interference with an ongoing state enforcement action.

This Court may “grant certiorari ‘upon petition of *any* party,’” including a party who prevailed below, so long as that party maintains a “personal stake” in the suit and there is a sufficiently important policy reason to consider the case. *Camreta v. Greene*, 131 S. Ct. 2020, 2028-30 (2010) (adding emphasis and

quoting 28 U.S.C. § 1254(1)). That the court below found for the State on the merits of the remand issue should not preclude this Court from reviewing the important jurisdictional question presented by this case.

First, the question presented was decided against the State in the Federal Circuit proceedings. The State argued below that the appeal should be dismissed for lack of jurisdiction. The Federal Circuit rejected that argument before reaching the merits of MPHJ’s removal arguments. *See* App. 11-22. And the State “in fact failed to obtain the judgment[] [it] had sought” – namely, dismissal of the appeal for lack of jurisdiction. *See Camreta*, 131 S. Ct. at 2039 (Kennedy, J., dissenting); *see* App. 34 (mandate “Affirmed” instead of “Dismissed”).

Second, the State maintains a sufficient interest in the outcome of the jurisdictional issue to satisfy Article III’s case or controversy requirement. *See Camreta*, 131 S. Ct. at 2029 (focus of Article III is on whether the judgment being challenged “may have prospective effect on the parties”). The Federal Circuit held that MPHJ, by simply restating its preemption defense as a counterclaim, triggered its jurisdiction under 28 U.S.C. § 1295. App. 19-22. The court then remanded the case, and the counterclaim, to the Vermont state courts. That disposition ensures that – despite having already spent years litigating removal issues instead of the merits of its consumer-protection claim – the State will continue to litigate those same jurisdictional issues in both the state-court

proceedings in this case and in MPHJ's pending federal lawsuit seeking to enjoin those proceedings. Indeed, MPHJ has already asked the federal district court to enjoin the state-court proceedings based on the Federal Circuit's jurisdictional ruling. *See MPHJ Tech. Invs., LLC v. Sorrell*, No. 14-cv-191 (D. Vt.), ECF Doc. No. 50-1, at 7-8 (seeking to enjoin the Attorney General from "litigating the state court case" based on Federal Circuit's decision); *id.*, ECF Doc. No. 56, at 6-7 (contending that state court cannot decide MPHJ's preemption defense, and that the state-court proceeding must be enjoined); *id.*, ECF Doc. No. 55, at 14 (seeking injunction against "entire state case"). Accordingly, the Federal Circuit's decision has and will continue to directly prejudice the State's substantial interest in enforcing its consumer protection laws. *Cf. Edenfield v. Fane*, 507 U.S. 761, 769 (1993) ("[T]here is no question that [a state's] interest in ensuring the accuracy of commercial information in the marketplace is substantial.").

Finally, even if the State is considered a "pre-vailing party," important policy reasons support granting the writ in this case.²² *See Camreta*, 131 S. Ct. at 1030 (allowing state official to petition for

²² The State, of course, did not prevail on the question presented. *Cf. Bunting v. Mellen*, 541 U.S. 1019, 1023 (2004) (Scalia, J., dissenting from denial of certiorari) ("[O]ur practice reflects a 'settled refusal' to entertain an appeal by a party on *an issue as to which he prevailed*." (emphasis added, quotation omitted)).

review of constitutional ruling despite having been granted qualified immunity because ruling would affect future government conduct and appellate review would clarify the law). As discussed above, the Federal Circuit's jurisdictional ruling is already interfering with the State's ability to prosecute this action in state court. More broadly, the ruling creates substantial uncertainty about the ability of States to prosecute consumer-protection claims against patent trolls in state courts, and portends drawn out jurisdictional disputes for States that bring future cases. The likelihood of protracted litigation and the real possibility that States will be forced to litigate consumer-protection appeals before a specialized federal patent court will inevitably deter robust state responses to patent trolling. This Court should grant review to clarify the law in this important area.



CONCLUSION

The petition for writ of certiorari should be granted.

Respectfully submitted,

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App. 1

**United States Court of Appeals
for the Federal Circuit**

STATE OF VERMONT,
Plaintiff-Appellee

v.

MPHJ TECHNOLOGY INVESTMENTS, LLC,
Defendant-Appellant

2015-1310

Appeal from the United States District Court for
the District of Vermont in No. 2:14-cv-00192-wks,
Judge William K. Sessions III.

Decided: September 28, 2015

BRIDGET ASAY, Vermont Office of the Attorney
General, Montpelier, VT, argued for plaintiff-appellee.
Also represented by BENJAMIN D. BATTLES, NAOMI
SHEFFIELD.

WILLIAM BRYAN FARNEY, Farney Daniels PC,
Georgetown, TX, argued for defendant-appellant. Also

represented by STEVEN R. DANIELS; DAVID P. SWENSON,
Minneapolis, MN.

Before PROST, *Chief Judge*, NEWMAN,
and O'MALLEY, *Circuit Judges*.

O'MALLEY, *Circuit Judge*.

On May 8, 2013, Plaintiff-Appellee State of Vermont (“Vermont” or “the State”) filed a state court action against Defendant-Appellant MPHJ Technology Investments LLC (“MPHJ”) alleging violations of the Vermont Consumer Protection Act, 9 V.S.A. §§ 2451 *et seq.* (“VCPA”). The complaint alleged that letters mailed to Vermont businesses informing them that they may be infringing certain patents were deceptive and otherwise violative of the VCPA. MPHJ removed the case twice to the United States District Court for the District of Vermont, once under the State’s original complaint (“original complaint”) and once under the State’s amended complaint (“amended complaint”). The district court remanded the case to state court both times. Before this court is MPHJ’s appeal of the district court’s second remand order. Because removal under § 1442(a)(2) is not authorized in the circumstances at issue here, and MPHJ does not appeal the district court’s other removal rulings in the second remand order, we affirm.

I. BACKGROUND

MPHJ is a non-practicing entity incorporated in Delaware that acts through a variety of shell corporations incorporated in many states. Beginning in September 2012, businesses in Vermont began to receive a series of letters from one or more of the MPHJ shell corporations. These letters alleged potential infringement of MPHJ's patents and requested that the recipients either purchase licenses or confirm that they were not infringing the patents. Although the content and subject matter of MPHJ's patents are irrelevant to this appeal, they generally cover systems in which computers are networked and connected to a scanner, such that scanned documents are sent directly to employee email addresses as PDF attachments.

MPHJ's letters to each Vermont business followed a similar format and involved the same sequence of events. The first letter a business would receive stated, "We have identified your company as one that appears to be using the patented technology," and gave a list of questions that the company needs to investigate regarding its computer server to determine if it is infringing. Exhibit A to Consumer Protection Complaint at 1, *Vermont v. MPHJ Tech. Invs., LLC*, No. 2:14-cv-00192, 2015 U.S. Dist. LEXIS 3309 (D. Vt. Jan. 9, 2015), ECF No. 1. The letter explained that these questions were based on "[o]ur research, which includes review of several marketplace trends and surveys," and that "you should enter into a license agreement with us at this time." *Id.* at 3-4. It further stated that "we have had a positive

response from the business community to our licensing program.” *Id.*

The second and third letters were sent from the law firm of Farney Daniels PC, MPHJ’s counsel. They would routinely arrive a few weeks after the first letter and second letter, respectively, if MPHJ did not hear back from the recipient. Both stated that the recipient’s non-response to the previous letters was taken as an admission of infringement. And, both implied that litigation would commence if the recipient did not enter into a license agreement. *See Exhibit B to Consumer Protection Compl. at 1, MPHJ, 2015 U.S. Dist. LEXIS 3309 (No. 2:14-cv-00192), ECF No. 1.*

In response to complaints from the Vermont business community about these letters, the State filed its original complaint against MPHJ on May 8, 2013 in state court. The original complaint asserted a single cause of action under the Vermont Consumer Protection Act, 9 V.S.A. § 2453(a). Under this cause of action, the complaint listed two bases for liability: “unfair trade practices” and “deceptive trade practices.” *Consumer Protection Compl. at 8, MPHJ, 2015 U.S. Dist. LEXIS 3309 (No. 2:14-cv-00192), ECF No. 1.* The State alleged that MPHJ engaged in “unfair trade practices” by, *inter alia*, threatening [sic] litigation even though litigation was unlikely, targeting small businesses, placing the burden on the recipient to do the investigation, and using shell corporations to minimize liability. *Id.* at 8-9. The State alleged that MPHJ engaged in “deceptive trade

practices” by, *inter alia*, stating in its letters that it would bring suit immediately absent a license, the licensing program was successful with many businesses taking part, and the average license was \$1000/employee. *Id.* at 9-10. The State sought various forms of relief, including two permanent injunctions:

- (1) A permanent injunction prohibiting Defendant from engaging in any business activity in, into or from Vermont that violates Vermont law.
- (2) A permanent injunction requiring Defendant to stop threatening Vermont businesses with patent-infringement lawsuits.

Id.

A. First Removal

MPHJ timely filed a motion to remove the case to the United States District Court for the District of Vermont on June 7, 2013 (“the first removal”). MPHJ claimed that the court had diversity jurisdiction and that the court had federal question jurisdiction because the validity, infringement, and enforcement of its patents were at issue. The State thereafter moved to remand, arguing that its complaint sounded solely in the VCPA, a state law. MPHJ then filed a motion to dismiss the case for lack of personal jurisdiction and a motion for sanctions under Federal Rules of Civil Procedure (“FRCP”) 11. The district court held a hearing on these pending motions on February 25, 2014, and expressed concern that the State’s second

request for an injunction could prevent MPHJ from sending legitimate assertions regarding patent infringement to Vermont businesses. On March 7, 2014, the State filed a motion to clarify or amend its complaint to delete the second injunction request (“A permanent injunction requiring Defendant to stop threatening Vermont businesses with patent-infringement lawsuits”).

On April 14, 2014, the district court issued an order remanding the case to state court, without deciding the other pending motions, including the State’s motion to clarify or amend the complaint. *Vermont v. MPHJ Tech. Invs., LLC*, No. 2:13-cv-170, 2014 U.S. Dist. LEXIS 52132, at *2 (D. Vt. Apr. 14, 2014). The court concluded that it did not have subject matter jurisdiction. The court stated that, under the test set out in *Gunn v. Minton*, 133 S. Ct. 1059, 1065 (2013), federal patent law issues were not “necessarily raised” on the face of the State’s complaint because the claims in the original complaint did not challenge the validity of the patents nor require any determination of actual infringement. *MPHJ*, 2014 U.S. Dist. LEXIS 52132, at *17. The court also concluded that the original complaint did not raise a “substantial” federal question under *Gunn*, as any possible federal question would at best involve “application of existing patent law to the facts of this case,” with no wide-reaching determinations about patent law itself. *Id.* at *27. The court also determined that there was no diversity jurisdiction. *Id.* at *29.

On May 13, 2014, MPHJ filed a notice of appeal of the remand decision to this court and petitioned this court for a writ of mandamus, claiming that the district court abused its discretion. Upon return to the state court, the State filed its amended complaint on May 7, 2014. During a subsequent motions hearing, the state court indicated that, because MPHJ had not yet answered, the State was entitled to amend its complaint as a matter of right under state court rules. Exhibit 1 of Vermont's Mot. to Expedite Proceedings at 37-38, *MPHJ*, 2015 U.S. Dist. LEXIS 3309 (No. 2:14-cv-00192), ECF No. 3. Despite having acknowledged that, however, the state court ultimately granted the State's motion to amend at the same time it denied MPHJ's motion to dismiss for lack of personal jurisdiction. Exhibit 3-12 to MPHJ's Notice of Removal at 2, 6, *MPHJ*, 2015 U.S. Dist. LEXIS 3309 (No. 2:14-cv-00192), ECF No. 1. On August 11, 2014, this court held that it did not have jurisdiction over either the appeal or the mandamus petition by virtue of 28 U.S.C. § 1447(d). *Vermont v. MPHJ Tech. Invs., LLC*, 763 F.3d 1350, 1352 (Fed. Cir. 2014). Section 1447(d) provides that a remand order to a state court "is not reviewable on appeal or otherwise," with a couple of specific, statutorily-provided exceptions. *Id.* at 1353. The Supreme Court has concluded that this prohibition applies only to remands based on 28 U.S.C. § 1447(c), which includes the district court's first remand order. *Id.*

B. Second Removal

MPHJ filed an answer and counterclaims to the State's amended complaint on September 9, 2014. MPHJ claimed that the State, by requesting an injunction that required MPHJ's compliance with "Vermont law," sought to compel MPHJ to comply with the Vermont Bad Faith Assertions of Patent Infringement Act ("BFAPIA"), 9 V.S.A. §§ 4195-99. The BFAPIA was passed on May 22, 2013 and became effective on July 1, 2013, after the State filed the original complaint and while this case was pending in federal district court after the first removal. Its key provision, 9 V.S.A. § 4197, defines the factors that a court can consider in determining if a person made a "bad faith assertion of patent infringement," including, among others, the contents of the demand letter, the extent of any pre-assertion investigation, demands for payment of a license fee in an unreasonably short time, and deceptive assertions of infringement.

In its answer, MPHJ asserted that the BFAPIA was preempted by federal law because it permitted the State to bar MPHJ's infringement assertions without a showing of objective baselessness, contrary to our precedent in *Globetrotter Software, Inc. v. Elan Computer Group, Inc.*, 362 F.3d 1367 (Fed. Cir. 2004). MPHJ also asserted six counterclaims. It sought a declaratory judgment that the BFAPIA is invalid or preempted by the First, Fifth, and Fourteenth Amendments (counterclaim 1), or by Title 35 of the U.S. Code, the Supremacy Clause, and the Patent Clause (counterclaim 2). MPHJ also sought a

declaratory judgment that its patents were valid (counterclaim 3) and infringed (counterclaim 4), or at least that it was not objectively baseless for a reasonable person to believe so. Finally, MPHJ sought a declaratory judgment that the VCPA is invalid or preempted by the First, Fifth, and Fourteenth Amendments, the Supremacy and Patent Clauses, and Title 35 of the U.S. Code (counterclaim 5) and that it did not violate the VCPA (counterclaim 6). Based on these counterclaims, MPHJ sought relief from both the BFAPIA and the VCPA as applied to it.

On the same day that MPHJ filed its answer and counterclaims, it filed a second notice of removal (“the second removal”) to federal court under 28 U.S.C. § 1442(a)(2) (“federal officer removal statute”), 28 U.S.C. § 1443 (“civil rights removal statute”), and 28 U.S.C. § 1454 (“patent removal statute”). MPHJ claimed that the amended complaint “now seeks an injunction requiring MPHJ to comply with the [BFAPIA],” and that enforced compliance with the BFAPIA affects the validity of 35 U.S.C. §§ 261, 271, 284, 285 and 287, as well as the First, Fifth, and Fourteenth Amendments, the Supremacy Clause, and the Patent Clause of the Constitution. MPHJ’s Notice of Removal at 2, 4, *MPHJ*, 2015 U.S. Dist. LEXIS 3309 (No. 2:14-cv-00192), ECF No. 1. MPHJ claimed that its notice of removal was timely because it was filed within thirty days of the August 28, 2014 state court order granting the motion to amend the complaint. *Id.* at 4. The State, in response, filed a motion to remand, insisting that the BFAPIA was not part of

its amended complaint, the validity of MPHJ's patents was not at issue, and the second removal was untimely.

The district court issued an opinion on the second notice of removal on January 12, 2015. The court found that the State's amended complaint never "revived" MPHJ's right to remove in the first place. *MPHJ*, 2015 U.S. Dist. LEXIS 3309, at *12. According to the court, the State's request for injunctive relief, "read in the context of the State's pleading," made clear that the State did not seek relief under the BFAPIA. *Id.* at *13. The district court further found that, even if the passage of the BFAPIA by the Vermont legislature provided a new opportunity for removal, the second removal was untimely. Vermont enacted the BFAPIA prior to the initial remand decision, and MPHJ cited the Act in its opposition to the first motion to remand, filed on September 18, 2013. The district court found, therefore, that MPHJ could have included the BFAPIA as a ground for its first removal and could have moved to amend to add counterclaims at that time. The court concluded that untimeliness under 28 U.S.C. § 1446(b) can be based on evidence of an exchange of documents in the course of litigation that evidences a "party's knowledge of the grounds for removal." *Id.* at *14.

The district court further concluded that the removal, even if timely, failed to meet the requirements of 28 U.S.C. § 1442(a)(2), the federal officer removal statute. The court was "skeptical of Section 1442(a)(2)'s application to a patent case" based on the

historical purpose of the statute. *Id.* at *18. In any event, the court held that removal could not be based on § 1442(a)(2) because MPHJ’s answer and counter-claims did not “call into question the validity of any federal law,” as required by that section. *Id.* The district court found that MPHJ’s assertion that the BFAPIA frustrates interests protected by federal statutes and the Constitution was irrelevant in light of its finding that the amended complaint did not require compliance with the BFAPIA. Finally, the court also declined to allow removal under either 28 U.S.C. § 1443 or 28 U.S.C. § 1454. MPHJ filed a timely notice of appeal to this court, challenging only the district court’s timeliness and 28 U.S.C. § 1442 analyses. Remands under § 1442 and § 1443 are exceptions to the bar of § 1447(d). MPHJ has only appealed the district court’s decision under § 1442, and not § 1443, however.

II. JURISDICTION

The parties dispute our jurisdiction over this appeal. The State asserts that we have none and asks that we dismiss the appeal. MPHJ argues that we do have jurisdiction over this appeal and correctly points out that, even if we disagreed with that contention, the appropriate remedy would be a transfer to the Second Circuit, not dismissal. 28 U.S.C. § 1295 defines the scope of this court’s jurisdiction. Specifically, it provides that this court has jurisdiction “in any civil action arising under, or in any civil action in which a party has asserted a compulsory

counterclaim arising under, any Act of Congress relating to patents.” 28 U.S.C. § 1295(a)(1). Because we find jurisdiction on the basis of at least one of MPHJ’s counterclaims, counterclaim 5, we have jurisdiction over this appeal. We, therefore, do not need to assess whether this court could exercise jurisdiction on the basis of MPHJ’s other counterclaims or Vermont’s claim.

Counterclaim 5 seeks a declaratory judgment that the VCPA is invalid or preempted as applied under the First, Fifth, and Fourteenth Amendments, the Supremacy and Patent Clauses of the Constitution, and Title 35 of the U.S. Code. Ultimately, MPHJ seeks to prevent the State from relying on the VCPA in its action against it.¹

¹ The State is correct that MPHJ did not argue counterclaim 5 as the basis of this court’s jurisdiction. Appellee Br. 27. See Appellant Br. 22-23; Appellant Reply Br. 4-6. According to the State, this failure “defeats any claim of jurisdiction based on [that] counterclaim[].” Appellee Br. 27. The case the State cites in support of this assertion, *Palmer v. Barram*, 184 F.3d 1373, 1377 (Fed. Cir. 1999), however, does not stand for the proposition that this court can relinquish jurisdiction where it clearly possesses it based on the factual allegations and causes of action claimed in the case. We must always fulfill our obligation to satisfy ourselves of our jurisdiction over any appeal. See *Bender v. Williamsport Area Sch. Dist.*, 475 U.S. 534, 541 (1986).

The State also argues that we are bound by the motions panel determination that this court lacked jurisdiction to consider the first remand order. Appellee Br. 24. That argument merits scant attention. The order relating to the appeal of the first remand was predicated on § 1447(d), which is not at issue here.

“[A] plaintiff who seeks injunctive relief from state regulation, on the ground that such regulation is preempted by a federal statute which, by virtue of the Supremacy Clause of the Constitution must prevail, thus presents a federal question over which the federal courts have jurisdiction under 28 U.S.C. § 1331 to resolve.” *Lawrence Cty. v. Lead-Deadwood Sch. Dist. No. 40-1*, 469 U.S. 256, 259 n.6 (1985) (quoting *Shaw v. Delta Air Lines Inc.*, 463 U.S. 85, 96 n.14 (1983)). Thus, while the Supremacy Clause does not itself create a cause of action for its violation, *Armstrong v. Exceptional Child Ctr., Inc.*, 135 S. Ct. 1378, 1384 (2015), a claim that a state law contravenes a federal statute remains “basically constitutional in nature” because “the application of preempted state law is . . . unconstitutional.” *Id.* at 1391 (Sotomayor, J., dissenting). Based on these principles, we have concluded that this court has jurisdiction over a complaint alleging that the state law is preempted by the patent laws. *Biotechnology Indus. Org. v. Dist. of Columbia*, 496 F.3d 1362, 1368 (Fed. Cir. 2007) (deciding under pre-America Invents Act (“AIA”) version of § 1295(a)(1) that, where a complaint seeks to enjoin enforcement of state law on grounds that it is preempted by the patent laws, this court has jurisdiction) (citing *Shaw*, 463 U.S. at 96 n.14).

Before the passage of the AIA, it was also well established that only complaints filed by one seeking to prevent enforcement of state law would give rise to federal jurisdiction under either 28 U.S.C. § 1331 or

§ 1338, or to this court’s appellate jurisdiction under 28 U.S.C. § 1295(a)(1). *See Vaden v. Discover Bank*, 556 U.S. 49, 60 (2009) (“Federal jurisdiction cannot be predicated on an actual or anticipated defense . . . Nor can federal jurisdiction rest upon an actual or anticipated counterclaim.”); *Holmes Group, Inc. v. Vornado Air Circulation Sys.*, 535 U.S. 826, 831 (2002) (“a counterclaim—which appears as part of the defendant’s answer, not as part of the plaintiff’s complaint—cannot serve as the basis for ‘arising under’ jurisdiction” under § 1295(a)(1)).

The AIA amended 28 U.S.C. §§ 1338 and 1295(a)(1) and added 28 U.S.C. § 1454, however. Leahy-Smith America Invents Act, Pub. L. No. 112-29, 125 Stat. 284 (2011). § 1338(a) originally read:

The district courts shall have original jurisdiction of any civil action arising under any Act of Congress relating to patents, plant variety protection, copyrights and trademarks. Such jurisdiction shall be exclusive of the courts of the states in patent . . . cases.

and now, post-AIA, reads:

The district courts shall have original jurisdiction of any civil action arising under any Act of Congress relating to patents, plant variety protection, copyrights and trademarks. No State court shall have jurisdiction over any claim for relief arising under any Act of Congress relating to patents. . . .

§ 1295(a)(1) was changed from:

(a) The United States Court of Appeals for the Federal Circuit shall have exclusive jurisdiction—

(1) of an appeal from a final decision of a district court of the United States . . . if the jurisdiction of that court was based, in whole or in part, on section 1338 of this title . . . ;

to:

(a) The United States Court of Appeals for the Federal Circuit shall have exclusive jurisdiction—

(1) of an appeal from a final decision of a district court of the United States . . . in any civil action arising under, or in any civil action in which a party has asserted a compulsory counterclaim arising under, any Act of Congress relating to patents. . . .

The AIA also added § 1454, a new removal provision, which reads:

(a) In general. A civil action in which any party asserts a claim for relief arising under any Act of Congress relating to patents . . . may be removed to [federal] district court. . . .

These changes are commonly referred to as the “Holmes Group fix.” *See, e.g., MPHJ*, 2015 U.S. Dist. LEXIS 3309 (citing *Andrews v. Daughtry*, 994

F. Supp. 2d 728, 731-32 (M.D.N.C. 2014) (citing Joe Matal, *A Guide to the Legislative History of the America Invents Act: Part II of II*, 21 FED. CIR. B.J. 539, 539 (2012))). See generally Paul M. Schoenhard, *Gaps, Conflicts and Ambiguities in the Federal Courts' Post-AIA Patent Jurisdiction*, INTELL. PROP. & TECH. L.J., July 2013, at 20-23. In other words, they were intended to provide federal courts, and this court specifically, with a broader range of jurisdiction; that is, with jurisdiction over claims arising under the patent laws *even* when asserted in counterclaims, rather than in an original complaint. At the same time, the changes to § 1338 expressly remove such claims from the ambit of state court jurisdiction. Taken together, these provisions mean that seeking relief from application of state law on preemption grounds in a compulsory counterclaim will vest jurisdiction in this court as long as it “arises under” the patent laws.

Turning to counterclaim 5, we first assess whether it is a compulsory counterclaim. Under Second Circuit law:

Whether a counterclaim is compulsory or permissive turns on whether the counterclaim arises out of the transaction or occurrence that is the subject matter of the opposing party’s claim, and this Circuit has long considered this standard met when there is a logical relationship between the counterclaim and the main claim.

Jones v. Ford Motor Credit Co., 358 F.3d 205, 209 (2d Cir. 2004) (internal citations and quotation marks omitted). The “logical relationship” test does not require “an absolute identity of factual backgrounds,” but the “essential facts of the claims [must be] so logically connected that considerations of judicial economy and fairness dictate that all the issues be resolved in one lawsuit.” *Id.* (internal citations and quotation marks omitted); *see also id.* at 210 (“The essential facts for proving the counterclaims and the ECOA claim are not so closely related that resolving both sets of issues in one lawsuit would yield judicial efficiency.”).²

Counterclaim 5 meets the requirements of the “logical relationship” test. The State’s claims are premised on the alleged unlawful nature of MPHJ’s patent infringement inquiry letters under the VCPA. According to the State’s amended complaint, the essential facts involved in proving whether MPHJ violated the VCPA include whether MPHJ in fact “[s]tat[ed] that litigation would be brought against

² Because the concept of what constitutes a “compulsory counterclaim” now directly impacts our jurisdiction, it is governed by Federal Circuit law, rather than by that of the regional circuits. *Arlington Indus. v. Bridgeport Fittings, Inc.*, 759 F.3d 1333, 1336 (Fed. Cir. 2014) (“[w]e apply our own law, rather than regional circuit law, to questions relating to our own appellate jurisdiction”) (quoting *Int’l Elec. Tech. Corp. v. Hughes Aircraft Co.*, 476 F.3d 1329, 1330 (Fed. Cir. 2007)). Because this court has not yet adopted a body of law governing what constitutes a compulsory counterclaim, we turn to Second Circuit law for guidance in this case.

the recipients, when Defendant was neither prepared nor likely to bring litigation,” “[t]arget[ed] small businesses that were unlikely to have the resources to fight patent-litigation, or even pay patent counsel,” and “[s]en[t] letters that threatened patent-infringement litigation with no independent evidence that the recipients were infringing its patents,” among a series of other allegations. First Amended Consumer Protection Compl. at 8, *MPHJ*, 2015 U.S. Dist. LEXIS 3309 (No. 2:14-cv-00192), ECF No. 7. In counterclaim 5, MPHJ asserts that the VCPA would be preempted on the basis of the same essential facts. For example, MPHJ asserts that, “[u]nder at least some circumstances, federal law permits a patent owner to threaten suit even if the patent owner does not intend to bring suit.” MPHJ’s Answer and Counterclaims at 26, *MPHJ*, 2015 U.S. Dist. LEXIS 3309 (No. 2:14-cv-00192), ECF No. 20. MPHJ further contends that, “[u]nder federal law, a patent owner may communicate an intention to bring suit for infringement without having conducted, or completed, such investigation as is necessary to satisfy FED. R. CIV. P. 11.” *Id.* at 27. MPHJ also asserts that “Counterclaim Defendants have no basis to allege that 35 U.S.C. § 271 exempts from liability for infringement those companies that are smaller than a certain size. . . .” *Id.* The same underlying facts are involved in both the State’s claim and counterclaim 5. The acts that the State alleges entitle it to relief under the VCPA are the same acts that MPHJ claims are protected under federal law. We find, therefore, that counterclaim 5 is a compulsory counterclaim.

Second, we must determine whether counterclaim 5 “aris[es] under” the federal patent laws, as 28 U.S.C. § 1295(a)(1) requires. We conclude that it does. As noted, we concluded in *BIO* that a preemption claim does “arise under” the patent laws. *BIO*, 496 F.3d at 1368. Since *BIO*, however, the Supreme Court has provided additional guidance on whether and when an action arises under the patent laws. *Gunn*, 133 S. Ct. 1059 (2013). We, thus, consider anew whether a claim such as that in counterclaim 5 arises under the patents laws for purposes of § 1295(a)(1).

An action “aris[es] under” federal law: (1) where “federal law creates the cause of action asserted,” and (2) in a “special and small category of cases” in which arising under jurisdiction still lies.” *Gunn*, 133 S. Ct. at 1064. For this second category of cases, “federal jurisdiction over a state law claim will lie if a federal issue is: (1) necessarily raised, (2) actually disputed, (3) substantial, and (4) capable of resolution in federal court without disrupting the federal-state balance approved by Congress.” *Id.* at 1065. “Arising under” is interpreted identically and interchangeably under 28 U.S.C. § 1331 and 28 U.S.C. § 1338(a). *Id.* at 1064. This court recently clarified that the interpretation of § 1338(a) necessarily implicates interpretation of § 1295(a)(1), and vice versa. *Madstad Eng’g, Inc. v. U.S. Patent & Trademark Office*, 756 F.3d 1366, 1370-71 (Fed. Cir. 2014) (“Through 28 U.S.C. § 1338(a), Congress placed the resolution of actions arising under an Act of Congress relating to patents exclusively within the federal courts. Through 28 U.S.C.

§ 1295(a)(1), Congress placed appeals from such matters exclusively within the province of the Federal Circuit”). This court has since applied the *Gunn* test to assess “arising under” jurisdiction under § 1295(a)(1). See *Jang v. Boston Sci. Grp.*, 767 F.3d 1334, 1337-38 (Fed. Cir. 2014) (state law contract dispute regarding royalties under patent license met *Gunn* test because analysis required determination of infringement and validity of underlying patents); *Krauser v. BioHorizons, Inc.*, 753 F.3d 1263, 1268-70 (Fed. Cir. 2014) (state law claim for ownership over a dental implant system did not meet *Gunn* test).

Because counterclaim 5 is not a cause of action created by the federal patent laws, we ask whether it falls into the “special and small category of cases” in *Gunn*. *Gunn*, 133 S. Ct. at 1064. Resolution of a federal question is clearly “necessary” to MPHJ’s counterclaim, as proving preemption of the VCPA by federal patent laws would necessarily require proving that the patent laws preclude enforcement of the VCPA as applied. Thus, MPHJ’s right to relief on the counterclaim depends on an issue of federal law. The federal issue is also “actually disputed.” Indeed, the federal issue here “is the central point of dispute.” *Id.* at 1065.

Under *Gunn*, the “substantiality” inquiry looks to “the importance of the issue to the federal system as a whole” and not the significance “to the particular parties in the immediate suit.” *Id.* at 1066 (citing *Grable & Sons Metal Prods., Inc. v. Darue Eng’g & Mfg.*, 545 U.S. 308 (2005)). In other words, we focus

on the broader significance of the federal issue and ask ourselves whether allowing state courts to resolve these cases undermines “the development of a uniform body of [patent] law.” *Id.* at 1066-67 (quoting *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 162 (1989)). Counterclaim 5 also passes this test. Whether federal patent laws preempt or invalidate the VCPA as applied has considerable significance beyond the current case. A hypothetical finding that the VCPA is not invalid or preempted in state court would affect the development of a uniform body of patent law, as such a decision would be binding in Vermont, but would not be in other states with similar laws or in federal court. The facts of this case are fundamentally unlike *Gunn*, in which the Court recognized that the federal issue was a “backward-looking . . . legal malpractice claim” that would be unlikely to have any “preclusive effect” on future patent litigation and was, therefore, not substantial. *Id.* at 1067. As an “as applied” challenge, counterclaim 5 depends to a certain extent on the specific facts of this case, but the resolution of this case would assist in delineating the metes and bounds of patent law and clarifying the rights and privileges afforded to patentees in pursuing patent infringement claims.

Finally, we find that the last prong of the *Gunn* test, “capable of resolution in federal court without disrupting the federal-state balance,” is satisfied. *Gunn*, 133 S. Ct. at 1065; see *Grable*, 545 U.S. at 310. Allowing a state court to resolve a patent law preemption question risks “inconsistent judgments

between state and federal courts.” *Jang*, 767 F.3d at 1337 (quoting *Forrester Enutl. Servs. v. Wheelabrator Techs., Inc.*, 715 F.3d 1329, 1334 (Fed. Cir. 2013)). We cannot permit such a result when Congress has vested exclusive appellate jurisdiction over patent cases in this court. We conclude that, because the requirements of § 1295(a)(1) are satisfied, we have jurisdiction over this appeal.

III. DISCUSSION

A. Standard of Review

When analyzing “a procedural issue not unique to patent law,” we apply the law of the applicable regional circuit, here the Second Circuit. *Versata Software, Inc. v. Callidus Software, Inc.*, 780 F.3d 1134, 1136 (Fed Cir. 2015). The Second Circuit reviews a district court’s removal determination, and a district court’s analysis of subject matter jurisdiction, *de novo*. *Isaacson v. Dow Chem. Co.*, 517 F.3d 129, 135 (2d Cir. 2008). Where, as here, the defendant asserts federal jurisdiction in a removal petition, the defendant has the burden of establishing that removal is proper. *Veneruso v. Mount Vernon Neighborhood Health Ctr.*, 933 F. Supp. 2d 613, 618 (S.D.N.Y. 2013) (citing *United Food & Commercial Workers Union v. CenterMark Props. Meriden Square, Inc.*, 30 F.3d 298, 301 (2d Cir. 1994)), *aff’d*, 586 F. App’x 604 (2d Cir. 2014).

Section 1442(a) is commonly known as the federal officer removal statute and normally authorizes

removal by federal officers sued in state court. Section 1442(a)(2) expands the circumstances in which removal is authorized to allow owners of federally-derived property rights to remove a cause of action to federal court—even where a federal officer is not a defendant—if the action “affects the validity of any law of the United States.” § 1442(a)(2). Removal under § 1442(a)(2) requires that (1) an action be instituted in state court; (2) the action be against or directed to the holder of a property right; (3) the property right be derived from a federal officer; and (4) the action would “affect” the validity of a federal law. *Id.* MPHJ asserts that its patents were property rights, derived from the Patent and Trademark Office pursuant to Title 35 of the U.S. Code, and that the State’s action—which it asserts would frustrate MPHJ’s ability to assert its patent rights—“affects” the interests protected under the Patent Act. As with other removal decisions, we review *de novo* a district court’s determination of whether removal is authorized under § 1442(a)(2). *Isaacson*, 517 F.3d at 135.

B. No Basis for Removal

On appeal, the parties dispute whether: (1) MPHJ’s second removal was timely and (2) the requirements for removal under 28 U.S.C. § 1442 are met. With respect to the requirements for removal, the State asserts that: patent rights are not property rights within the meaning of § 1442(a)(2); because the patents at issue were transferred to MPHJ from the original patent owner, they were not directly “derived from a

federal officer”; and because the state court complaint neither alleges a violation of nor seeks relief under the BFAPIA, there is no risk that the state court action can affect the validity of federal law. MPHJ vigorously disputes each of these points. Importantly, however, MPHJ concedes that, if the BFAPIA is not at issue in the state court action, its assertions that the current action would affect its rights under the Patent Act and, thus, affect the validity of that act, are not well taken. Oral Argument at 05:34-6:20, *available at* <http://oralarguments.cafc.uscourts.gov/default.aspx?fl=2015-1310.mp3>. Because it is dispositive, we address only whether claims under the BFAPIA are in the amended complaint. We find that they are not. Because the amended complaint neither asserts claims under, nor requests an injunction requiring MPHJ to comply with, the BFAPIA, we find there was no basis in the amended complaint for removal under 28 U.S.C. 1442(a)(2). We, therefore, affirm.

At this stage in the proceedings, we do not consider whether the action was removable under the original complaint. As we explained in our decision on appeal of the first remand, a remand order to a state court under § 1447(c) is immune from review under § 1447(d). *MPHJ*, 763 F.3d at 1353; *see Quackenbush v. Allstate Ins. Co.*, 517 U.S. 706, 711-12 (1996). Therefore, 28 U.S.C. § 1446(b)(1), which sets forth the procedural requirements for the removal of civil

actions removable based on the allegations in an original complaint, does not apply.³

We are left to decide, therefore, if the previously non-removable action became removable under § 1446(b)(3). The district court framed the issue as “whether the Amended Complaint ‘revived’ MPHJ’s right to remove after its first removal was unsuccessful.” *MPHJ*, 2015 U.S. Dist. LEXIS 3309, at *12. The court noted that “an amendment of the complaint will not revive the period for removal if a state court case previously was removable . . . ,’ [although] a different result generally is reached if the pleading amendment provides (1) a ‘new basis for removal’ or (2) ‘changes the character of the litigation so as to make it substantially a new suit.’” *Id.* (quoting *Braud v. Trans. Serv. Co. of Illinois*, 445 F.3d 801, 806 (5th Cir. 2006)). The court then proceeded to determine whether the intervening passage of the BFAPIA by the Vermont legislature “revived” MPHJ’s right to remove. Because the original complaint was not removable, however, it is unnecessary to search for a *new* basis for removal in the amended complaint, but rather only necessary to search for *a* basis for removal under § 1446(b)(3). Semantics aside, we agree with

³ There is no dispute that the original complaint did not invoke the BFAPIA. *See, e.g.*, Appellant Reply Br. 1718 (“At the time [the State’s original complaint was filed], the BFAPIA was not part of state law. Thus, obviously, the original complaint did not seek relief involving the BFAPIA. Indeed, in a rare agreement, the State, MPHJ, and the district court all agree the original complaint did not invoke the BFAPIA.”)

the district court that there is no basis for removal because the injunction the State seeks does not include compliance with the BFAPIA.

MPHJ's Notice of Removal clearly bases removal under § 1442(a)(2) solely on its claim that the BFAPIA is inconsistent with and preempted by federal law. *See* MPHJ Notice of Removal at 3, *MPHJ*, 2015 U.S. Dist. LEXIS 3309 (No. 2:14-cv-00192), ECF No. 1 ("Removal of this case is authorized under 28 U.S.C. § 1442(a)(2) because the Amended Complaint [seeks to] require MPHJ to comply with the [BFAPIA]"). As the district court noted, MPHJ's Opp'n to the State's Mot. to Remand cites only to the BFAPIA as "affect[ing] the validity" of federal statutes, 35 U.S.C. §§ 261, 271, 284, 285 and 287, and certain parts of the Constitution. *MPHJ*, 2015 U.S. Dist. LEXIS 3309, at *18. And, as noted, MPHJ conceded at oral argument that whether there is a basis for removal under § 1442(a)(2) hinges entirely on whether the State seeks compliance with the BFAPIA under its amended complaint. Oral Argument at 05:34-6:20, *available at* <http://oralarguments.cafc.uscourts.gov/default.aspx?fl=2015-1310.mp3>.

The parties dispute, however, whether the amended complaint either implicates or requests an injunction requiring compliance with BFAPIA. The State amended its original complaint to delete one request for an injunction, leaving only one. The remaining injunction requested reads:

- (1) A permanent injunction prohibiting Defendant from engaging in any business activity in, into or from Vermont that violates Vermont law.

The issue is, thus, whether the phrase “Vermont law” encompasses not only the VCPA, but also the BFAPIA. The State has consistently argued that the BFAPIA is not part of its amended complaint, just as it was not part of its original complaint. In its motion to remand, it stated that it “did not add or change any allegations or change its claim. The amendment removed a single phrase in the request for relief.” Vermont’s Mot. to Remand at 6, *MPHJ*, 2015 U.S. Dist. LEXIS 3309 (No. 2:14-cv-00192), ECF No. 22-1. According to the State, the amended complaint “merely alleges that MPHJ’s actions—sending unfair and deceptive licensing solicitations into Vermont—violate Vermont’s consumer protection statute.” *Id.* at 13.

MPHJ, on the other hand, maintains that the amended complaint includes the BFAPIA—i.e., a provision of Vermont law—and that the State cannot now “disavow that its suit seeks this relief.” MPHJ’s Resp. in Opp’n to Mot. to Remand at 16 n.31, *MPHJ*, 2015 U.S. Dist. LEXIS 3309 (No. 2:14-cv-00192), ECF No. 26. The state legislature passed the BFAPIA between the time of the filing of the original complaint and the State’s motion to amend the complaint. MPHJ argues that, therefore, although the amendment to the State’s complaint did not add any new text, it implicitly added new meaning to the phrase “Vermont law.”

The district court found MPHJ's interpretation of the amended complaint unpersuasive. Specifically, the court found that the State made explicit efforts to limit its reach to MPHJ's purported violations of the VCPA. The title of the amended complaint, "First Amended Consumer Protection Complaint," tracks the title of the original complaint, "Consumer Protection Complaint," which neither party disputes concerned only the VCPA. First Amended Consumer Protection Compl., *MPHJ*, 2015 U.S. Dist. LEXIS 3309 (No. 2:14-cv-00192), ECF No. 7. The first sentence states that the Vermont Attorney General "brings this suit under the Vermont Consumer Protection Act." *Id.* at 1. The sole allegations in the amended complaint are that MPHJ violated the VCPA. Importantly, the BFAPIA does not appear at all on the face of the complaint. Thus, the district court found that the amended complaint did not "revive" MPHJ's ability to remove the case. *MPHJ*, 2015 U.S. Dist. LEXIS 3309, at *13. Notwithstanding this finding, however, the district court proceeded to analyze the removal under § 1442(a)(2). Unsurprisingly, it concluded, "the Amended Complaint is brought exclusively under the VCPA, and does not seek relief under any other statute or legal provision. The Court therefore declines to allow removal under Section 1442(a)(2)." *Id.* at *18.

On appeal, the parties reiterate their positions with respect to the BFAPIA. MPHJ assigns significance to Vermont's decision not to limit its injunction explicitly to compliance with the VCPA. Since March

7, 2014, the date on which Vermont sought leave to amend its complaint, was after the date the BFAPIA became effective, July 1, 2013, MPHJ argues that “the Amended Complaint indisputably [seeks] to compel MPHJ to comply with the BFAPIA.” Appellant Br. 11. MPHJ also argues that Vermont Attorney General William Sorrell made clear in an interview published by Law 360 that the BFAPIA was specifically designed to prohibit MPHJ from sending its inquiry letters. *Id.* at 8.

The State opposes MPHJ’s characterization of the amended complaint as seeking relief under the BFAPIA. First, the State correctly points out that the amended complaint never mentions that statute by name. Appellee Br. 7. Second, the State says its *deletion* from the original complaint narrowed its request for relief, not broadened it. *Id.* at 30. Third, the State argues that it did not assert a claim against MPHJ under the BFAPIA because the conduct the State challenges pre-dated the statute: “[t]hat statute was passed in May 2013, after MPHJ stopped sending the letters described in the State’s complaints, and after the State filed this action.” *Id.* at 27.

We resolve this issue based on the State’s concession at oral argument and our own understanding of the amended complaint. Counsel for the State conceded at oral argument that the BFAPIA is not—and never was—part of the State’s amended complaint. Indeed, when asked whether counsel would stipulate that the amended complaint does not cover the BFAPIA, counsel responded:

A: We have asserted that repeatedly in filings in multiple courts, that we are seeking, we are not asserting a claim under the new statute and we are not seeking relief under that statute.

Q: You mean not seeking an injunction that would require them to comply with that statute?

A: No, we're not, your Honor.

Oral Argument at 14:30-15:45, *available at* <http://oralarguments.cafc.uscourts.gov/default.aspx?fl=2015-1310.mp3>. We hold the State to its concession at oral argument; it has expressly disavowed any request to enjoin MPHJ's conduct under the BFAPIA.

Even if the State had not conceded at oral argument that the injunction does not include a request for an injunction under the BFAPIA, we are not persuaded that MPHJ's reading of the amended complaint is a fair one. We begin with the language of the amended complaint, which never mentions the BFAPIA on its face. Rather, as the State explained, the amended complaint is identical to the original complaint except that the State's original request for an injunction requiring MPHJ to stop threatening Vermont businesses with patent infringement lawsuits has been *deleted*. As the district court pointed out, the amended complaint is entitled "First Amended Consumer Protection Complaint," and the first sentence states that the suit was brought "under the Vermont Consumer Protection Act." And under "III.

Statutory Framework” of the amended complaint, the only statute listed is the VCPA. “V. Cause of Action: Unfair and Deceptive Trade Practices” likewise mentions only the VCPA. The language of “Unfair and Deceptive Trade Practices” comes directly from VCPA § 2453(a) and has no counterpart in the BFAPIA. The word “unfair” is absent from the BFAPIA, and while the word “deceptive” appears once in § 4197, there is no mention of “trade practices.” 9 V.S.A. § 4197(b)(7).⁴ When read in its entirety, it is clear that the phrase “Vermont law”—as used in the amended complaint—refers only to the VCPA.

This interpretation finds further support in the record evidence regarding the parties’ understanding of the amendment and its purpose. The district court expressed concern about the State’s second injunction request at a hearing to discuss pending motions following the first removal.⁵ Less than two weeks

⁴ The BFAPIA lists circumstances in which “[t]he claim or assertion of patent infringement is deceptive” as a factor which would militate in favor of finding a violation of the provisions of the Act. 9 V.S.A. § 4197(b)(7).

⁵ The district court observed at the February 25, 2014 hearing: “This seems to suggest that in Vermont, they’re not allowed to enforce a patent. And doesn’t that, unto itself, raise a patent law issue which would be preempted. . . .” and, “But when you, in your complaint, suggest that you are requesting an order to prevent the exercise of patent rights, broadly speaking, not related in any way to deception or violation of the [VCPA], then that’s—is that a horse of a different color?” Transcript of Mots. Hearing at 11-13, *MPHJ*, No. 2:13-cv-170, 2014 U.S. Dist. LEXIS 52132 (D. Vt. Feb. 25, 2014), ECF No. 50.

later, the State filed its motion to clarify and/or amend the complaint. In the motion, the State explained that it did not intend to prevent MPHJ from engaging in lawful patent-enforcement activities. Rather, recognizing that “such broad injunctive relief may be preempted by federal patent law,” the State sought to *limit* the relief sought “by removing paragraph two” of its injunction requests. Vermont’s Conditional Mot. to Clarify And/Or Amend Compl. at 2, *MPHJ*, No. 2:13-cv-170, 2014 U.S. Dist. LEXIS 52132, ECF No. 45. The State further explained explicitly in its motion to amend that “[t]his proposed revision does not change the State’s claim as originally filed” and “[t]his change does not alter the nature of the State’s claim, which arises from Vermont’s consumer protection act.” *Id.* at 2-3. The timing and nature of the proposed amendment show that it was clearly a response to the district court’s criticism of the scope of the second injunction request. The purpose of the amendment was to *narrow* the scope of the complaint, not broaden it.

Finally, although MPHJ relies on a Law 360 article featuring an interview with Vermont Attorney General William Sorrell, which it originally included as an exhibit to its notice of removal, that article supports the State’s position. In that interview, which was published two months after the State filed its conditional motion to amend, Sorrell was asked whether the lawsuit against MPHJ was filed under the VCPA:

Q: So the case against MPHJ was filed under the then existing consumer protection law?

A: Yes.

Exhibit 3-9 to Notice of Removal at 170, *MPHJ*, No. 2:14-cv-00192, 2015 U.S. Dist. LEXIS 3309, ECF No. 1-12. And, when asked about how the BFAPIA would be enforced, Sorrell's response revealed that he did not think lawsuits had been filed yet under the BFAPIA:

Q: Concerning Vermont's new consumer protection law, has thought been given to what analysis would be required to determine which accused products are covered by the claims of the asserted patents?

A: . . . I think when the first lawsuits are filed under the new Vermont statute, I'm sure there will be more flesh added to the bones of the statute through those cases. . . .

Id. at 171. In these circumstances, we see no reason to disturb the district court's finding that the State is not seeking an injunction that requires MPHJ's compliance with the BFAPIA. Given this conclusion, if the State prevails on the merits in state court, it may not seek an injunction requiring MPHJ to comply with the BFAPIA based on the amended complaint. Because MPHJ relies on the BFAPIA as its basis for removal under § 1442(a)(2), the necessary consequence of our decision is that we find no grounds for removal to federal court.

Given these conclusions, we decline to decide whether § 1442(a)(2) applies to intellectual property rights or whether the phrase “derived from” a federal officer means the property right at issue must have been obtained by the removing defendant itself from such an officer, rather than by a predecessor in interest to that defendant. Because MPHJ has not appealed the district court’s ruling pursuant to 28 U.S.C. § 1454, we have no occasion to address the timeliness or propriety of MPHJ’s attempted removal under that statute or how that newly enacted provision should be interpreted in light of the other amendments to jurisdictional statutes adopted in the AIA.

IV. CONCLUSION

For the foregoing reasons, we hold that there is no basis for removal to federal court under § 1442(a)(2). We, therefore, affirm.

AFFIRMED

UNITED STATES DISTRICT COURT
FOR THE
DISTRICT OF VERMONT

STATE OF VERMONT, :
Plaintiff, Counterclaim :
Defendant, :
and :
WILLIAM SORRELL, in his :
official capacity as Attorney :
General of the State of Vermont, : Case No. 2:14-cv-192
Counterclaim Defendant, :
v. :
MPHJ TECHNOLOGY :
INVESTMENTS, LLC, :
Defendant/Counterclaim :
Plaintiff. :

OPINION AND ORDER

(Filed Jan. 12, 2015)

Plaintiff State of Vermont brings this action under the Vermont Consumer Protection Act (“VCPA”) against Defendant MPHJ Technology Investments, LLC (“MPHJ”). The State claims that MPHJ, through shell subsidiaries, sent false and misleading letters to various Vermont entities alleging patent infringement and demanding the purchase of licenses. MPHJ has answered and filed counterclaims for declaratory judgment as to (1) the validity or preemption of the State’s statutory causes of action under federal law

and (2) the validity and infringement of the MPHJ patents. The case was initiated in state court, and MPHJ removed to this Court.

This is MPHJ's second removal. In the first, which did not involve any counterclaims, MPHJ claimed the State's action under the VCPA would impact its patent rights. The Court concluded the State had not raised any issues of federal law and remanded the case to state court.

The State subsequently amended its pleading, deleting a single phrase from its prayer for relief and adding no new substantive claims. MPHJ responded with an answer and counterclaims for declaratory relief, asserting that the Amended Complaint necessarily implicates a recently-passed Vermont statute pertaining to assertions of patent infringement, and that the new statute violates federal law. The State denies that this new statute is a part of its Amended Complaint. MPHJ's counterclaims also ask for confirmation of its patent rights, and for a finding that the VCPA violates federal law.

Upon MPHJ's second removal, the State has again filed a motion to remand and, in the event the Court chooses not to remand, a motion to dismiss. Those two motions are now pending before the Court. For the reasons set forth below, the motion to remand is **granted** and the motion to dismiss is **denied** as moot.

I. Factual and Procedural Background

In May 2013, the State filed its original Complaint in this case under the VCPA, Vt. Stat. Ann. tit. 9 §§ 2451 *et seq.*, claiming MPHJ had engaged in unfair and deceptive business practices in Vermont. The State alleged that MPHJ, through various shell subsidiary companies, sent letters to businesses and non-profits in Vermont claiming patent infringement. The letters requested either the purchase of a license, or confirmation that the recipient was not infringing the patents. The letters also represented that the licensing program had received a largely positive response, and that many recipients of such letters had paid for a license. Follow-up letters were sent from a Texas law firm threatening legal action if the recipient did not respond. Some Vermont businesses claimed that they only received the follow-up letters and not the original letter.

The State's initial Complaint alleged that these letters were false, deceptive, and misleading in violation of the VCPA because: (1) MPHJ did no due diligence to confirm whether the recipients were likely infringers; (2) MPHJ targeted small businesses in commercial fields unrelated to patent law; (3) MPHJ had not actually received a positive response regarding its licensing program; (4) only a very small fraction of recipient businesses had purchased licenses; (5) as of the time of the Complaint, neither MPHJ nor its shell companies had filed a single lawsuit; (6) as of the time of the letters, MPHJ had not retained local counsel; (7) the shell companies claimed to possess

exclusive licenses, but in fact did not; and (8) the shell companies often targeted businesses outside the geographic regions in which they were legally permitted to enforce the patents.

The initial Complaint requested relief in the form of a permanent injunction prohibiting MPHJ from engaging in further business activity “that violates Vermont law,” and “requiring Defendant to stop threatening Vermont businesses with patent-infringement lawsuits.” ECF No. 1-1 at 11. The Complaint also sought full restitution for businesses that suffered damages, civil penalties, costs and fees to the State, and any other relief the Court deemed appropriate.

In June 2013, MPHJ removed the case to this Court, asserting federal question and diversity jurisdiction. MPHJ maintained that the Court had federal question jurisdiction because the validity, infringement, and enforcement of the patents referenced in the letters fell within the Court’s exclusive jurisdiction. MPHJ also claimed that the State was filing on behalf of Vermont businesses, thereby establishing diversity jurisdiction. The Court disagreed, concluding that “the State’s complaint brings claims solely under state law for unfair and deceptive practices and its claims are premised on multiple theories that do not implicate federal patent law.” *State v. MPHJ Tech. Inv., LLC*, 2014 WL 1494009, at *6 (D. Vt. Apr. 15, 2014). The Court also found that the State was the true party in interest, and was not a citizen for purposes of diversity jurisdiction. MPHJ appealed the Court’s ruling to the United States Court of Appeals

for the Federal Circuit, which dismissed the appeal for lack of jurisdiction under 28 U.S.C. § 1447(d).¹

The State subsequently amended the Complaint, deleting its request for an injunction barring threatening communications with Vermont businesses. This was the State’s only change to its pleading. Like the original Complaint, the Amended Complaint continues to request an order enjoining violations of “Vermont law.”

On September 9, 2014, MPHJ responded with an answer, counterclaims, and a second notice of removal. MPHJ’s removal notice asserts that the State’s request for an injunction against violations of “Vermont law” necessarily implicates the recently-enacted Vermont Bad Faith Assertions of Patent Infringement Act (the “BFAPIA” or “Act”), Vt. Stat. Ann. tit. 9 §§ 4195-99. That Act was signed by the Governor on May 22, 2013, and took effect on July 1, 2013. The Act was therefore not in effect when the State filed its initial Complaint on May 8, 2013, but was in effect when the State amended its pleading in 2014.

The BFAPIA targets bad faith patent infringement claims. The Act sets forth a number of factors for a court to consider when determining bad faith, including whether a demand letter includes: the patent number; the name and address of the patent

¹ Section 1447(d) of Title 28 states that “[a]n order remanding a case to the State court from which it was removed is not reviewable on appeal or otherwise[.]”

owner; specific information about the alleged infringement; a demand for payment of a license fee or response within an unreasonably short period of time; or meritless assertions of patent infringement. Courts may also consider actual or threatened lawsuits based upon similar assertions of infringement, the patent owner's investment in the use of the patent, and whether the patent has been successfully enforced through litigation. Vt. Stat. Ann. tit. 9 § 4197.

In passing the Act, the Vermont legislature “recognize[d] that Vermont is preempted from any law that conflicts with federal patent law,” and characterized the statute as “narrowly focused . . . to facilitate the efficient and prompt resolution of patent infringement claims, protect Vermont businesses . . . while at the same time respecting federal law and being careful not to interfere with legitimate patent enforcement actions.” *Id.* § 4195.

The notice of removal submits that the BFAPIA “affects the validity of certain laws of the United States, including but not limited to: Title 35 of the United States Code . . . the First, Fifth and Fourteenth Amendments to the U.S. Constitution, the Supremacy Clause, and the Patent Clause of the U.S. Constitution.” ECF No. 1 at 2. MPHJ also argues that the Act discriminates against certain types of patent owners. MPHJ's counterclaims echo the allegation that the BFAPIA violates federal law. In addition, the counterclaims seek declaratory relief with respect to the alleged infringement and validity of MPHJ's

patents, and claim that the VCPA violates federal law.

The State insists that the BFAPIA is not a part of its Amended Complaint, just as it was not a part of the original Complaint. The State also contends that the validity of MPHJ's patents is not at issue, and that MPHJ's second effort at removal is untimely. Accordingly, the State has again moved to remand. The State also moves, in the alternative, to dismiss MPHJ's counterclaims on grounds of sovereign immunity, lack of standing, and lack of subject matter jurisdiction.

II. MPHJ's Concurrent Lawsuit

In its notice of removal, MPHJ asks the Court to decide its counterclaims either in the course of this case, or in a separate civil action it has filed in this Court against Attorney General William Sorrell and Assistant Attorney General Bridget Asay. ECF No. 1 at 3. That action, docketed on September 8, 2014, initially asserted facial and as applied constitutional challenges to the BFAPIA (Count I); brought an as applied challenge to the VCPA (Count II); sought a declaration that MPHJ did not violate the VCPA (Count III); and alleged a "chilling" of MPHJ's exercise of its First Amendment rights (Count IV). *MPHJ v. Sorrell*, No. 2:14-cv-191 ECF No. 1 at 20-25. MPHJ's Amended Complaint, filed on December 29, 2014, drops Assistant Attorney General Asay as a defendant and brings similar claims.

III. The State's Motion to Remand

Pursuant to 28 U.S.C. § 1441(a), “any civil action brought in a State court of which the district courts of the United States have original jurisdiction, may be removed by the defendant or the defendants, to the district court of the United States for the district and division embracing the place where such action is pending.” 28 U.S.C. § 1441. Generally, Section 1441 “authorizes the removal of civil actions from state court to federal court when the action initiated in state court is one that could have been brought, originally, in a federal district court.” *Lincoln Property Co. v. Roche*, 546 U.S. 81, 83 (2005); *see also Caterpillar Inc. v. Williams*, 482 U.S. 386, 392 (1987) (“Only state-court actions that could have been filed in federal court may be removed to federal court by the defendant.”).

“In light of the congressional intent to restrict federal court jurisdiction, as well as the importance of preserving the independence of state governments, federal courts construe the removal statute narrowly, resolving any doubts against removability.” *Lupo v. Human Affairs Int’l, Inc.*, 28 F.3d 269, 274 (2d Cir. 1994) (quotation omitted). MPHJ bears the burden of demonstrating that federal subject matter jurisdiction exists. *See Cal. Pub. Emps. Ret. Sys. v. World-Com, Inc.*, 368 F.3d 86, 100 (2d Cir. 2004).

A. Timeliness

i. Effective Date of the Amended Complaint

The parties first dispute whether MPHJ's second Notice of Removal was timely. The dispute centers upon the State's filing of its Amended Complaint and related motion to amend. On March 7, 2014, prior to the initial remand, the State filed a conditional motion to clarify and/or amend in this Court. In doing so, the State made clear that it did not concede the Court's jurisdiction and asserted that, upon remand, the amendment would take effect as a matter of course under state law. *State v. MPHJ Tech. Inv., LLC*, No. 2:13-cv-170 (ECF No. 45 at 5). The Court remanded the case to state court on April 15, 2014 without ruling on the motion to amend. The State filed its Amended Complaint in state court on May 7, 2014. The state court granted the motion to amend on August 28, 2014. MPHJ filed its notice of removal on September 9, 2014.

Under 28 U.S.C. § 1446(b)(3), "a notice of removal may be filed within 30 days after receipt by the defendant, through service or otherwise, of a copy of an amended pleading, motion, order, or other paper from which it may be first ascertained that the case is one which is or has become removable." 28 U.S.C. § 1446(b)(3). The State contends that the 30-day removal period began when it filed its amended pleading in May 2014. In the alternative, the State argues that the 30-day period began when MPHJ became aware of the BFAPIA's enactment into law in

July 2013. MPHJ counters that the clock did not start until the state court granted the motion to amend in August 2014.

The state court did not explicitly determine whether, under state law, it was required to consider the Amended Complaint as filed as a matter of right in May 2014 rather than by motion. When the issue was raised during a May 22, 2014 hearing, counsel for MPHJ opined that the State was required to move for leave to amend. Judge Toor responded: “I think, because you haven’t answered, they’re entitled to amend without permission. But you can check the rule on that. . . . If you think you should move to strike her amended complaint go ahead, but my initial reaction is I think they have the right to do that.” ECF No. 3-1 at 37, 38. As noted above, the state court subsequently granted the State’s motion to amend.

Because the state court record is unclear as to whether Judge Toor accepted the Amended Complaint as filed as a matter of right, or instead as valid only upon the granting of the motion to amend, this Court declines to remand on the basis of the Amended Complaint’s effective date.

ii. Revival of MPHJ’s Right to Remove

The State also contends that amending its pleading did not afford MPHJ a second opportunity to remove the case because the Amended Complaint was essentially identical to the original Complaint. This raises the question of whether the Amended

Complaint “revived” MPHJ’s right to remove after its first removal was unsuccessful. As explained by the Fifth Circuit, “‘an amendment of the complaint will not revive the period for removal if a state court case previously was removable . . . ,’ [although] a different result generally is reached if the pleading amendment provides (1) a ‘new basis for removal’ or (2) ‘changes the character of the litigation so as to make it substantially a new suit.’” *Braud v. Transport Serv. Co. of Illinois*, 445 F.3d 801, 806 (5th Cir. 2006) (quoting 14C Wright, Miller & Cooper, Federal Practice and Procedure, § 3732 at 311-48); see also *MG Bldg. Materials, Ltd. v. Paychex, Inc.*, 841 F. Supp. 2d 740, 744 (W.D.N.Y. 2012) (“The gist of this principle, then, is that . . . the defendant’s right to remove can be ‘revived’ if the plaintiff amends the complaint, and in so doing dramatically changes the essential character of the action.”).

The Amended Complaint in this case is entitled “First Amended Consumer Protection Complaint,” thereby emphasizing that, as with the initial Complaint, the State is bringing an enforcement action under the VCPA. The first sentence of the Amended Complaint states that “[t]he Vermont Attorney General brings this suit under the Vermont Consumer Protection Act, 9 V.S.A. §§ 2541 *et seq.* in response to consumer fraud violations by Defendant MPHJ Technology Investments, LLC.” ECF No. 5-1 at 1. Again, the State is making an explicit effort to limit its claims to the VCPA.

The sole legal allegations in the Amended Complaint are that MPHJ violated the VCPA by engaging in various types of unfair and deceptive trade practices. *Id.* at 8-9. No other statutory or common law violations are alleged. The request for relief seeks a permanent injunction barring business activity that violates “Vermont law,” but read in the context of the State’s pleading, does not seek relief under the BFAPIA. Accordingly, the Amended Complaint did not change the character of the litigation in any way, and thus did not revive MPHJ’s ability to remove the case.

Even if, as MPHJ contends, the passage of the BFAPIA provided a new opportunity for removal, the second notice of removal was untimely. The BFAPIA was enacted into law prior to this Court’s initial remand, and indeed, prior to MPHJ’s response to the State’s initial motion to remand. Moreover, MPHJ cited the Act in its opposition to the State’s first motion to remand. *State v. MPHJ*, No. 2:13-cv-170 (ECF No. 18 at 15 n.12). That citation appeared in a document filed on September 18, 2013—several months prior to the Court’s first remand order and nearly one year before MPHJ’s most recent removal. MPHJ thus could have cited the BFAPIA as a ground for removal initially, and/or could have moved to amend to add its counterclaims at that time.

MPHJ submits that the time period for removal can only be started by the receipt of a document, and not by a party’s subjective knowledge of a triggering event. Indeed, the 30-day removal deadline set forth in Section 1446(b)(3) requires “receipt by the

defendant, through service or otherwise, of a copy of an amended pleading, motion, order, or other paper. . . .” 28 U.S.C. § 1446(b)(3). Courts have held, however, that an exchange of documents in the course of litigation may evidence a party’s knowledge of the grounds for removal, and that timeliness can be determined on the basis of such evidence. *See, e.g., Lovern v. Gen. Motors Corp.*, 121 F.3d 160, 162 (4th Cir. 1997) (holding that a Court must “rely on the face of the initial pleading and on the documents exchanged in the case by the parties”); *Mirowski Family Ventures, LLC v. Bos. Scientific Corp.*, 2014 WL 2574615 (D. Md. June 5, 2014); *Andrews v. Daughtry*, 994 F. Supp. 2d 728 (M.D.N.C. 2014); *Univ. of Ky. Research Found., Inc. v. Niadyne, Inc.*, 2013 WL 5943921 (E.D. Ky. Nov. 5, 2013). It has also been held that “[t]he motion, order or other paper requirement is broad enough to include any information received by the defendant, whether communicated in a formal or informal manner.” *Yarnevic v. Brink’s, Inc.*, 102 F.3d 753, 755 (4th Cir. 1996); *see also* 14C Wright, Miller & Cooper, Federal Practice & Procedure, § 3732 (noting that the “[f]ederal judges are inclined to interpret the statute in keeping with its intended purpose of assuring that a defendant has an opportunity to assert the Congressionally bestowed right to remove upon receiving notice that the right exists in a particular case”).

This case is unique in that the fact giving rise to removal was not disclosed by a party through pleadings or discovery, but was instead the public passage

of a law. Nonetheless, MPHJ's citation to the BFAPIA in September 2013 revealed its actual knowledge of the statute, and the Court need not engage in any additional inquiry to determine when the time period for removal commenced. Because MPHJ was aware of the statute in 2013, and thus could have "intelligently ascertain[ed]" potential grounds for removal, the Court cannot countenance its effort to remove on the basis of the State's amended pleading nearly one year later. *Whitaker v. Am. Telecasting, Inc.*, 261 F.3d 196, 198 (2d Cir. 2001).

MPHJ's counterclaims consist of six counts: BFAPIA claims (Counterclaims 1 and 2), patent rights claims (Counterclaims 3 and 4), and VCPA claims (Counterclaims 5 and 6). Counts 1 and 2 are untimely since, as discussed above, they could have been brought in 2013 when MPHJ first became aware of the BFAPIA. The patent rights claims cite conflicts with the BFAPIA, and thus could also have been brought in 2013. As to the VCPA claims, those could clearly have been asserted in response to the initial Complaint. If MPHJ wishes to bring challenges to the BFAPIA or other Vermont statutes in federal court it may do so—and has in fact done so—in a separate action. MPHJ's claims in this case, however, do not provide the basis for an untimely second removal, and this case must again be **remanded** to state court.

B. Removal Under 28 U.S.C. § 1442(a)(2)

Furthermore, MPHJ's reliance upon the federal officer removal statute, 28 U.S.C. § 1442(a)(2), as a basis for removal is misplaced. The federal officer removal statute provides that any action brought against a federal officer or agency "for or relating to any act under color of such office" may be removed to federal court by the defendant. 28 U.S.C. § 1442(a)(1); *see also Isaacson v. Dow Chem. Co.*, 517 F.3d 129,135 (2d Cir. 2008). A defendant that is not itself a federal officer must demonstrate that it is "[a] property holder whose title is derived from any such officer, where such action or prosecution affects the validity of any law of the United States." 28 U.S.C. § 1442(a)(2). Section 1442 represents an exception to the general rule that the basis for removal must be set forth in a well-pleaded complaint. *Mesa v. California*, 489 U.S. 121, 136 (1989).

MPHJ's theory under Section 1442(a)(2) is that title to its patents was derived from a federal officer, and that its defenses and counterclaims affect the validity of federal law. The State counters that MPHJ's theory is "akin to suggesting a landowner's title derives from the Governor or the recording clerk." ECF No. 28 at 7. Neither party has cited case law directly on point.

The Second Circuit, in an unpublished opinion, recently referred to Section 1442(a)(2) as a "seldom-invoked federal-title-dispute removal provision." *Veneruso v. Mount Vernon Neighborhood Health Ctr.*, 2014 WL

1776011, at *4 (2d Cir. May 6, 2014); *see also Faulk v. Owens Corning Fiberglass Corp.*, 48 F. Supp. 2d 653, 669 (E.D. Tex. 1999) (“[I]t appears that 28 U.S.C. § 1442(a)(2), the federal title dispute statute, is a rarely invoked statute.”). Summarizing the history of the statute, the district court in *Town of Stratford v. City of Bridgeport*, 434 F. Supp. 712, 714 (D. Conn. 1977) stated:

The apparent purpose of the predecessors of § 1442(a)(2) was to insure a federal forum to persons who took title to property from a revenue officer and faced a challenge to their title from others, such as taxpayers, who claimed that the law under which the revenue officer had seized their property was invalid.

At least one court has determined that “title” implies real property and does not extend to a contractual property right. *St. Bernard Port, Harbor & Terminal Dist. v. Violet Dock Port, Inc., LLC*, 809 F. Supp. 2d 524, 534 (E.D. La. 2011).

The Court is skeptical of Section 1442(a)(2)’s application to a patent case. MPHJ’s position ultimately fails, however, because this action does not call into question the validity of any federal law. MPHJ argues that by compelling its compliance with the BFAPIA, Vermont will be frustrating its patent interests under various federal statutes pertaining to ownership and assignment of patents (35 U.S.C. § 261), patent infringement (§ 271), and remedies for infringement (§§ 284, 285, 287), as well as portions of the U.S.

Constitution. ECF No. 1 at 3-4. MPHJ's position assumes, however, that the State's pleadings somehow incorporate the BFAPIA. ECF 26 at 23-24 (citing only the BFAPIA as "affect[ing] the validity" of federal statutes and the Constitution). The State argues, and the Court agrees, that the Amended Complaint is brought exclusively under the VCPA, and does not seek relief under any other statute or legal provision. The Court therefore declines to allow removal under Section 1442(a)(2).

C. Removal Under 28 U.S.C. § 1443

MPHJ's notice of removal also cites 28 U.S.C. § 1443. A party removing under Section 1443(1) must allege denial of a right arising under a federal law "providing for specific civil rights stated in terms of racial equality." *Georgia v. Rachel*, 384 U.S. 780, 792 (1966); *see also Johnson v. Mississippi*, 421 U.S. 213, 219 (1975). While the State properly notes that this case does not involve such civil rights, MPHJ argues that where a federal law prohibits discrimination based upon race and other types of unequal treatment—such as discrimination against patent owners—that law serves as the basis for removal. More specifically, MPHJ contends that it has been discriminated against as a certain *type* of patent owner, and that it is therefore entitled to relief under 42 U.S.C. §§ 1981 (protecting the right "to make and enforce contracts") and 1982 (protecting the rights to "lease . . . and convey . . . property").

This argument has been considered and rejected by several courts. In one such case, the court concluded that “[i]n the absence of even a scintilla of an allegation that race discrimination is at all involved in this case, defendants enjoy no standing to raise claims under Sec. 1981 in support of their removal petition.” *Bd. of Ed. of City of Atlanta v. Am. Fed’n of State, County and Mun. Emp.*, 401 F. Supp. 687, 692 (D. Ga. 1975); see also *City of Winston Salem v. Chauffeurs, Teamsters & Helpers Local Union No. 391*, 470 F. Supp. 442, 445-46 (D.N.C. 1979) (finding the invocation of Section 1981 without evidence of race-based action “clearly frivolous”); *West Virginia State Bar v. Bostic*, 351 F. Supp. 1118, 1122 (D. W. Va. 1972) (rejecting removal under Section 1981 because “[t]here are no racial overtones in this case”).

Furthermore, the Second Circuit and the U.S. Supreme Court have consistently construed Sections 1981 and 1982 as forbidding discrimination on the basis of race. As explained in *United States v. Nelson*, 277 F.3d 164, 177 (2d Cir. 2002), both Sections 1981 and 1982 were ratified in 1868 and enacted pursuant to the Thirteenth Amendment. “Like the Thirteenth Amendment, the text of § 1981 does not expressly mention the race of the person benefitted by the statute, and, as it has done with the Thirteenth Amendment, the Supreme Court has construed the section to forbid any ‘racial’ discrimination in the making of private as well as public contracts.” *Nelson*, 277 F.3d at 177. The *Nelson* court similarly concluded that Section 1982 has been “construed . . . to forbid public

and private racially discriminatory interference with property rights.” *Id.*

Finally, MPHJ’s position is once again premised upon the assumption that the Amended Complaint seeks relief under the BFAPIA. *See* ECF No. 26 at 25 (arguing that “the State’s new attempt in its Amended Complaint to enjoin MPHJ to comply with the [BFAPIA] deprives MPHJ of rights afforded to other patent owners in a manner prohibited by law”); ECF No. 1 at 4 (asserting that the BFAPIA qualifies the case for removal under Section 1443). As discussed previously, the Court finds no such claim or request for relief in the State’s pleadings.

D. Removal Under 28 U.S.C. § 1454

MPHJ’s last basis for removal is 28 U.S.C. § 1454. Section 1454, passed in 2011 as the Leahy-Smith America Invents Act, provides for removal of a civil action “in which any party asserts a claim for relief arising under any Act of Congress relating to patents, plant variety protection, or copyrights.” “This provision authorizes removal of cases in which the only federal question arises in a patent or copyright counterclaim.” *Mirowski Family Ventures, LLC v. Boston Scientific Corp.*, 2014 WL 2574615, at *4 (D. Md. June 5, 2014). Section 1454 is thus another exception to the well-pleaded complaint rule. *See Andrews v. Daughtry*, 994 F. Supp. 2d 728, 732 (M.D.N.C. 2014).

Congress enacted Section 1454 after the Supreme Court's decision in *Holmes Group, Inc. v. Vornado Air Circulation Systems*, 535 U.S. 826 (2002), which held that a defendant's compulsory counterclaim under the Copyright Act could not serve as the basis for appellate jurisdiction in the Federal Circuit. *See Andrews*, 994 F. Supp. 2d at 731-32. "The rule articulated in *Holmes Group* meant that state courts could end up adjudicating a significant amount of federal patent claims. In response, Congress passed the so-called '*Holmes Group* fix,'" allowing federal courts to assert subject matter jurisdiction on the basis of a counterclaim arising under federal patent or copyright law. *Id.* (citing Joe Matal, *A Guide to the Legislative History of the America Invents Act: Part II of II*, 21 Fed. Cir. B.J. 539, 539 (2012)).

The State sets forth three distinct positions in opposition to removal under Section 1454. The State first contends that MPHJ's counterclaims are barred by sovereign immunity. This argument is initially appealing, as a claim against the State in federal court, irrespective of the relief sought, is barred by the Eleventh Amendment. *See, e.g., Coll. Sav. Bank v. Fla. Prepaid Postsecondary Educ. Expense Bd.*, 527 U.S. 666, 669-70 (1999). However, MPHJ has named Attorney General William Sorrell as a counterclaim defendant, and while the parties disagree about the propriety of naming the Attorney General, there is no dispute that Sorrell would not enjoy the same broad Eleventh Amendment immunity. *See Verizon Md., Inc.*

v. Pub. Serv. Comm'n of Md., 535 U.S. 635, 645 (2002) (citing *Ex parte Young*, 209 U.S. 123 (1908)).

The State next argues that Section 1454 is inapplicable because MPHJ's counterclaims are not compulsory. In support, the State notes that *Holmes Group* involved a compulsory counterclaim, and argues that Congress enacted Section 1454 to address that limited situation. MPHJ responds that Section 1454 is not limited to compulsory counterclaims, and that even assuming such a requirement, its counterclaims here are compulsory.

As one district court recently commented, "[Section] 1454 is a new statute, and . . . courts are still wrangling with its meaning." *Donahue v. Tokyo Electron America, Inc.*, 2014 WL 4259386, at *8 (W.D. Tex. Aug. 27, 2014). In this case, the Court declines to parse the novel issues presented by the parties since, as noted above, MPHJ's second notice of removal was untimely. That said, Section 1454 adds an extra consideration with respect to timeliness: allowance for a showing of "cause" to justify the delay. 28 U.S.C. § 1454(b)(2) (permitting a court to extend the removal deadlines under Section 1446 "at any time for cause shown"). The Court therefore turns to the question of cause for the untimely filing.

"While there is no authority on what constitutes 'cause shown' under 28 U.S.C. § 1454(b)(2) to extend the 30-day time period to remove, at a minimum the standard imposes some burden on the removing party to justify why its tardiness should be excused."

SnoWizard, Inc. v. Andrews, 2013 WL 3728410, at *6 (E.D. La. July 12, 2013). Here, MPHJ submits that good cause exists because the BFAPIA had not yet been passed when the original Complaint was filed, and thus could not have been a part of that pleading. This argument ignores the fact that MPHJ is relying upon the State's request for relief under "Vermont law." That phrase was a part of both the initial and Amended Complaints. Consequently, and to the extent the phrase "Vermont law" in the State's pleadings encompasses the BFAPIA (a contention that both the State and this Court reject), MPHJ could have applied its current arguments for removal to the initial Complaint. MPHJ has therefore failed to show cause for its untimely removal, and this case is **remanded** to state court.

IV. Conclusion

For the reasons set forth above, the State's motion to remand (ECF No. 22) is **granted** and its motion to dismiss (ECF No. 25) is **denied** as moot. This case is **remanded** to state court.

Dated at Burlington, this 9th day of January, 2015.

/s/ William K. Sessions III
William K. Sessions III
District Court Judge

VERMONT SUPERIOR COURT
WASHINGTON UNIT
CIVIL DIVISION

STATE OF VERMONT Plaintiff v. MPHJ TECHNOLOGY INVESTMENTS, LLC Defendant	Docket No. 282-5-13 Wncv
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RULING ON MOTION TO STAY, MOTION
TO AMEND, and MOTION TO DISMISS

(Filed Aug. 28, 2014)

The State filed this consumer protection action in May of 2013. The complaint alleges that MPHJ, a Delaware company, sent numerous unfair and deceptive letters to Vermont businesses alleging patent infringement and threatening to sue if the businesses did not pay licensing fees. The State alleges that the letters violate the Vermont Consumer Protection Act.

Defendant MPHJ promptly removed the case to federal court. That court found that it lacked jurisdiction, and remanded the case back to this court in April of this year. There are several motions pending

that were not resolved by the federal court, as well as one filed since the remand.¹

Motion to Stay

Defendant moved to stay this case pending resolution of its appeal in the Second Circuit. That court has now affirmed the remand of the case to this court. *State of Vermont v. MPHJ Technology Investments, LLC*, Nos. 2014-1481, 2014-137, 2014 WL 3938955 (2d Cir. Aug. 11, 2014). Thus, the motion to stay is denied as moot.

Motion to Amend

The State moved to clarify or amend the complaint. The court grants the motion to amend.

Motion to Dismiss

MPHJ seeks dismissal for lack of personal jurisdiction. The complaint alleges that MPHJ “did business in Vermont” through its wholly owned subsidiaries. First Amended Complaint, ¶ 7. Specifically, it alleges that MPHJ has sent “hundreds or

¹ One of the motions still pending appears to be a Rule 11 motion for sanctions. However, the motion and response are not included on the disc sent back to this court from federal court (perhaps because they were filed under seal?). If MPHJ wishes to have the court consider the motion, MPHJ shall file copies of the motion and any responses and replies by September 15. If nothing is filed, the motion will be considered withdrawn.

thousands” of letters to businesses in Vermont alleging potential patent infringement, and seeking to sell licenses to the recipients. *Id.*, ¶¶ 15-17. It alleges that often there are three letters in a row to a business, with the last letter threatening litigation. *Id.*, ¶¶ 23-32. The State further alleges that the letters contained false representations and false threats of litigation, were sent in bad faith, and constituted unfair and deceptive practices in violation of the Vermont Consumer Protection Act, 9 V.S.A. § 2453(a). MPHJ says this is insufficient to create personal jurisdiction.

There are two essential prongs to the inquiry here: whether the defendant has “minimum contacts” with the state, and whether it is fair and reasonable to subject it to suit in this jurisdiction. Some cases break this down, and some discuss the issues as part of a single inquiry. The overall question is whether “the defendant’s conduct and connection with the forum state are such that [it] should reasonably anticipate being haled into court there.” *N. Aircraft, Inc. v. Reed*, 154 Vt. 36, 41 (1990). “This reasonableness requirement is met when the defendant purposefully directs activity toward residents of a forum state and the litigation arises out of, or relates to, that activity. The reasonableness requirement also prevents a defendant from being subjected to jurisdiction on the basis of fortuitous, attenuated, or random contacts.” *Dall v. Kaylor*, 163 Vt. 274, 276 (1995), (citing *Burger King Corp. v. Rudzewicz*, 471 U.S. 462, 472, 475 (1985); . *N. Aircraft, Inc.*, 154 Vt. at 41).

Both parties agree that in this case the question is whether “specific jurisdiction” relating to MPHJ’s conduct in Vermont exists, as opposed to “general jurisdiction” over MPHJ in a broader sense. *See, e.g., Fox v. Fox*, 2014 VT 100, ¶ 27. (“Nobody suggests that Vermont has general jurisdiction to adjudicate claims against defendant. Plaintiff introduced no evidence that defendant owned property in Vermont, did business in Vermont, visited Vermont, or had any contact with the State or its residents. The question in this case is whether Vermont has specific jurisdiction because the litigation arises from defendant’s personally directing his activities toward Vermont.”).

The “unifying feature” in cases finding specific jurisdiction is that “the defendant directed activity into the forum state, or toward its residents in that state.” *Fox*, 2014 VT 100, ¶ 29. The key factor is “the intentional and affirmative action on the part of the non-resident defendant in pursuit of its corporate purposes within this jurisdiction.” *O’Brien v. Comstock Foods, Inc.*, 123 Vt. 461, 464 (1963). Physical presence in the state is, of course, not required:

[I]t is an inescapable fact of modern commercial life that a substantial amount of business is transacted solely by mail and wire communications across state lines, thus obviating the need for physical presence within a State in which business is conducted. So long as a commercial actor’s efforts are “purposefully directed” toward residents of another State, we have consistently rejected

the notion that an absence of physical contacts can defeat personal jurisdiction there.

Burger King, 471 U.S. at 476. Moreover, “[a]s technology and economic practices diminish the importance of geographic boundaries, it is not unreasonable to anticipate the expansion of personal jurisdiction to those who deliberately transcend those boundaries in pursuit of economic gain.” *Dall*, 163 Vt. at 277.

Our Supreme Court has noted in passing that letters and phone calls to Vermonters from out-of-state lawyers might not alone be sufficient to create personal jurisdiction over those lawyers. *Schwartz v. Frankenhoff*, 169 Vt. 287, 297 (1999). However, the court’s analysis focused not on that issue, but on the lack of a valid legal claim against the lawyers. *Id.* at 297-99. Moreover, the case to which it cited addressed the issue of a non-resident merely *answering* a phone call, not initiating one. The court thus finds *Frankenhoff* of little help here.

Other courts have held that letters and phone calls were not alone sufficient to establish minimum contacts. *See, e.g., Viasystems, Inc. v. EBM-Papst St. Georgen GmbH & Co., K.G.*, 646 F.3d 589, 594 (8th Cir. 2011); *Far West Capital Inc. v. Towne*, 46 F.3d 1071, 1077 (10th Cir. 1995); *Pharmabiodevice Consulting, LLC v. Evans*, No. GJH-14-00732, 2014 WL 3741692 *4 (D. Md. July 28, 2014). Unlike this case, however, those cases did not involve allegations that it was the letters themselves that constituted the unlawful activity. Instead, the letters, calls or emails

were merely the connection upon which the plaintiffs sought to bring *other* activities of the defendants into court. Here, the State alleges that the very act of sending the letters violated Vermont law. Other courts have distinguished such cases. *See, e.g., Cowillier v. Dillingham & Associates*, No. 2:14-cv-00482-RCJ-NJK, 2014 WL 3666694 * 3 (D. Nev. July 23, 2014) (In case alleging violation of the Fair Debt Collection Practices Act, “[t]he mailing of the collection letter to Nevada was an intentional act expressly aimed at Nevada (allegedly) causing harm that Dillingham knew or should have known would be felt in Nevada, and the present claims arise directly out of that act.”).

As MPHJ points out, other courts have found that patent-related letters similar to those at issue here were insufficient to establish minimum contacts. *See, e.g., Invellop, LLC v. Bovino*, No. 3:14-cv-00033-SI, 2014 WL 3478866 *4 (D. Or. July 11, 2014) (“An alleged injury based only on the threat of infringement communicated in an ‘infringement letter’ is insufficient to establish personal jurisdiction.”). The *Bovino* court noted that patent-holders have a right to inform others of suspected infringement, and concluded that it would not be fair to subject the patent-holder to litigation everywhere it sent such letters. *Id.* The case involved a plaintiff seeking a declaratory judgment that it had not infringed Defendant’s patents, and a declaration that the patents were invalid. Again, that case is distinguishable from this one because here the claim is that *the letters themselves* constituted a violation of Vermont’s consumer

projection [sic] statute. The same is true of the cases cited by MPHJ. See, *Avocent Hunstville Corp. v. Aten Int'l Co.*, 552 F. 3d 1324, 1326 (Fed. Cir. 2008); *Hildebrand v. Steck Mfg. Co.*, 279 F. 3d 1351, 1353 (Fed. Cir. 2002); *Red Wing Shoe Co. v. Hockerson-Halberstadt, Inc.*, 148 F. 3d 1355, 1357 (Fed. Cir. 1998); *Engineering & Inspection Services, LLC v. IntPar, LLC*, No. 13-0801, 2013 WL 5589737 * 2 (E.D.La. Oct. 10, 2013) (in which MPHJ was a defendant).

This case is analytically similar to one involving text messages allegedly sent in violation of a consumer protection statute. *Luna v. Shac, LLC*, No. C14-00607 HRL, 2014 WL 3421514 (N.D.Cal. July 14, 2014). In *Luna*, the court held that “[w]hen Shac intentionally sent unsolicited text messages advertising Sapphire to California cell phone numbers, which conduct gave rise to this litigation, it purposefully directed its activity to California such that Shac is reasonably subject to the personal jurisdiction of this Court.” *Id.* * 4. This is what the Supreme Court addressed in *Calder v. Jones*, 465 U.S. 783 (1984), a libel suit in which it said that wrongful out-of-state conduct intentionally directed at in-state residents can be sufficient: “petitioners are primary participants in an alleged wrongdoing intentionally directed at a California resident, and jurisdiction over them is proper on that basis.” *Id.* at 790. “An individual injured in California need not go to Florida to seek redress from persons who, though remaining in Florida, knowingly cause the injury in California.” *Id.* Other states addressing alleged violations of the Telephone

Consumer Protection Act have reached the same conclusion. *Luna*, 2014 WL 3421514 at * 4 (citing cases finding allegedly unlawful phone calls to be sufficient basis for jurisdiction).

Other courts have found that mailings that allegedly violated consumer protection laws created sufficient grounds for specific jurisdiction. *See, e.g., State by Humphrey v. Granite Gate Resorts, Inc.*, 568 N.W.2d 715, 720 (Minn. Ct. App. 1997) (“Advertising contacts justify the exercise of personal jurisdiction where unlawful or misleading advertisements are the basis of the plaintiffs claims.”), *aff’d*, 576 N.W. 2d 747 (Minn. 1998); *State of Washington v. Reader’s Digest Ass’n*, 501 P. 2d 290, 302-03 (Wash. 1972) (mailings to residents of the state that violated state lottery laws created jurisdiction), *mod. on other grounds by Hangman Ridge Training Stables, Inc. v. Safeco Title Ins. Co.*, 719 P. 2d 531 (Wash. 1986). This court concludes that because the allegation here is that the letters themselves are violations of the law, purposefully directed at Vermont residents, they create sufficient minimum contacts for purposes of personal jurisdiction over MPHJ.

Even when sufficient “minimum contacts” exist, however, the court must consider whether it is fair to exercise jurisdiction. *Burger King*, 471 U.S. at 476. Relevant factors may include “the burden on the defendant, the forum State’s interest in adjudicating the dispute, the plaintiff’s interest in obtaining convenient and effective relief, the interstate judicial system’s interest in obtaining the most efficient

resolution of controversies, and the shared interest of the several States in furthering fundamental substantive social policies.” *Id.* at 477 (internal quotations and citations omitted). “These considerations sometimes serve to establish the reasonableness of jurisdiction upon a lesser showing of minimum contacts than would otherwise be required.” *Id.*

The court finds a key factor here to be the fact that the case is brought by the State on behalf of the public, seeking to enforce our consumer protection law. The State has a special interest in protecting its citizens, which is categorically different from an individual business suing to protect solely its own interests. “We agree that the ‘fairness’ of haling respondent into a New Hampshire court depends to some extent on whether respondent’s activities relating to New Hampshire are such as to give that State a legitimate interest in holding respondent answerable on a claim related to those activities.” *Keeton v. Hustler Magazine, Inc.*, 465 U.S. 770, 775-76 (1984). The Supreme Court in *Keeton* noted that a state “may rightly employ its libel laws to discourage the deception of its citizens.” *Id.* at 776. The same is true here: Vermont has a strong interest in protecting its citizens from consumer fraud.

Moreover, rejecting jurisdiction would be unfair to those alleged to have been subjected to the deceptive letters:

To require a resident to commence his action
in a foreign jurisdiction on a tort committed

where he lives, and to transport his witnesses to such other state might well make protection of his right prohibitive and in effect permit a foreign corporation to commit a tort away from its home with relative immunity from legal responsibility.

Smyth v. Twin State Imp. Corp., 116 Vt. 569, 575 (1951).

While MPHJ argues that it would be burdensome for it to defend litigation in Vermont, it fails to respond to the States' [sic] point that MPHJ's own letters to Vermont businesses threatened litigation in Vermont. While that in itself does not establish jurisdiction here, it certainly undercuts MPHJ's claim that having to litigate in Vermont would be unreasonably burdensome. In addition, it would be more burdensome for the "hundreds or thousands" of recipients of the letters to provide evidence in Delaware than it would for MPHJ's witnesses, presumably a limited group, to provide evidence here.

Finally, it is unlikely that another state's court would conclude that it had jurisdiction over the Vermont Consumer Protection Act claims asserted here. Thus, denying jurisdiction here might well mean denying any forum at all for the resolution of these claims.

In balancing the burdens on both sides here, the interest of the State in protecting its citizens weighs heavily in favor of jurisdiction.

Order

The motion to stay is denied. The motion to amend is granted. The motion to dismiss is denied. The motion for sanctions will be deemed withdrawn unless MPHJ submits copies of the motion, responses, and replies by September 15. As discussed at the status conference on May 22, discovery shall be completed by May 28, 2015. The parties are directed to submit a proposed discovery/pretrial order by September 15.

Dated at Montpelier this 28th day of August, 2014.

/s/ Helen M. Toor
Helen M. Toor
Superior Court Judge

**United States Court of Appeals
for the Federal Circuit**

STATE OF VERMONT,
Plaintiff-Appellee

v.

MPHJ TECHNOLOGY INVESTMENTS, LLC,
Defendant-Appellant.

2014-1481

Appeal from the United States District Court for
the District of Vermont in No. 2:13-cv-00170-wks,
Judge William K. Sessions III.

**IN RE MPHJ TECHNOLOGY
INVESTMENTS, LLC,**
Petitioner.

2014-137

On Petition for Writ of Mandamus to the United
States District Court for the District of Vermont in
No. 2:13-cv-00170-wks, Judge William K. Sessions
III.

ON MOTION

(Filed Aug. 11, 2014)

Before PROST, *Chief Judge*, NEWMAN
and HUGHES, *Circuit Judges*.

NEWMAN, *Circuit Judge*.

ORDER

MPHJ Technology Investments, LLC (“MPHJ”) petitions this court for a writ of mandamus, and also appeals from an order of the United States District Court for the District of Vermont remanding this case to state court. Because we lack jurisdiction to grant the requested relief, we dismiss the petition and appeal.

BACKGROUND

MPHJ owns several patents relating to network scanner systems. MPHJ through subsidiary licensees wrote to various business and non-profit organizations operating in Vermont, requesting the recipient to confirm it was not infringing MPHJ’s patents or, alternatively, to purchase a license. If the offeror did not receive a response, a Texas law firm sent follow-up correspondence stating that an infringement suit would be filed.

On May 8, 2013, the State of Vermont through the Vermont Attorney General, filed suit against MPHJ in Vermont state court. The State alleged MPHJ engaged in unfair and deceptive trade practices under the Vermont Consumer Protection Act, stating that the letters contained threatening, false, and misleading statements. The State filed this case seeking civil penalties and other relief under state law.

MPHJ removed the case to the United States District Court for the District of Vermont on June 7, 2013, asserting federal question jurisdiction and diversity jurisdiction. The State moved to remand the case back to state court for lack of subject matter jurisdiction. MPHJ opposed the State's motion to remand, and filed a motion to dismiss for lack of personal jurisdiction and a motion for sanctions under Rule 11 of the Federal Rules of Civil Procedure and 28 U.S.C. § 1927. The sanctions motion also requested dismissal, asserting that the State's complaint was frivolous, that the complaint failed to plead that the alleged conduct was both objectively and subjectively baseless, and also that the complaint was preempted by MPHJ's right to enforce its patents.

After a motions hearing on February 25, 2014, the State—in response to concerns raised by the district court at the motions hearing—filed a conditional motion to clarify or amend its complaint, to eliminate the request for a permanent injunction requiring MPHJ to stop threatening Vermont businesses

with patent infringement. MPHJ subsequently moved for summary judgment.

Without deciding any other motions, the district court granted the State's motion to remand. The district court stated that the complaint did not raise a substantial question of patent law, and that "the State is targeting bad faith conduct irrespective of whether the letter recipients were patent infringers" or the patents were invalid. *State of Vermont v. MPHJ Tech. Invs., LLC*, No. 13-cv-00170, slip op. at 14 (D. Vt. Apr. 14, 2014). The court pointed out that MPHJ's preemption assertion was a defense to its allegedly unfair and deceptive practices, and that a defense cannot provide a basis for federal subject matter jurisdiction. *See Metro. Life Ins. v. Taylor*, 481 U.S. 58, 63 (1987).

MPHJ appeals the remand to state court, and has filed a petition for a writ of mandamus.

DISCUSSION

MPHJ argues that the district court abused its discretion (1) in effectively denying its motion for sanctions; (2) by refusing to decide the motion to dismiss for lack of personal jurisdiction before deciding subject matter jurisdiction; and (3) in "effectively amending the Original Complaint and then declining to exercise jurisdiction over the complaint as amended, or in remanding the case . . . without first deciding a controlling federal question of preemption under the First Amendment and federal

patent law.” Def.’s Notice of Appeal para. 3, May 13, 2014.

A.

We start with the issue of appellate jurisdiction over this remand order. Section 1447(d) of Title 28 provides that:

An order remanding a case to the State court from which it was removed is not reviewable on appeal or otherwise[.]

The Supreme Court has held that this provision applies only to remands based on the grounds specified in § 1447(c)—namely, a defect in removal procedure or lack of subject matter jurisdiction. *Thermtron Prods., Inc. v. Hermansdorfer*, 423 U.S. 336, 343-45 (1976). In *Kircher v. Putnam Funds Trust*, the Court stated that “we have relentlessly repeated that ‘any remand order issued on the grounds specified in § 1447(c) [is immunized from all forms of appellate review]. . . .’” *Kircher*, 547 U.S. 633, 640 (2006) (citing *Thermtron*, 423 U.S. at 351).

Here the district court remanded on a ground provided in § 1447(c); that is, in the district court’s view the complaint did not raise a claim or question of federal law to give rise to federal jurisdiction. Section 1447(d) precludes this court from second-guessing the district court’s jurisdiction determination regarding subject matter. If the § 1447(d) bar applies, “review is unavailable no matter how plain the legal error in ordering the remand.” *Briscoe v.*

Bell, 432 U.S. 404, 413 n.13 (1977) (citing *Gravitt v. Sw. Bell Tel. Co.*, 430 U.S. 723 (1977)). In making that determination, we look only to whether “the District Court relied upon a ground that is colorably characterized as subject-matter jurisdiction.” *Powerex Corp. v. Reliant Energy Servs., Inc.*, 551 U.S. 224, 234 (2007). Here, the district court repeatedly stated the position that “the Court does not have subject matter jurisdiction.” We therefore lack jurisdiction to review the remand decision.

B.

MPHJ argues that § 1447(d) is “not even relevant” to our review of the district court’s failure to address MPHJ’s motions to dismiss for lack of personal jurisdiction and for sanctions. Although § 1447(d) is not of itself dispositive of the reviewability of a motion for sanctions, the district court’s remand order dominates any proceedings on this appeal.

MPHJ cites the Supreme Court’s decision in *Ruhrgas AG v. Marathon Oil Co.*, 526 U.S. 574 (1999), as showing that personal jurisdiction and subject matter jurisdiction are distinct concepts, and that district courts have discretion under certain circumstances to address personal jurisdiction before turning to subject matter jurisdiction. *Id.* at 588. However, *Ruhrgas* does not create an exception to the § 1447(d) bar.

C.

MPHJ offers additional arguments, but none permits this court to depart from § 1447(d), even if there were legal error on the part of the district court in ruling that it lacked jurisdiction. *See Powerex*, 551 U.S. at 236.

Accordingly,

IT IS ORDERED THAT:

- (1) The State of Vermont's motion to dismiss is granted. The petition and appeal are dismissed.
- (2) Each side shall bear its costs.
- (3) The State's motions to take judicial notice are granted.
- (4) The State's motion to strike is moot.

FOR THE COURT

/s/ Daniel E. O'Toole

Daniel E. O'Toole

Clerk of Court

has also moved for Rule 11 sanctions. After a motions hearing on February 25, 2014, the State filed a conditional motion to clarify or amend its complaint. MPHJ subsequently moved for summary judgment. For the reasons stated below, the Court **grants** the State's motion to remand, ECF No. 9. Because the Court does not have subject matter jurisdiction, the remaining motions are **remanded** to the state court for further resolution.

I. Factual and Procedural Background

The State brought this action under the VCPA, Vt. Stat. Ann. tit. 9 §§ 2451 *et seq.*, on the grounds that MPHJ engaged in unfair and deceptive business practices in Vermont. Compl. ¶ 1, ECF No. 6. MPHJ is a limited liability company ("LLC") that operates in Vermont through forty wholly-owned shell subsidiary companies ("Shell LLCs"). ¶¶ 2-3. MPHJ and its shell LLCs have addresses in Delaware, but are "managed" by a Texas attorney, Jay Mac Rust, who is the contact and signatory on all of the license agreements between MPHJ and its Shell LLCs. ¶¶ 4-5. MPHJ owns several patents relating to email scanning¹ that were filed in 1998 and issued in 2001. No attempt to enforce the patents was made until 2012. Furthermore, MPHJ had engaged in no litigation regarding its

¹ The content of the patents themselves are not relevant to the State's claims, but MPHJ describes them as covering any system by which a document is scanned directly to email.

patents prior to the State's filing of this lawsuit. ¶¶ 19-20.

The State bases its claims on a series of allegedly unfair and deceptive letters sent or authorized by Defendant throughout Vermont. ¶ 9. The unlawful acts are alleged as follows. In September 2012, MPHJ's Shell LLCs began sending a series of three letters to numerous small businesses and non-profit organizations operating around Vermont. ¶¶ 14-16. These letters are identical in content with the exception of the addressee and the source Shell LLC. The first letter ("Letter #1") begins by stating, "We have identified your company as one that appears to be using the patented technology" owned by the Shell LLC. ¶ 22. It then requests that the recipient either purchase a license from the Shell LLC or confirm that it is not infringing the patents. ¶ 17. Letter #1 further notes that the Shell LLC has "had a positive response from the business community to [its] licensing program," that most contacted businesses "are interested in operating lawfully and taking a license promptly," and that many "have responded to this licensing program in such a manner." ¶ 23. Letter #1 states that the fair negotiated price for a license is between \$900 and \$1200 per employee. *Id.* The letter concludes by directing that the recipient respond within two weeks of the date of the letter. *Id.*

The second and third letters ("Letter #2" and "Letter #3") are sent by a Texas law firm, Farney Daniels LLP (Defendant's counsel in this action), on behalf of the Shell LLC that sent Letter #1. ¶ 27.

Both letters state that because the recipient has not responded to explain that it has not infringed upon the patents, the Shell LLC reasonably can only assume that the recipient is using infringing technology and requires a license. ¶ 28. Letter #3 says that if the recipient does not respond within two weeks, “our client will be forced to file a Complaint against you for patent infringement in Federal District Court where it will pursue all of the remedies and royalties to which it is entitled” and encourages the recipient to retain patent counsel. ¶ 31. Letter #3 (and sometimes Letter #2) also attaches a draft complaint against the receiving business naming the Shell LLC as plaintiff. ¶ 32. Some Vermont businesses have claimed that they never received Letter #1 or #2, and only received Letter #3 referring to the prior (unreceived) letters and threatening legal action. ¶ 29.

The Complaint alleges that these letters were false, deceptive, and misleading in violation of the VCPA because (1) Defendant did no due diligence to confirm whether the recipients were likely infringers; (2) Defendant targeted small businesses in commercial fields unrelated to patent law; (3) Defendant had not actually received a positive response regarding its licensing program; (4) only a very small fraction of recipient businesses had purchased licenses (rather than “many” or “most” as indicated in the letters); (5) as of the time of the complaint, neither Defendant nor any of its Shell LLCs had filed a single lawsuit in Vermont or any state, even though over 130 days had passed since the supposed two week deadline; (6) as

of the time of the letters, Defendant had not retained local Vermont counsel; (7) each Shell LLC claimed to possess an exclusive license, but given the overlapping geographic assignments, the Shell LLCs did not actually possess exclusive licenses; and (8) the Shell LLCs often targeted businesses outside the geographic regions in which they were legally permitted to enforce the patents. Based upon these alleged misrepresentations and falsities, the State contends that Defendant sent the letters in bad faith. ¶ 54.

The State's Complaint therefore claims that Defendant engaged in unfair trade practices in violation of Vt. Stat. Ann. ch. 9 § 2453(a) by falsely threatening litigation where Defendant was neither prepared or likely to bring such litigation, implying that pre-suit investigation had been performed, targeting businesses too small to have the resources to fight such litigation, and providing no independent proof of infringement in the letters, thereby shifting the burden to the recipients. ¶ 56. The Complaint also alleges that Defendant engaged in deceptive trade practices by including deceptive statements in the letters that would lead consumers to believe that they would be sued if they did not respond or pay for licenses, that the Shell LLCs were the exclusive licensees entitled to enforce the patents, and that the program had received a positive response from the business community and that many or most businesses were interested in purchasing such a license. ¶ 57.

The Complaint requests relief in the form of a permanent injunction prohibiting Defendant from

engaging in further unlawful business activity in Vermont and from sending letters threatening Vermont businesses with patent-infringement lawsuits, full restitution to businesses that suffered damages due to the unlawful acts, civil penalties of up to \$10,000 per violation of the VCPA, costs and fees to the State of Vermont, and any other relief deemed appropriate by the Court.

On or around June 7, 2013, MPHJ removed the case to this Court, asserting federal question under 28 U.S.C. § 1331 and diversity jurisdiction under 28 U.S.C. § 1332(a). MPHJ maintains that federal “arising under” jurisdiction is established because the validity, infringement, and enforcement of the patents referenced in the letters fall within the original and exclusive jurisdiction of the federal courts. *See* 28 U.S.C. § 1338. MPHJ also asserts that subject matter jurisdiction can be sustained on diversity grounds based on the theory that the State brought the suit on behalf of Vermont businesses, thereby making them the real party in interest for purposes of diversity jurisdiction.

There are several motions pending before the Court. The State has moved to remand the case to state court on the grounds that the complaint does not raise a claim arising under federal law and that the State is not a citizen for purposes of diversity jurisdiction. MPHJ has moved to dismiss the case for lack of personal jurisdiction and requested that the Court decide the issue of personal jurisdiction before turning to the question of subject matter jurisdiction,

ECF No. 16. In response, the State has moved to stay briefing and decision on MPHJ's motion to dismiss until the motion to remand has been decided, ECF No. 20. MPHJ has also filed a motion for sanctions under Fed. R. Civ. P. 11 and 28 U.S.C. § 1927, ECF No. 38. After a hearing on the pending motions on February 25, 2014, the State also filed a conditional motion to clarify and/or amend the complaint. Finally, MPHJ has moved for summary judgment under Rules 12(d) and 56.

II. DISCUSSION

The Court's jurisdiction has been challenged for lack of subject matter jurisdiction (by the State) and for lack of personal jurisdiction over MPHJ (by MPHJ). The Court has the discretion to consider these jurisdictional issues in the order of its choosing.²

² MPHJ has asked the Court to decide the motion to dismiss for lack of personal jurisdiction before the motion to remand (presumably on the assumption that the Court would dismiss the case based on the former). The Supreme Court has indicated that courts have discretion to decide personal jurisdiction before subject matter jurisdiction as "there is no unyielding jurisdictional hierarchy." *Ruhrgas AG v. Marathon Oil Co.*, 526 U.S. 574, 578 (1999). In *Ruhrgas*, the Supreme Court found it may be appropriate to determine personal jurisdiction first where the personal jurisdiction inquiry presents no complex questions and subject matter jurisdiction raises a "difficult and novel" question. *Id.* at 588. In this case, both jurisdictional analyses are arguably equally complex and the Court finds it appropriate to consider subject matter jurisdiction first. *See id.* at 587-88 (finding that "in most instances . . . expedition and

(Continued on following page)

Because the Court determines that it does not have subject matter jurisdiction to hear this case, it does not reach the issue of personal jurisdiction.

A. Motion to Remand

The State has moved to remand this case to state court on the grounds that the Court lacks subject matter jurisdiction. Any case filed in state court that “originally could have been filed in federal court” may be removed. *MyInfoGuard, LLC v. Sorrell*, Nos. 2:12-cv-074, 2:12-cv-102, 2012 WL 5469913, *3 (D. Vt. Nov. 9, 2012) (quoting *Marcus v. AT & T Corp.*, 138 F.3d 46, 51 (2d Cir. 1998)). As the removing party, MPHJ “bears the burden of establishing jurisdiction.” *Blockbuster, Inc. v. Galeno*, 472 F.3d 53, 57 (2d Cir. 2006). Defendant MPHJ removed this case to federal court by asserting subject matter jurisdiction under both federal “arising under” jurisdiction, 28 U.S.C. § 1331, and diversity jurisdiction, 28 U.S.C. § 1332(a). In its motion to remand, the State contends that neither type of subject matter jurisdiction is established here. First, the State argues that the Court lacks federal question jurisdiction because the consumer fraud claims are based solely in state law and are unrelated to the validity of MPHJ’s patents. As a result, there are no federal patent law questions on the face of the

sensitivity to state courts’ coequal stature should impel the federal court to dispose of [subject matter jurisdiction] first”).

complaint. Second, the State submits that diversity jurisdiction cannot be established because the State of Vermont is the real party in interest, thereby destroying diversity. The two grounds for federal jurisdiction will be addressed individually below.

i. Federal Question Jurisdiction

MPHJ contends that removal of this case is properly supported by federal question jurisdiction. Federal district courts have “original jurisdiction” over “all civil actions arising under the Constitution, laws, or treaties of the United States.” 28 U.S.C. § 1331. A case “arises under” federal law within the meaning of § 1331 where the “well-pleaded complaint establishes either that federal law creates the cause of action or that the plaintiff’s right to relief necessarily depends on resolution of a substantial question of federal law.” *Franchise Tax Bd. of Cal. v. Construction Laborers Vacation Trust for Southern Cal.*, 463 U.S. 1, 27-28 (1983).

MPHJ argues that the Complaint presents a federal question because it regards the validity, infringement, and enforcement of patents, which fall within the original and exclusive jurisdiction of the federal district courts. 28 U.S.C. § 1338 (establishing that federal district courts have original and exclusive jurisdiction over cases “arising under” federal patent law). While federal patent jurisdiction is exclusive, it is still subject to the jurisdictional requirements

elucidated by *Franchise Tax Bd.*; that is, “[t]he Federal courts have exclusive jurisdiction of all cases arising under the patent laws, but not of all questions in which a patent may be the subject-matter of the controversy.” *New Marshall Engine Co. v. Marshall Engine Co.*, 223 U.S. 473, 478 (1912). Thus, as with all federal question inquiries, there are two ways to establish federal question jurisdiction “arising under” the patent laws: (1) by showing that federal patent law *created* the cause of action; or (2) by showing that “the plaintiff’s right to relief necessarily depends on resolution of a substantial question of federal patent law, in that patent law is a necessary element of one of the well-pleaded claims.” *Christianson v. Colt Indus. Operating Corp.*, 486 U.S. 800, 809 (1988).

The State’s complaint here is premised solely on Vermont state law, not federal patent law, and none of the claims for relief concern the validity of MPHJ’s patents. Therefore, federal patent law did not “create” the cause of action such to satisfy the first type of “arising under” jurisdiction. *See ClearPay, Inc. v. Abecassis*, 602 F.3d 1364, 1367 (Fed. Cir. 2010) (finding federal patent law did not “create the cause of action” where complaint was entirely devoted to state law causes of action). Instead, for federal jurisdiction to exist here, the State’s right to relief must “necessarily depend[] on resolution of a substantial question of federal patent law.” *Christianson*, 486 U.S. at 808-09.

The *Christianson* standard may be satisfied by a complaint containing only state law claims (as is the

case here); however, this is a “special and small category” with imprecise boundaries. *Gunn v. Minton*, 133 S. Ct. 1059, 1064 (2013). In such cases, the Court must ask whether the federal patent law issue is “(1) necessarily raised, (2) actually disputed, (3) substantial, and (4) capable of resolution in federal court without disrupting the federal-state balance approved by Congress.” *Gunn*, 133 S. Ct. at 1065. Where all of these requirements are met, federal jurisdiction is proper because there is a “serious federal interest in claiming the advantages thought to be inherent in a federal forum.” *Grable & Sons Metal Prods., Inc. v. Darue Eng’g & Mfg.*, 545 U.S. 308, 313-14 (2005). In this case, federal question jurisdiction cannot be established under *Gunn* because, on the face of the State’s well-pleaded complaint, patent law issues are not “necessarily raised” nor are they sufficiently “substantial” to support a finding of federal jurisdiction.

1. Federal Patent Law Issues Are Not “Necessarily Raised” On the Face of the State’s Complaint.

Under the well-pleaded complaint rule, the determination of whether a claim arises under patent law depends on what “necessarily appears in the plaintiff’s [complaint], unaided by anything alleged in anticipation or avoidance of defenses which it is thought the defendant may interpose.” *Christianson*, 486 U.S. at 809 (quoting *Franchise Tax Bd.*, 463 U.S. at 10). A patent law issue is “necessarily raised” when “at least one of the plaintiff’s claims must necessarily

turn on an issue of federal patent law.” *ClearPay*, 602 F.3d at 1369 (applying *Christianson*). It is “not enough that patent law issues are in the air” for purposes of arising under jurisdiction; instead, “a claim supported by alternative theories in the complaint may not form the basis for § 1338(a) jurisdiction unless patent law is essential to each of those theories.” *Christianson*, 486 U.S. at 810.

For example, in *ClearPay*, the Federal Circuit found that no questions of federal patent law were necessarily raised even where questions of patent infringement were addressed and could arise in the course of litigation, because for each asserted claim (there, several state common law and statutory claims) there was “at least one theory of relief that would not require the resolution of a patent law issue.” 602 F.3d at 1368.

While *ClearPay* and *Christianson* regarded the § 1338(a) jurisdiction of the Federal Circuit over claims “arising under” federal patent law rather than federal question jurisdiction under § 1331, the federal courts “have interpreted the phrase ‘arising under’ in both sections identically, applying [] § 1331 and § 1338(a) precedents interchangeably.” *Gunn*, 133 S. Ct. at 1064 (noting that); *see also Discovision Assocs. v. Fuji Photo Film Co., Ltd.*, No. 07 Civ. 6348, 2007 WL 5161825, *6 (S.D.N.Y. Oct. 29, 2007) (remanding because “at least one arguable theory exists to support Plaintiff’s claim that does not rely on resolution of a federal patent question”); *Ciprofloxacin Hydrochloride Antitrust Litig.*, 166 F. Supp. 2d 740, 748

(E.D.N.Y. 2001) (remanding where plaintiffs’ “allegations make[] plain that plaintiffs have asserted at least one theory by which they may establish state antitrust violations without resorting to a determination of patent law”); *Altman v. Bayer Corp.*, 125 F. Supp. 2d 666, 674-75 (S.D.N.Y. 2000) (remanding where plaintiff alleged that defendants “acted with impure heart” in bringing patent litigation because plaintiffs could prevail without resolution of any substantial question of patent law); *Aetna U.S. Healthcare, Inc. v. Hoechst Aktiengesellschaft*, 54 F. Supp. 2d 1042, 1053 (D. Kan. 1999) (finding that patent law was not necessarily raised because any question of patent validity was “merely tangential” to claim that defendant had an ill motive); *In Re Cardizem CD Antitrust Litig.*, 90 F. Supp. 2d 819 (E.D. Mich. 1999) (finding no federal jurisdiction over state law claims even where arose from instigation of patent litigation).

Applying *Christianson* to this case, the State’s complaint does not “necessarily raise” federal issues because its claims do not depend on any determination of federal patent law. The State’s claims do not challenge the validity or scope of MPHJ’s patents nor do they require any determination of whether infringement has actually occurred. Instead, the State is targeting bad faith conduct irrespective of whether the letter recipients were patent infringers or not, on the basis that MPHJ’s bad faith conduct would be unlawful even MPHJ’s patents were valid and the conduct was directed toward actual patent infringers.

See Tamoxifen, 222 F. Supp. 2d at 232 (opining that where “defendants are alleged to have engaged in sham patent infringement litigation for the purpose of delaying generic drug competition[, p]roof of sham litigation would certainly seem to be outside the scope of protected activity under a valid patent”). As the State maintains in its motion to remand, this case is about consumer protection, not about patents.

To the extent that federal patent law is implicated at all, it is in MPHJ’s anticipated defenses, which cannot provide the basis for federal question jurisdiction. *See Merrell Dow Pharm. Inc. v. Thompson*, 478 U.S. 804, 808 (1986) (finding that a defense that raises a federal question is inadequate to confer federal jurisdiction); *In re Ciprofloxacin*, 166 F. Supp. 2d at 748 (finding “defendants’ assertion that their patent law rights provides a viable defense to plaintiff’s state law” to be “an insufficient basis” for federal question jurisdiction). Instead, the State’s complaint brings claims solely under state law for unfair and deceptive practices and its claims are premised on multiple theories that do not implicate federal patent law.

The State supports its unfair trade practices claim by noting that MPHJ implied that it had done a pre-suit investigation where it had done none and stated that litigation would be brought when it “was neither prepared nor [was it] likely to bring litigation.” Compl. ¶ 56. The State would not have to address any patent law questions to argue before a jury that MPHJ was unprepared to bring litigation in

Vermont at the time it sent the threatening letters—for example, the State could introduce evidence that MPHJ had not retained local counsel and that it had never actually brought patent enforcement litigation. Thus, “at least one arguable theory exists to support Plaintiff’s claim that does not rely on resolution of a federal patent question.” *Discovision Assocs.*, 2007 WL 5161825, at *6.³ The same is true of the State’s deceptive trade practices claim, which rests on MPHJ’s allegedly deceptive statements that it would sue target businesses if they did not respond in two weeks, that many or most businesses were interested in purchasing licenses, and that the licensing program had received a positive response from the business community. Compl. ¶ 57. To prevail on this claim, the State could show that very few companies had actually purchased licenses and that it [sic] the program had not been received positively—again, without ever raising any questions of patent law.

The facts of this case contrast deeply with cases where courts found remand inappropriate because

³ MPHJ argues in its Opposition that the sending of such letters is protected by the First Amendment and federal patent law. See, e.g., *Globetrotter Software, Inc. v. Elan Computer Group, 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.”). Again, this argument sounds in *defense* and does not support a finding of subject matter jurisdiction here. Moreover, the question of whether this activity would even be protected by a patent law defense would rest on a showing of good faith, which the State argues is not present here.

“plaintiffs [could] not succeed on their claims without proving the invalidity or enforceability” of the patents in question. *In re Tamoxifen Citrate Antitrust Litig.*, 222 F. Supp. 2d 326, 331 (E.D.N.Y. 2002); *see also Hunter Douglas, Inc. v. Harmonic Design, Inc.*, 153 F.3d 1318, 1329 (Fed. Cir. 1998) (finding federal question jurisdiction where a required element of a state claim “necessarily raised” federal law because all theories demonstrating the element implicated patent law question). For example, in *Hunter Douglas*, the plaintiffs brought a state law claim of “injurious falsehood” based on the defendant’s assertion that they held exclusive patent rights, and charged that the assertion was false because the patents were invalid and unenforceable. 153 F.3d at 1329. The court determined that it had federal question jurisdiction because a required element of the state cause of action—falsity—necessarily turned on a question of patent law, as no other basis for falsity was provided in the complaint. *Id.* By contrast, the State here is challenging MPHJ’s bad faith acts, not its ability to protect its patent rights. The unfair and deceptive trade claims are supported by several factual bases that do not require an assessment of MPHJ’s patent rights. Because these theories could provide a basis for the State to prevail on its claims without any determination of patent law or of the validity of MPHJ’s patents, there are no federal patent law issues “necessarily raised” on the face of the State’s complaint, and this Court does not have federal question jurisdiction.

In its opposition to the State’s motion to remand, MPHJ puts forth a somewhat tortured interpretation of *Christianson* to assert that each factual basis for the State’s VCPA “theory” is a separate claim, and that some of these bases necessarily implicate federal issues. MPHJ cites *Broder v. Cablevision Sys. Corp.*, 418 F.3d 187 (2d Cir. 2005), in support of this argument; however, *Broder* does not actually stand for MPHJ’s assertion that each factual basis comprises a distinct legal claim. In *Broder*, the claim in question was styled as a claim for deceptive trade practices under state law. The claim was based on two separate legal arguments: that the defendant had violated the federal uniform rates provision, and that it had violated a state notice provision. *Id.* at 194. The court found that this was not one claim supported by two alternative theories, but instead encompassed two distinct legal claims. *Id.* It found this in part by looking to the relief requested—as part of the complaint, the *Broder* plaintiff sought a declaratory judgment stating that the defendant had violated the federal uniform rates provision. *Id.* at 195. The court therefore determined that the federal aspect was a “logically separate claim, rather than merely a separate theory that is part of the same claim as the state-law theory,” *id.* at 194, and concluded that the plaintiff had brought a claim (violation of the federal rates provision) that necessarily required resolution of a federal issue, *id.* at 195.

MPHJ argues that the State has similarly styled its complaint as one claim under the VCPA in an

effort to hide “logically separate claims” that present “at least one federal aspect” as in *Broder. Id.* at 192. However, the State’s VCPA claims are not supported by multiple separate legal claims; instead, they are supported by multiple factual assertions—for example, that MPHJ was threatening litigation it was not actually prepared to bring, that it had not performed any pre-suit investigation, and that the letters contained false information. These are not separate legal claims in the sense contemplated by *Broder* as it is not required that the State prevail on each of these factual theories to obtain the relief it seeks. *Cf. Broder*, 418 F.3d at 195 (because “[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 on it,” plaintiff’s request for declaratory judgment on federal rates provision violation was a distinct claim).

MPHJ also argues that the complaint seeks relief—an injunction prohibiting MPHJ from sending letters threatening litigation to Vermont businesses—that necessarily raises federal patent issues because the injunction would prevent MPHJ from enforcing its patents in the state. However, the complaint itself, and the State’s position at the hearing,⁴ make plain

⁴ In addition, after the February 24, 2014, hearing, the State filed a conditional motion to amend or clarify the complaint to delete its request for an injunction requiring MPHJ to stop threatening Vermont businesses with patent-infringement lawsuits, clarifying that the State did not intend to “seek relief that would broadly prevent MPHJ from engaging in lawful patent-enforcement

(Continued on following page)

that the remedy sought is not to prevent MPHJ from lawfully enforcing its patent rights in the state, but rather to prevent MPHJ from engaging in activity that violates state law. Furthermore, it would not be necessary, as in *Broder*, for the State to demonstrate that MPHJ's patents are invalid under federal law in order to obtain this relief. Thus, the injunctive relief sought by the State does not convert its claim into one "arising under" federal patent law.

MPHJ repeatedly argues that the letters are permitted by federal patent law and the First Amendment, and that MPHJ was required by federal law to make an inquiry of a potential patent infringer as to its potential infringement. True or not, this position is irrelevant to the Court's jurisdictional inquiry. The federal laws that MPHJ raises are all defenses to its allegedly unfair and deceptive practices, and anticipated federal defenses do not support federal question jurisdiction, even when they are the sole issue in question. See *Caterpillar Inc. v. Williams*, 482 U.S. 386, 393 (1987) ("[I]t is now settled law that a case may *not* be removed to federal court on the basis of a federal defense . . . even if the defense is anticipated in the plaintiff's complaint, and even if both parties concede that the federal defense is the only question

activities." Mot. Amend. 2. This proposed clarification is consistent with the Court's reading of the original complaint; however, because the Court lacks subject matter jurisdiction, it will not grant the motion to amend, but instead allow the motion to proceed in state court.

truly at issue.”). MPHJ also argues that federal jurisdiction is established because the State seeks remedies that could be preempted by federal patent law.⁵ However, “[f]ederal pre-emption is ordinarily . . . a defense to the plaintiff’s suit,” and “[a]s a defense, it does not appear on the face of a well-pleaded complaint, and, therefore, does not authorize removal to federal court.” *Metro. Life Ins. Co. v. Taylor*, 481 U.S. 58, 63 (1987). Federal patent law does not appear on the face of the complaint and the State may prevail on its VCPA claims without reliance on the resolution of a federal patent question. As a result, federal law is not “necessarily raised” on the face of the complaint, and federal question jurisdiction cannot be established here.

⁵ It is true that MPHJ may assert federal patent law as a defense to the State’s claim, as “[f]ederal patent law preempts state-law tort liability for a patent-holder’s good faith conduct in communications asserting infringement of its patent and warning about potential litigation.” *Globetrotter Software*, 362 F.3d at 1374. State law claims can only survive such preemption to the extent that they are based on a showing of “bad faith” on the part of the patent-holder. *Id.* While this issue will inevitably be litigated down the line (and the State argues that MPHJ has shown bad faith and is not entitled to the preemption defense), the looming prospect of preemption is an anticipated defense which, as noted above, does not affect the Court’s jurisdictional inquiry. See *Forrester Envtl. Servs., Inc. v. Wheelabrator Technologies, Inc.*, 715 F.3d 1329, 1335 (Fed. Cir. 2013) (finding that anticipated preemption defense “does not authorize removal to federal court”).

2. The State’s Complaint Does Not Raise a Substantial Federal Question

Even if the Court were to find that federal questions were necessarily raised, federal jurisdiction would still be lacking under a separate *Gunn* factor: that the necessarily raised federal issue be a “substantial” one. Whether a federal issue is substantial does not turn on the importance to the particular parties bringing the suit, but instead whether it is important “to the federal system as a whole.” *Gunn*, 133 S. Ct. at 1066. In determining the substantiality of a federal question, the Supreme Court has distinguished between cases where the federal law in question was a “pure issue of law [that would be] dispositive of the case and controlling in numerous other cases” and cases where the federal inquiry is “fact-bound and situation-specific.” *Empire Healthchoice Assur., Inc. v. McVeigh*, 547 U.S. 677, 700 (2006) (distinguishing *Grable*, 545 U.S. 308). This case plainly concerns the latter scenario. The federal patent issues that MPHJ identifies in its brief—namely, the evidence necessary to threaten patent litigation—involve the application of existing patent law to the facts of this case, and require no determination of patent law that would have implications reaching beyond the parties to this proceeding.

MPHJ argues that the State’s claims would impact the overall functioning of the national patent system because it would impair pre-suit investigation, create “unprecedented patent infringement

immunity,” and impair sending of notice letters. This is a gross mischaracterization of the State’s requested relief. In fact, the State seeks to enjoin MPHJ’s *unfair and deceptive* activities within Vermont—that is, the Attorney General is targeting MPHJ’s practice of letters that threaten patent litigation with no intention of *actually bringing* such litigation. Contrary to MPHJ’s assertions, the State does not argue that MPHJ does not have a right to lawfully protect its patents and judgment for the State would not “immunize” infringing entities from MPHJ’s legitimate efforts to enforce its patents.

Moreover, MPHJ has not demonstrated that this case needs to be heard in federal court to prevent disruption of the federal-state balance. The federal issues implicated are all defenses that may be properly considered and applied by a state court. *See Gunn*, 133 S. Ct. at 1067 (explaining that state courts can apply federal patent law when addressing state-law claims). As the decision in this case would have no precedential effect on federal law—and, indeed, would not even require a determination of the validity of MPHJ’s patents—it would not have an unacceptable impact on the federal patent system such to demand federal jurisdiction.

Because the State’s right to relief does not necessarily depend on resolution of a substantial question of federal patent law, this Court does not have subject matter jurisdiction over this case under 28 U.S.C. § 1331.

ii. Diversity Jurisdiction

MPHJ also cannot establish federal jurisdiction on diversity grounds. 28 U.S.C. § 1332(a) (vesting jurisdiction in federal district courts over suits between “citizens of different states” where the amount in controversy exceeds \$75,000). Diversity jurisdiction requires “complete diversity,” that is, each defendant must be “a citizen of a different state from *each* plaintiff.” *Owen Equip. & Erection Co. v. Kroger*, 437 U.S. 365, 373 (1978). The Supreme Court has made clear that a state is “not a ‘citizen’ for purposes of the diversity jurisdiction.” *Moore v. Cnty. of Alameda*, 411 U.S. 693, 717 (1973); *see also MyInfoGuard*, 2012 WL 5469913, at *4 (finding that state is not a citizen for purposes of diversity jurisdiction). In its removal action, MPHJ asserted that the Attorney General filed the suit on behalf of Vermont businesses, making their citizenship relevant to the diversity jurisdiction inquiry. *See Navarro Sav. Ass’n v. Lee*, 446 U.S. 458, 461 (1980) (explaining that courts must “rest [diversity] jurisdiction only upon the citizenship of real parties to the controversy”). MPHJ therefore submits that the State is not the “real party in interest” relevant to the determination of diversity jurisdiction.

The “party in interest” is determined by looking at the “essential nature and effect of the proceeding.” *Purdue Pharma L.P. v. Kentucky*, 704 F.3d 208, 218 (2d Cir. 2013) (quotations omitted). In this case, the fact that the State brought the VCPA action on behalf of itself, and not on behalf of private businesses, is made clear by the relief sought—a statewide

injunction and civil penalties that would be unavailable to private litigants. The requested remedies demonstrate that the State brought the case on behalf of itself and not individual businesses. *See MyInfoGuard*, 2012 WL 5469913, at *5 (“The fact that the State seeks civil penalties and a statewide injunction . . .—remedies unavailable to consumers—leaves no doubt that the State has concrete interests in the litigation; put simply, the benefits of those remedies flow to the State as a whole.”). Because the State is the true party in interest, there is no diversity and subject matter jurisdiction cannot be established under § 1332(a). MPHJ apparently concedes this point as it does not address diversity jurisdiction in its opposition to the State’s motion to remand.

Because this case could not have been filed in federal court under either § 1331 or § 1332(a), the Court grants the State’s motion and remands the case to the Washington Superior Court.

CONCLUSION

For the reasons stated above, the Court **grants** the State’s motion to remand this case to the state court. Because the Court does not have jurisdiction, the remaining motions are **remanded** to the state court for further resolution.

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Dated at Burlington, in the District of Vermont,
this 14th day of April, 2014.

/s/ William K. Sessions III
William K. Sessions III
United States District Judge

RELEVANT STATUTES

Relevant Federal Statutes

28 U.S.C. § 1295. Jurisdiction of the United States Court of Appeals for the Federal Circuit

(a) The United States Court of Appeals for the Federal Circuit shall have exclusive jurisdiction—

(1) of an appeal from a final decision of a district court of the United States, the District Court of Guam, the District Court of the Virgin Islands, or the District Court of the Northern Mariana Islands, in any civil action arising under, or in any civil action in which a party has asserted a compulsory counterclaim arising under, any Act of Congress relating to patents or plant variety protection;

(2) of an appeal from a final decision of a district court of the United States, the United States District Court for the District of the Canal Zone, the District Court of Guam, the District Court of the Virgin Islands, or the District Court for the Northern Mariana Islands, if the jurisdiction of that court was based, in whole or in part, on section 1346 of this title, except that jurisdiction of an appeal in a case brought in a district court under section 1346(a)(1), 1346(b), 1346(e), or 1346(f) of this title or under section 1346(a)(2) when the claim is founded upon an Act of Congress or a regulation of an executive department providing for internal revenue shall be governed by sections 1291, 1292, and 1294 of this title;

(3) of an appeal from a final decision of the United States Court of Federal Claims;

- (4) of an appeal from a decision of—
- (A) the Patent Trial and Appeal Board of the United States Patent and Trademark Office with respect to a patent application, derivation proceeding, reexamination, post-grant review, or inter partes review under title 35, at the instance of a party who exercised that party's right to participate in the applicable proceeding before or appeal to the Board, except that an applicant or a party to a derivation proceeding may also have remedy by civil action pursuant to section 145 or 146 of title 35; an appeal under this subparagraph of a decision of the Board with respect to an application or derivation proceeding shall waive the right of such applicant or party to proceed under section 145 or 146 of title 35;
 - (B) the Under Secretary of Commerce for Intellectual Property and Director of the United States Patent and Trademark Office or the Trademark Trial and Appeal Board with respect to applications for registration of marks and other proceedings as provided in section 21 of the Trademark Act of 1946 (15 U.S.C. 1071); or
 - (C) a district court to which a case was directed pursuant to section 145, 146, or 154(b) of title 35;
- (5) of an appeal from a final decision of the United States Court of International Trade;

(6) to review the final determinations of the United States International Trade Commission relating to unfair practices in import trade, made under section 337 of the Tariff Act of 1930 (19 U.S.C. 1337);

(7) to review, by appeal on questions of law only, findings of the Secretary of Commerce under U.S. note 6 to subchapter X of chapter 98 of the Harmonized Tariff Schedule of the United States (relating to importation of instruments or apparatus);

(8) of an appeal under section 71 of the Plant Variety Protection Act (7 U.S.C. 2461);

(9) of an appeal from a final order or final decision of the Merit Systems Protection Board, pursuant to sections 7703(b)(1) and 7703(d) of title 5;

(10) of an appeal from a final decision of an agency board of contract appeals pursuant to section 7107(a)(1) of title 41;

(11) of an appeal under section 211 of the Economic Stabilization Act of 1970;

(12) of an appeal under section 5 of the Emergency Petroleum Allocation Act of 1973;

(13) of an appeal under section 506(c) of the Natural Gas Policy Act of 1978; and

(14) of an appeal under section 523 of the Energy Policy and Conservation Act.

(b) The head of any executive department or agency may, with the approval of the Attorney General, refer to the Court of Appeals for the Federal Circuit for

judicial review any final decision rendered by a board of contract appeals pursuant to the terms of any contract with the United States awarded by that department or agency which the head of such department or agency has concluded is not entitled to finality pursuant to the review standards specified in section 7107(b) of title 41. The head of each executive department or agency shall make any referral under this section within one hundred and twenty days after the receipt of a copy of the final appeal decision.

(c) The Court of Appeals for the Federal Circuit shall review the matter referred in accordance with the standards specified in section 7107(b) of title 41. The court shall proceed with judicial review on the administrative record made before the board of contract appeals on matters so referred as in other cases pending in such court, shall determine the issue of finality of the appeal decision, and shall, if appropriate, render judgment thereon, or remand the matter to any administrative or executive body or official with such direction as it may deem proper and just.

28 U.S.C. § 1331. Federal question

The district courts shall have original jurisdiction of all civil actions arising under the Constitution, laws, or treaties of the United States.

28 U.S.C. § 1338. Patents, plant variety protection, copyrights, mask works, designs, trademarks, and unfair competition

(a) The district courts shall have original jurisdiction of any civil action arising under any Act of Congress relating to patents, plant variety protection, copyrights and trademarks. No State court shall have jurisdiction over any claim for relief arising under any Act of Congress relating to patents, plant variety protection, or copyrights. For purposes of this subsection, the term “State” includes any State of the United States, the District of Columbia, the Commonwealth of Puerto Rico, the United States Virgin Islands, American Samoa, Guam, and the Northern Mariana Islands.

(b) The district courts shall have original jurisdiction of any civil action asserting a claim of unfair competition when joined with a substantial and related claim under the copyright, patent, plant variety protection or trademark laws.

(c) Subsections (a) and (b) apply to exclusive rights in mask works under chapter 9 of title 17, and to exclusive rights in designs under chapter 13 of title 17, to the same extent as such subsections apply to copyrights.

28 U.S.C. § 1442. Federal officers
or agencies sued or prosecuted

(a) A civil action or criminal prosecution that is commenced in a State court and that is against or directed to any of the following may be removed by them to the district court of the United States for the district and division embracing the place wherein it is pending:

(1) The United States or any agency thereof or any officer (or any person acting under that officer) of the United States or of any agency thereof, in an official or individual capacity, for or relating to any act under color of such office or on account of any right, title or authority claimed under any Act of Congress for the apprehension or punishment of criminals or the collection of the revenue.

(2) A property holder whose title is derived from any such officer, where such action or prosecution affects the validity of any law of the United States.

(3) Any officer of the courts of the United States, for or relating to any act under color of office or in the performance of his duties;

(4) Any officer of either House of Congress, for or relating to any act in the discharge of his official duty under an order of such House.

(b) A personal action commenced in any State court by an alien against any citizen of a State who is, or at the time the alleged action accrued was, a civil officer of the United States and is a nonresident of such

State, wherein jurisdiction is obtained by the State court by personal service of process, may be removed by the defendant to the district court of the United States for the district and division in which the defendant was served with process.

(c) Solely for purposes of determining the propriety of removal under subsection (a), a law enforcement officer, who is the defendant in a criminal prosecution, shall be deemed to have been acting under the color of his office if the officer—

- (1)** protected an individual in the presence of the officer from a crime of violence;
- (2)** provided immediate assistance to an individual who suffered, or who was threatened with, bodily harm; or
- (3)** prevented the escape of any individual who the officer reasonably believed to have committed, or was about to commit, in the presence of the officer, a crime of violence that resulted in, or was likely to result in, death or serious bodily injury.

(d) In this section, the following definitions apply:

- (1)** The terms “civil action” and “criminal prosecution” include any proceeding (whether or not ancillary to another proceeding) to the extent that in such proceeding a judicial order, including a subpoena for testimony or documents, is sought or issued. If removal is sought for a proceeding described in the previous sentence, and there is

no other basis for removal, only that proceeding may be removed to the district court.

(2) The term “crime of violence” has the meaning given that term in section 16 of title 18.

(3) The term “law enforcement officer” means any employee described in subparagraph (A), (B), or (C) of section 8401(17) of title 5 and any special agent in the Diplomatic Security Service of the Department of State.

(4) The term “serious bodily injury” has the meaning given that term in section 1365 of title 18.

(5) The term “State” includes the District of Columbia, United States territories and insular possessions, and Indian country (as defined in section 1151 of title 18).

(6) The term “State court” includes the Superior Court of the District of Columbia, a court of a United States territory or insular possession, and a tribal court.

28 U.S.C. § 1446. Procedure
for removal of civil actions

(a) **Generally.**—A defendant or defendants desiring to remove any civil action from a State court shall file in the district court of the United States for the district and division within which such action is pending a notice of removal signed pursuant to Rule 11 of the Federal Rules of Civil Procedure and containing a

short and plain statement of the grounds for removal, together with a copy of all process, pleadings, and orders served upon such defendant or defendants in such action.

(b) Requirements; generally.—(1) The notice of removal of a civil action or proceeding shall be filed within 30 days after the receipt by the defendant, through service or otherwise, of a copy of the initial pleading setting forth the claim for relief upon which such action or proceeding is based, or within 30 days after the service of summons upon the defendant if such initial pleading has then been filed in court and is not required to be served on the defendant, whichever period is shorter.

(2)(A) When a civil action is removed solely under section 1441(a), all defendants who have been properly joined and served must join in or consent to the removal of the action.

(B) Each defendant shall have 30 days after receipt by or service on that defendant of the initial pleading or summons described in paragraph (1) to file the notice of removal.

(C) If defendants are served at different times, and a later-served defendant files a notice of removal, any earlier-served defendant may consent to the removal even though that earlier-served defendant did not previously initiate or consent to removal.

(3) Except as provided in subsection (c), if the case stated by the initial pleading is not removable, a

notice of removal may be filed within 30 days after receipt by the defendant, through service or otherwise, of a copy of an amended pleading, motion, order or other paper from which it may first be ascertained that the case is one which is or has become removable.

(c) Requirements; removal based on diversity of citizenship.—

(1) A case may not be removed under subsection (b)(3) on the basis of jurisdiction conferred by section 1332 more than 1 year after commencement of the action, unless the district court finds that the plaintiff has acted in bad faith in order to prevent a defendant from removing the action.

(2) If removal of a civil action is sought on the basis of the jurisdiction conferred by section 1332(a), the sum demanded in good faith in the initial pleading shall be deemed to be the amount in controversy, except that—

(A) the notice of removal may assert the amount in controversy if the initial pleading seeks—

(i) nonmonetary relief; or

(ii) a money judgment, but the State practice either does not permit demand for a specific sum or permits recovery of damages in excess of the amount demanded; and

(B) removal of the action is proper on the basis of an amount in controversy asserted under subparagraph (A) if the district court finds, by the preponderance of the evidence, that the amount

in controversy exceeds the amount specified in section 1332(a).

(3)(A) If the case stated by the initial pleading is not removable solely because the amount in controversy does not exceed the amount specified in section 1332(a), information relating to the amount in controversy in the record of the State proceeding, or in responses to discovery, shall be treated as an ‘other paper’ under subsection (b)(3).

(B) If the notice of removal is filed more than 1 year after commencement of the action and the district court finds that the plaintiff deliberately failed to disclose the actual amount in controversy to prevent removal, that finding shall be deemed bad faith under paragraph (1).

(d) Notice to adverse parties and State court.—Promptly after the filing of such notice of removal of a civil action the defendant or defendants shall give written notice thereof to all adverse parties and shall file a copy of the notice with the clerk of such State court, which shall effect the removal and the State court shall proceed no further unless and until the case is remanded.

(e) Counterclaim in 337 proceeding.—With respect to any counterclaim removed to a district court pursuant to section 337(c) of the Tariff Act of 1930, the district court shall resolve such counterclaim in the same manner as an original complaint under the Federal Rules of Civil Procedure, except that the payment of a filing fee shall not be required in such

cases and the counterclaim shall relate back to the date of the original complaint in the proceeding before the International Trade Commission under section 337 of that Act.

[(f) Redesignated (e)]

(g) Where the civil action or criminal prosecution that is removable under section 1442(a) is a proceeding in which a judicial order for testimony or documents is sought or issued or sought to be enforced, the 30-day requirement of subsection (b) of this section and paragraph (1) of section 1455(b) is satisfied if the person or entity desiring to remove the proceeding files the notice of removal not later than 30 days after receiving, through service, notice of any such proceeding.

28 U.S.C. § 1447. Procedure
after removal generally

(a) In any case removed from a State court, the district court may issue all necessary orders and process to bring before it all proper parties whether served by process issued by the State court or otherwise.

(b) It may require the removing party to file with its clerk copies of all records and proceedings in such State court or may cause the same to be brought before it by writ of certiorari issued to such State court.

(c) A motion to remand the case on the basis of any defect other than lack of subject matter jurisdiction must be made within 30 days after the filing of the notice of removal under section 1446(a). If at any time before final judgment it appears that the district court lacks subject matter jurisdiction, the case shall be remanded. An order remanding the case may require payment of just costs and any actual expenses, including attorney fees, incurred as a result of the removal. A certified copy of the order of remand shall be mailed by the clerk to the clerk of the State court. The State court may thereupon proceed with such case.

(d) An order remanding a case to the State court from which it was removed is not reviewable on appeal or otherwise, except that an order remanding a case to the State court from which it was removed pursuant to section 1442 or 1443 of this title shall be reviewable by appeal or otherwise.

(e) If after removal the plaintiff seeks to join additional defendants whose joinder would destroy subject matter jurisdiction, the court may deny joinder, or permit joinder and remand the action to the State court.

28 U.S.C. § 1454. Patent, plant
variety protection, and copyright cases

(a) In general.—A civil action in which any party asserts a claim for relief arising under any Act of Congress relating to patents, plant variety protection, or copyrights may be removed to the district court of the United States for the district and division embracing the place where the action is pending.

(b) Special rules.—The removal of an action under this section shall be made in accordance with section 1446, except that if the removal is based solely on this section—

(1) the action may be removed by any party;
and

(2) the time limitations contained in section 1446(b) may be extended at any time for cause shown.

(c) Clarification of jurisdiction in certain cases.—The court to which a civil action is removed under this section is not precluded from hearing and determining any claim in the civil action because the State court from which the civil action is removed did not have jurisdiction over that claim.

(d) Remand.—If a civil action is removed solely under this section, the district court—

(1) shall remand all claims that are neither a basis for removal under subsection (a) nor within the original or supplemental jurisdiction of the district court under any Act of Congress; and

(2) may, under the circumstances specified in section 1367(c), remand any claims within the supplemental jurisdiction of the district court under section 1367.

Relevant State Statutes

9 V.S.A. § 4197. Bad faith assertions
of patent infringement

(a) A person shall not make a bad faith assertion of patent infringement.

(b) A court may consider the following factors as evidence that a person has made a bad faith assertion of patent infringement:

(1) The demand letter does not contain the following information:

(A) the patent number;

(B) the name and address of the patent owner or owners and assignee or assignees, if any; and

(C) factual allegations concerning the specific areas in which the target's products, services, and technology infringe the patent or are covered by the claims in the patent.

(2) Prior to sending the demand letter, the person fails to conduct an analysis comparing the claims in the patent to the target's products, services, and technology, or such an analysis was done but does not identify specific areas in which the products, services, and technology are covered by the claims in the patent.

(3) The demand letter lacks the information described in subdivision (1) of this subsection, the target requests the information, and the person fails to provide the information within a reasonable period of time.

(4) The demand letter demands payment of a license fee or response within an unreasonably short period of time.

(5) The person offers to license the patent for an amount that is not based on a reasonable estimate of the value of the license.

(6) The claim or assertion of patent infringement is meritless, and the person knew, or should have known, that the claim or assertion is meritless.

(7) The claim or assertion of patent infringement is deceptive.

(8) The person or its subsidiaries or affiliates have previously filed or threatened to file one or more lawsuits based on the same or similar claim of patent infringement, and:

(A) those threats or lawsuits lacked the information described in subdivision (1) of this subsection; or

(B) the person attempted to enforce the claim of patent infringement in litigation and a court found the claim to be meritless.

(9) Any other factor the court finds relevant.

(c) A court may consider the following factors as evidence that a person has not made a bad faith assertion of patent infringement:

(1) The demand letter contains the information described in subdivision (b)(1) of this section.

- (2) Where the demand letter lacks the information described in subdivision (b)(1) of this section and the target requests the information, the person provides the information within a reasonable period of time.
 - (3) The person engages in a good faith effort to establish that the target has infringed the patent and to negotiate an appropriate remedy.
 - (4) The person makes a substantial investment in the use of the patent or in the production or sale of a product or item covered by the patent.
 - (5) The person is:
 - (A) the inventor or joint inventor of the patent or, in the case of a patent filed by and awarded to an assignee of the original inventor or joint inventor, is the original assignee; or
 - (B) an institution of higher education or a technology transfer organization owned or affiliated with an institution of higher education.
 - (6) The person has:
 - (A) demonstrated good faith business practices in previous efforts to enforce the patent, or a substantially similar patent; or
 - (B) successfully enforced the patent, or a substantially similar patent, through litigation.
 - (7) Any other factor the court finds relevant.
-

9 V.S.A. § 2453. Practices prohibited;
antitrust and consumer protection

- (a) Unfair methods of competition in commerce, and unfair or deceptive acts or practices in commerce, are hereby declared unlawful.
- (b) It is the intent of the Legislature that in construing subsection (a) of this section, the courts of this State will be guided by the construction of similar terms contained in Section 5(a)(1) of the Federal Trade Commission Act as from time to time amended by the Federal Trade Commission and the courts of the United States.
- (c) The Attorney General shall make rules and regulations, when necessary and proper to carry out the purposes of this chapter, relating to unfair methods of competition in commerce and unfair or deceptive acts or practices in commerce. The rules and regulations shall not be inconsistent with the rules, regulations, and decisions of the Federal Trade Commission and the federal courts interpreting the Federal Trade Commission Act.
- (d) Violation of a rule or regulation as made by the Attorney General is prima facie proof of the commission of an unfair or deceptive act in commerce.
- (e) The provisions of subsections (a), (c), and (d) of this section shall also be applicable to real estate transactions.
-

**Constitution of the United States,
Article VI, Clause 2**

This Constitution, and the Laws of the United States which shall be made in Pursuance thereof; and all Treaties made, or which shall be made, under the Authority of the United States, shall be the supreme Law of the Land; and the Judges in every State shall be bound thereby, any Thing in the Constitution or Laws of any State to the Contrary notwithstanding.

**STATE OF VERMONT
SUPERIOR COURT
WASHINGTON UNIT**

STATE OF VERMONT,) CIVIL DIVISION
Plaintiff) Docket No. 282-5-13 Wnc
)
v.)
MPHJ TECHNOLOGY)
INVESTMENTS, LLC)
Defendant)

**FIRST AMENDED CONSUMER
PROTECTION COMPLAINT**

I. Introduction

1. The Vermont Attorney General brings this suit under the Vermont Consumer Protection Act, 9 V.S.A. §§ 2451 *et seq.* in response to consumer fraud violations by Defendant MPHJ Technology Investments, LLC. Defendant has engaged in unfair and deceptive acts by sending a series of letters to many small businesses and non-profit organizations in Vermont. The letters threaten patent litigation if the businesses do not pay licensing fees. The Attorney General seeks injunctive relief, restitution and other compensation to consumers, civil penalties, fees and costs, and other appropriate relief.

II. Parties, Jurisdiction and Related Matters

2. Defendant MPHJ Technology Investments, LLC (“MPHJ Technology”) is a Delaware Limited Liability Company that claims to be located at 1220 North Market Street, Ste. 806, Wilmington, Delaware 19801. This is the address of Registered Agents Legal Services, LLC, MPHJ Technology’s registered agent in Delaware.

3. MPHJ Technology operates in Vermont through forty wholly-owned shell subsidiary companies: AbsMea, LLC; AccNum, LLC; AdzPro, LLC; BarMas, LLC; BetNam, LLC; BriPol, LLC; BruSed, LLC; BunVic, LLC; CalLad, LLC; CalNeb, LLC; CapMat, LLC; ChaPac, LLC; CraVar, LLC; DayMas, LLC; DesNot, LLC; DreOcc, LLC; DucPla, LLC; ElaMon, LLC; EntNil, LLC; EquiVas, LLC; FanPar, LLC; FasLan, LLC; FolNer, LLC; FraMor, LLC; GimVea, LLC; GosNel, LLC; GraMet, LLC; HadOpp, LLC; HanMea, LLC; HarNol, LLC; HeaPle, LLC; InaNur, LLC; InkSen, LLC; IntPar, LLC; IsaMai, LLC; JamVor, LLC; JitNom, LLC; JonMor, LLC; JudPur, LLC; and JusLem, LLC (collectively, the “Shell LLCs”). Each of the Shell LLCs is a Delaware Limited Liability Company that claims to be located at 40 East Main Street, #19, Newark, Delaware 19711, a UPS Store.

4. Jay Mac Rust, a Texas attorney, is the manager of MPHJ Technology. Calls from letter recipients to any Shell LLC are directed to Mr. Rust if there is a significant problem.

5. Mr. Rust is also the signatory of every patent's "Exclusive License Agreement" between MPHJ Technology and each Shell LLC. He has signed each agreement on behalf of both MPHJ Technology and the Shell LLC.

6. MPHJ Technology controls the operations of the Shell LLCs.

7. At all times relevant to this Complaint, Defendant MPHJ Technology did business in Vermont and solicited payments from Vermont consumers through its wholly owned subsidiaries.

8. The Vermont Attorney General is authorized under the Vermont Consumer Protection Act, 9 V.S.A. § 2458(b), to sue to enforce the Act's prohibitions on unfair and deceptive acts and practices in commerce.

9. This Court has personal jurisdiction over Defendant and is the proper venue for this action, based on the unfair and deceptive letters sent, or otherwise authorized, by Defendant throughout Vermont, including in Washington County.

10. This action is in the public interest.

III. Statutory Framework

11. The Vermont Consumer Protection Act, 9 V.S.A. § 2453(a), prohibits unfair and deceptive acts and practices in commerce.

12. Businesses are considered consumers under the Vermont Consumer Protection Act, except where

the goods or services at issue are being resold by the business.

13. The acts described below, and summarized in paragraphs 14-54, constitute unfair and deceptive acts and practices in commerce.

IV. Facts

14. Since September 2012, numerous Vermont small businesses have received letters from one of the Shell LLCs.

15. Defendant, acting through the Shell LLCs, has sent similar letters to hundreds or thousands of businesses outside Vermont.

16. One Vermont recipient of the letters was Lincoln Street, Inc., a Springfield, Vermont non-profit that operates on state and federal funding to bring home care to developmentally disabled Vermonters. Another Vermont recipient was ARIS Solutions, a non-profit that provides fiscal agent services to Vermonters with disabilities to assist them with daily living tasks.

17. The letters allege potential infringement of MPHJ Technology's patents, and request that the recipients either purchase licenses or confirm that they are not infringing the patents. *See Exs. A-C.*

18. The patents that Defendant owns and that are referenced in these letters sent to Vermont businesses were previously the subject of litigation

brought by the prior owner of the patents. Those 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.

19. The earliest patent referenced in these letters was filed in 1998 and issued in 2001.

20. On information and belief, no attempt to enforce the patents occurred until 2012.

21. Exhibit A is a redacted copy of the first letter sent to targeted businesses.

22. The first letter began, “We have identified your company as one that appears to be using the patented technology.”

23. The first letter further stated:

You should know also that we have had a positive response from the business community to our licensing program. As you can imagine, most businesses, upon being informed that they are infringing someone’s patent rights, are interested in operating lawfully and taking a license promptly. Many companies have responded to this licensing program in such a manner. Their doing so has allowed us to determine that a fair price for a license negotiated in good faith and without the need for court action is payment of [\$900 – \$1200] per employee.

24. The first letter demanded that if the recipient business did not believe it was infringing, it fill

out a questionnaire and produce extensive and burdensome documentation to prove that it was not infringing. *See* Ex. A, p. 4, para 2.

25. Exhibit B is a redacted copy of the third letter in the series of letters sent to Vermont businesses.

26. Exhibit C is a redacted copy of a draft complaint sent to Vermont businesses with the second or third letter.

27. The second and third letters were sent by a Texas law firm, Farney Daniels LLP (“Farney Daniels”). The second and third letters state that Farney Daniels is sending the letters on behalf of the Shell LLC that sent the first letter.

28. These later letters claimed that, because the recipients did not respond to the first, or first and second, letters, it was reasonable to assume that the recipient was infringing the patents, and Defendant had therefore retained patent counsel.

29. Some businesses that have complained to the Attorney General never received the first or second letters, and only received a third letter that referred to the prior letters.

30. The second letter stated that Farney Daniels’ representation can involve litigation, which could be avoided if the recipient were to respond in two weeks to discuss licensing the patents.

31. The third letter twice promised to bring litigation:

[I]f we do not hear from you within two weeks from the date of this letter, our client will be forced to file a Complaint against you for patent infringement in Federal Court where it will pursue all of the remedies and royalties to which it is entitled. . . .

[W]e must hear from you within two weeks of the date of this letter. Given that litigation will ensue otherwise, we again encourage you to retain competent patent counsel to assist you in this matter. (Emphasis in original).

32. The third letter, and sometimes the second letter, attached a draft complaint against the receiving business, naming the Shell LLC that sent the letter as the plaintiff. *See* Exhibit C.

33. Defendant states in the letters that it will target additional Vermont businesses as part of its “ongoing vigorous licensing program.”

34. The three letters Defendant sent to Vermont businesses contain statements that are false, deceptive, and likely to mislead the businesses that received them.

35. On information and belief, Defendant performed little, if any, due diligence to confirm that the targeted businesses were actually infringing its patents prior to sending these letters.

36. Defendant targeted small businesses in commercial fields that were likely unrelated to patent law.

37. On information and belief, Defendant has not received a positive response from the business community to its licensing program.

38. Nationwide, only a tiny fraction of the businesses that have received these letters, not “many” or “most,” have purchased licenses.

39. The actual average licensing fee negotiated by Defendant was less than \$900.

40. A business that receives a letter from a law firm that mentions the possibility of litigation is reasonably likely to infer that the threat of potential litigation is real.

41. Neither Defendant nor any Shell LLC has filed a single lawsuit in Vermont or any other state.

42. Over 130 days have passed since Vermont businesses began receiving letters promising that they would be sued if they did not respond within two weeks.

43. On information and belief, at the time the third letters were sent, and Defendant’s counsel promised to sue the recipient businesses, Defendant had not engaged in any further investigation of the recipient businesses or determined that the businesses were actually infringing its patents.

44. At the time the letters were sent to Vermont businesses, Defendant had not retained local Vermont counsel, as would be needed to prepare for litigation in Vermont.

45. Obtaining an opinion from qualified patent counsel as to whether a patent is valid and whether a potential patent-infringement action is likely to succeed can cost thousands of dollars, and can exceed the cost of the requested licenses.

46. Even an unsuccessful patent-infringement action may cost the defendant in excess of \$1-2 million if the defendant chooses not to settle.

47. In certain circumstances, defendants in patent litigation may be able to recover their costs from plaintiffs, but that requires first enduring the entirety of the litigation.

48. If the defendant in a patent lawsuit successfully moves for an award of fees and costs, but the plaintiff is an undercapitalized shell company, the defendant will not be reimbursed for the costs of litigation.

49. In the letters sent to Vermont businesses, each Shell LLC claimed to possess an exclusive license, which would permit it to enforce the patents against businesses within a specific geographic area and commercial field.

50. Each Shell LLC was actually assigned a combination of geographic and commercial fields that was identical to at least one other Shell LLC.

51. Given the overlapping assignments, the Shell LLCs do not possess exclusive licenses.

52. The Shell LLCs mostly targeted businesses in Vermont that were located outside the geographic regions in which the Shell LLCs claimed to be legally permitted to enforce the patents.

53. Despite the reasonable inference that counsel sending a letter threatening litigation has reviewed the case and found it meritorious in accordance with his or her professional and ethical obligations, on information and belief, that review did not take place.

54. Defendant acted in bad faith by sending these letters to Vermont businesses.

V. Cause of Action: Unfair and Deceptive Trade Practices

55. Plaintiff realleges and incorporates by reference herein each and every allegation contained in the preceding paragraphs 1 through 54.

56. Defendant engaged in unfair trade practices in commerce in violation of the Vermont Consumer Protection Act, 9 V.S.A. § 2453(a), including:

- a. Stating that litigation would be brought against the recipients, when Defendant was neither prepared nor likely to bring litigation;

- b. Using legal counsel to imply that Defendant had performed a sufficient pre-suit investigation, including investigation into the target businesses and their potentially infringing activities, that would be required to justify filing a lawsuit;
- c. Targeting small businesses that were unlikely to have the resources to fight patent litigation, or even to pay patent counsel;
- d. Sending letters that threatened patent-infringement litigation with no independent evidence that the recipients were infringing its patents;
- e. Shifting the entire burden of the pre-suit investigation onto the small businesses that received the letters;
- f. Propounding burdensome information demands on any business that claimed not to infringe the patents; and
- g. Using shell corporations in order to hide the true owners of the patents, avoid liability, and encourage quick settlements.

57. Defendant engaged in deceptive trade practices in commerce in violation of the Vermont Consumer Protection Act, 9 V.S.A. § 2453(a), by making deceptive statements in the threatening letters which would likely lead consumers to believe the following:

- a. Defendant would sue the target businesses if they did not respond within two weeks;
- b. Defendant would sue the target businesses if they did not pay money;
- c. Defendant had a reasonable basis for identifying the target businesses as infringing its patents;
- d. Subsidiary Shell LLCs were exclusive licensees able to enforce the patents;
- e. Target companies were within the sending Shell LLC's alleged area of exclusivity;
- f. Defendant's licensing program had received a positive response from the business community;
- g. Many or most businesses were interested in promptly purchasing a license from Defendant;
- h. Based on prior licensing agreements, the fair price of a license was between \$900 and \$1200 per employee;
- i. Target businesses were receiving a third letter, which refers to two prior letters, when in many cases recipients had received no prior letters.

WHEREFORE Plaintiff, State of Vermont requests judgment in its favor and the following relief:

1. A permanent injunction prohibiting Defendant from engaging in any business activity in, into or from Vermont that violates Vermont law.

2. Full restitution to all Vermont businesses who suffered damages due to Defendant's acts.

3. Civil penalties of up to \$10,000.00 for each violation of the Consumer Protection Act.

4. The award of investigative and litigation costs and fees to the State of Vermont.

5. Such other relief as the Court deems appropriate.

Dated: May 7, 2014

STATE OF VERMONT
WILLIAM H. SORRELL
ATTORNEY GENERAL

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STATE OF VERMONT

SUPERIOR COURT

CIVIL DIVISION

WASHINGTON UNIT

Docket No. 282-5-13 Wnc

STATE OF VERMONT,)
 Plaintiff/Counterclaim)
 Defendant)
 and)
 WILLIAM H. SORRELL,)
 in his official capacity as)
 Attorney General of the)
 State of Vermont)
 Counterclaim Defendant)
 v.)
 MPHJ TECHNOLOGY)
 INVESTMENTS, LLC,)
 Defendant/Counterclaim)
 Plaintiff)

DEFENDANT’S ANSWER TO FIRST AMENDED
COMPLAINT, AFFIRMATIVE DEFENSES,
COUNTERCLAIMS, AND RESERVATION OF
RIGHTS UNDER ENGLAND v. LOUISIANA
STATE BD. OF MEDICAL EXAMINERS,
375 U.S. 411 (1964)

Defendant MPHJ Technology Investments, LLC (“Defendant” or “MPHJ”) hereby *expressly reserves, and preserves, any and all rights to which it is entitled under England v. Louisiana State Bd. of Medical*

Examiners, 375 U.S. 411 (1964), including but not limited to those preserved by claims, allegations, assertions, or issues pled or raised by the Complaint filed by MPHJ against the State of Vermont and certain individual defendants on September 8, 2014, in the matter captioned *MPHJ Technology Investments, LLC v. Sorrell, et al.*, Docket No. 2:14-cv-191 (D. Vt. Filed Sept. 8, 2014), and subject to this express reservation, hereby answers the First Amended Consumer Protection Complaint (“the First Amended Complaint”) filed by the State of Vermont (“Plaintiff” or “Vermont”), and asserts affirmative defenses and counterclaims:

Answer

1. MPHJ admits that the First Amended Complaint purports to be a suit brought by the Vermont Attorney General under the Vermont Consumer Protection Act, 9 V.S.A. §§ 2451 *et seq.*, and that the First Amended Complaint purports to seek the identified requested relief, inclusive of a request for injunction requiring MPHJ to comply with the Vermont Bad Faith Assertions of Patent Infringement Act, 9 V.S.A. § 4195-4199 (“the Vermont Patent Assertions Act”), and denies that the suit was brought in response to any consumer fraud violations. MPHJ further denies that it has engaged in any unfair and deceptive acts by any means, including by sending any letters. MPHJ denies that its letters threatened litigation if recipients did not pay licensing fees. Unless otherwise

admitted to herein, MPHJ denies any and all other allegations in the paragraph.

2. Denied. MPHJ's address is 1013 Centre Road, Suite 403S Wilmington, DE 19805, the address of its registered agent in Delaware.

3. MPHJ denies that it operates in Vermont, directly or through any means, including any subsidiaries. MPHJ admits that identified LLCs are wholly-owned subsidiaries of MPHJ, but denies these entities are shell companies. Whereas the First Amended Complaint refers to the entities identified by name in Paragraph 3, MPHJ herein shall refer to these identified entities by the more accurate term "the MPHJ Subsidiaries." MPHJ admits that the MPHJ Subsidiaries have a mailing location at the identified address. Unless otherwise admitted to herein, MPHJ denies any and all other allegations in the paragraph.

4. MPHJ admits that Mr. Rust is a Texas attorney, and that he is the manager of MPHJ Technology Investments, LLC. MPHJ admits that calls from letter recipients to the MPHJ Subsidiaries are likely to be directed to Mr. Rust, but otherwise denies the allegation at least in part on grounds that the term "significant problem" is vague and ambiguous. Unless otherwise admitted to herein, MPHJ denies any and all other allegations in the paragraph.

5. Admitted.

6. Denied.

7. Denied.

8. MPHJ admits that 9 V.S.A. § 2458(b) authorizes the Vermont Attorney General to bring certain actions to enforce the Vermont Consumer Protection Act, but denies that this section authorizes the bringing of this suit, as the Vermont Consumer Protection Act does not apply to the activity which is the subject of this suit, does not apply to MPHJ, and such action is *ultra vires*, including for reasons further set forth in MPHJ's Affirmative Defenses and Counterclaims below. Unless otherwise admitted to herein, MPHJ denies any and all other allegations in the paragraph.

9. MPHJ denies this Court has personal jurisdiction over MPHJ, and asserts that exercise of personal jurisdiction over MPHJ violates MPHJ's rights under the Fourteenth Amendment Due Process and Equal Protection Clauses, including for reasons further set forth in MPHJ's Affirmative Defenses and Counterclaims. Unless otherwise admitted to herein, MPHJ denies any and all other allegations in the paragraph.

10. Denied. This action is a direct threat to the inventors and innovators of the United States, upon whom the national economy depends.

11. MPHJ admits that 9 V.S.A. § 2453(a) purports to prohibit unfair and deceptive acts and practices in commerce, but denies this statute applies to any of the activity which is the subject of this suit, denies that the statute applies to MPHJ, and as such this suit is *ultra vires*, including for reasons further set forth in MPHJ's Affirmative Defenses and Counterclaims below. Unless otherwise admitted to herein,

MPHJ denies any and all other allegations in the paragraph.

12. Denied. Further, denied to the extent this allegation is intended to suggest that the Vermont Consumer Protection Act applies to the activity at issue in this suit, or to MPHJ, and as such this suit is *ultra vires*, including for reasons further set forth in MPHJ's Affirmative Defenses and Counterclaims below. Unless otherwise admitted to herein, MPHJ denies any and all other allegations in the paragraph.

13. Denied.

14. MPHJ admits that between September 2012 and January 2013, certain Vermont businesses received letters from the MPHJ Subsidiaries. Unless otherwise admitted to herein, MPHJ denies any and all other allegations in the paragraph.

15. MPHJ admits that the MPHJ subsidiaries sent certain letters required by federal law to enforce its patent rights to a number of businesses outside of Vermont likely infringing MPHJ's patents, but denies this allegation as relevant, and further denies any and all other allegations in the paragraph.

16. MPHJ admits that the MPHJ Subsidiaries sent certain letters to a business identified as Lincoln Street, Inc., and to a business identified as ARIS Solutions. Unless otherwise admitted to herein, MPHJ denies any and all other allegations in the paragraph.

17. MPHJ asserts that the term “the letters” to the extent they refer to purported Exhibits A-C, have no clear reference as no exhibits are attached to the First Amended Complaint. For at least this reason, MPHJ is without sufficient information to admit or deny, and therefore denies the allegation. MPHJ admits that it sent some letters related to its patents to some Vermont businesses, but unless otherwise here admitted, MPHJ denies any and all other allegations in the paragraph.

18. MPHJ asserts that the term “the letters” to the extent they refer to purported Exhibits A-C, have no clear reference as no exhibits are attached to the First Amended Complaint. For at least this reason, MPHJ is without sufficient information to admit or deny, and therefore denies the allegation. MPHJ admits that no Court has ruled on the validity of its patents, but unless otherwise here admitted, MPHJ denies any and all other allegations in the paragraph.

19. MPHJ asserts that the term “the letters” to the extent they refer to purported Exhibits A-C, have no clear reference as no exhibits are attached to the First Amended Complaint. For at least this reason, MPHJ is without sufficient information to admit or deny, and therefore denies the allegation. MPHJ admits that the filing and issuance dates of any of its patents are accurately reflected in the publicly available records of the United States Patent and Trademark Office, but unless otherwise here admitted, MPHJ denies any and all other allegations in the paragraph.

20. MPHJ is without sufficient information to admit or deny, and therefore denies the allegations in the paragraph.

21. Denied. No Exhibit A is attached to the First Amended Complaint.

22. MPHJ asserts that to the extent the term “first letter” refers to a letter of Exhibit A, that the allegation lacks any clear reference as no Exhibit A is attached to the First Amended Complaint. For at least this reason, MPHJ is without sufficient information to admit or deny, and therefore denies the allegation. Unless otherwise here admitted, MPHJ denies any and all other allegations in the paragraph.

23. MPHJ asserts that to the extent the term “first letter” refers to a letter of Exhibit A, that the allegation lacks any clear reference as no Exhibit A is attached to the First Amended Complaint. For at least this reason, MPHJ is without sufficient information to admit or deny, and therefore denies the allegation. Unless otherwise here admitted, MPHJ denies any and all other allegations in the paragraph.

24. MPHJ asserts that to the extent the term “first letter” refers to a letter of Exhibit A, that the allegation lacks any clear reference as no Exhibit A is attached to the First Amended Complaint. For at least this reason, MPHJ is without sufficient information to admit or deny, and therefore denies the allegation. Unless otherwise here admitted, MPHJ denies any and all other allegations in the paragraph.

25. Denied. No Exhibit B is attached to the First Amended Complaint.

26. Denied. No Exhibit C is attached to the First Amended Complaint. Further, the reference to “second letter” has no clear antecedent basis and at least for this reason MPHJ is without sufficient information to admit or deny and therefore additionally denies the allegation. Unless otherwise here admitted, MPHJ denies any and all other allegations in the paragraph.

27. MPHJ asserts that the term “the second letters” has no clear antecedent basis and for at least this reason is without sufficient information to admit or deny, and therefore denies the allegation. MPHJ further asserts that to the extent the term “third letter” refers to a letter of Exhibit B, that the allegation lacks any clear reference as no Exhibit B is attached to the First Amended Complaint. For at least this reason, MPHJ is without sufficient information to admit or deny, and therefore denies the allegation. MPHJ admits that Farney Daniels LLP is counsel for it and the MPHJ Subsidiaries, and that acting on their behalf, the firm sent certain letters to certain businesses in Vermont. Further, unless otherwise here admitted, MPHJ denies any and all other allegations in the paragraph.

28. MPHJ asserts that the term “these later letters” has no clear antecedent basis, and no clear reference to any exhibit, and for at least these reasons is without sufficient information to admit or

deny, and therefore denies the allegation. Further, unless otherwise here admitted, MPHJ denies any and all other allegations in the paragraph.

29. MPHJ is without information to admit or deny the allegations of the paragraph, and therefore denies these allegations.

30. MPHJ asserts that the term “the second letter” has no clear antecedent basis and for at least this reason is without sufficient information to admit or deny, and therefore denies the allegation. Further, unless otherwise here admitted, MPHJ denies any and all other allegations in the paragraph.

31. MPHJ asserts that to the extent the term “third letter” refers to a letter of Exhibit B, that the allegation lacks any clear reference as no Exhibit B is attached to the First Amended Complaint. For at least this reason, MPHJ is without sufficient information to admit or deny, and therefore denies the allegation. Unless otherwise here admitted, MPHJ denies any and all other allegations in the paragraph.

32. MPHJ asserts that the term “the second letters” has no clear antecedent basis and for at least this reason is without sufficient information to admit or deny, and therefore denies the allegation. MPHJ further asserts that to the extent the term “third letter” refers to a letter of Exhibit B, that the allegation lacks any clear reference as no Exhibit B is attached to the First Amended Complaint. MPHJ further asserts that the reference to “draft complaint,” and to “Exhibit C” lacks any clear reference

as there is no Exhibit C attached to the First Amended Complaint. For at least these reasons, MPHJ is without sufficient information to admit or deny, and therefore denies the allegation. Further, unless otherwise here admitted, MPHJ denies any and all other allegations in the paragraph.

33. MPHJ asserts that the term “the letters” has no clear antecedent basis and for at least this reason is without sufficient information to admit or deny, and therefore denies the allegation. Unless otherwise here admitted, MPHJ denies any and all other allegations in the paragraph.

34. MPHJ asserts that the term “the three letters” has no clear antecedent basis and for at least this reason is without sufficient information to admit or deny, and therefore denies the allegation. MPHJ denies that any letter sent by it or the MPHJ Subsidiaries contained any statements that were false, deceptive or likely to mislead the recipients. Unless otherwise here admitted, MPHJ denies any and all other allegations in the paragraph.

35. Denied.

36. Denied.

37. Denied.

38. MPHJ asserts that the term “these letters” has no clear antecedent basis and for at least this reason is without sufficient information to admit or deny, and therefore denies the allegation. Unless

otherwise here admitted, MPHJ denies any and all other allegations in the paragraph.

39. Denied.

40. Without further information than provided in the paragraph, MPHJ lacks sufficient information to admit or deny, and therefore denies the allegations in the paragraph.

41. Denied.

42. Denied.

43. Denied.

44. MPHJ asserts that the term “the letters” has no clear antecedent basis and for at least this reason is without sufficient information to admit or deny, and therefore denies the allegation. Unless otherwise here admitted, MPHJ denies any and all other allegations in the paragraph.

45. Without further information than provided in the paragraph, MPHJ lacks sufficient information to admit or deny, and therefore denies the allegations in the paragraph.

46. Without further information than provided in the paragraph, MPHJ lacks sufficient information to admit or deny, and therefore denies the allegations in the paragraph.

47. Without further information than provided in the paragraph, MPHJ lacks sufficient information

to admit or deny, and therefore denies the allegations in the paragraph.

48. Without further information than provided in the paragraph, MPHJ lacks sufficient information to admit or deny, and therefore denies the allegations in the paragraph.

49. MPHJ asserts that the term “the letters” has no clear antecedent basis and for at least this reason is without sufficient information to admit or deny, and therefore denies the allegation. MPHJ admits that the MPHJ Subsidiaries stated in at least certain letters sent to certain Vermont businesses, that the respective MPHJ Subsidiary had certain exclusive licensee rights in MPHJ’s patents. Unless otherwise here admitted, MPHJ denies any and all other allegations in the paragraph.

50. Denied.

51. Denied.

52. Denied.

53. Denied.

54. MPHJ asserts that the term “these letters” has no clear antecedent basis and for at least this reason is without sufficient information to admit or deny, and therefore denies the allegation. Unless otherwise here admitted, MPHJ denies any and all other allegations in the paragraph.

55. MPHJ realleges and incorporates by reference herein each and every response made in the

preceding paragraphs with respect to the allegations in Paragraphs 1-54. Unless otherwise here admitted, MPHJ denies any and all other allegations in the paragraph.

56. Denied.

a. Denied.

b. Denied.

c. Denied.

d. Denied.

e. Denied.

f. Denied.

g. Denied.

57. Denied.

a. Denied.

b. Denied.

c. Denied.

d. Denied.

e. Denied.

f. Denied.

g. Denied.

h. Denied.

i. Denied.

MPHJ further denies that Plaintiff is entitled to any judgment in Plaintiff's favor, or to any relief, including not limited to any relief requested on pages 9-10 of the First Amended Complaint.

Affirmative Defenses

MPHJ, in response to the allegations set forth in the First Amended Complaint, and the bases therefore, further asserts the following affirmative defenses and reserves the right to assert such additional affirmative defenses as may become apparent if and as this litigation continues. This assertion of affirmative defenses provided herein is made subject to MPHJ's express reservation of any and all rights it has to have any of these affirmative defenses litigated in federal court, and in asserting these affirmative defenses, MPHJ hereby *expressly reserves, and preserves, any and all rights to which it is entitled under England v. Louisiana State Bd. of Medical Examiners*, 375 U.S. 411 (1964), including but not limited to those preserved by claims, allegations, assertions, or issues pled or raised by the Complaint filed by MPHJ against the State of Vermont and certain individual defendants on September 8, 2014, in the matter captioned *MPHJ Technology Investments, LLC v. Sorrell, et al.*, Docket No. 2:14-cv-191, et al., (D. Vt. Filed Sept. 8, 2014), and subject to this express reservation, MPHJ hereby asserts the following affirmative defenses:

1. The relief requested by the First Amended Complaint that MPHJ be prohibited from violating Vermont law in part seeks an injunction compelling MPHJ to comply with the Vermont Bad Faith Assertions of Patent Infringement Act, 9 V.S.A. §§ 4195-4199 (“the Vermont Patent Assertions Act”). A patent owner required to comply with that act would be deprived of rights afforded to the owner under Title 35 of the U.S. Code, and the First, Fifth and Fourteenth Amendments of the U.S. Constitution. As such, MPHJ affirmatively asserts that the requested relief cannot be granted as requested by the First Amended Complaint. MPHJ further asserts that by seeking this relief, the First Amended Complaint comprises an action that affects the validity of one of [sic] more laws of the United States, and entitles MPHJ to remove this action pursuant to 28 U.S.C. § 1442(a)(2).

2. The relief requested by the First Amended Complaint that MPHJ be prohibited from violating Vermont law in part seeks an injunction compelling MPHJ to comply with the Vermont Patent Assertions Act. That Act on its face subjects different classes of patent owners to disparate treatment and to disparate risks in the exercise of their First Amendments [sic] rights in communicating related to the enforcement of their patents, and causes patent infringers in Vermont to have certain immunities not afforded to patent infringers in other States. In so doing, the Act violates the rights of U.S. persons to have equal civil rights under the laws of the United States, inclusive of the Equal Protection Clause of the Fourteenth

Amendment, and 42 U.S.C. §§ 1981-1988. MPHJ further asserts that by seeking this relief, the First Amended Complaint is a civil action removable by MPHJ pursuant to 28 U.S.C. § 1443.

3. The assertions of violations by MPHJ of the Vermont Consumer Protection Act as set forth in the First Amended Complaint are barred or preempted by the First and Fourteenth Amendments of the U.S. Constitution, and Title 35 of the U.S. Code, at least in part because no pleading or allegation contained in the First Amended Complaint, even if true, suffices to establish “objective baselessness,” which is a constitutional prerequisite to asserting any state law against MPHJ’s accused patent enforcement activity.

4. The assertions of violations by MPHJ of the Vermont Consumer Protection Act as set forth in the First Amended Complaint are barred or preempted by the First and Fourteenth Amendments of the U.S. Constitution, and Title 35 of the U.S. Code, at least in part because no pleading or allegation contained in the First Amended Complaint, even if true, suffices to establish “subjective baselessness,” which is a constitutional prerequisite to asserting any state law against MPHJ’s accused patent enforcement activity.

5. The bringing of the First Amended Complaint, and the maintenance of this suit, deprives MPHJ of its rights under the First, Fifth and Fourteenth Amendments, and Title 35 of the U.S. Code, and as such the case should be dismissed.

6. Section 2453 of the VCPA, asserted against MPHJ in the First Amended Complaint, cannot be violated by MPHJ because the patent enforcement activity in which MPHJ was engaged is not an “act or practice in commerce.” See *Foti Fuels, Inc. v. Kurrle Corp.*, 2013 VT 111 (Vt. 2013).

7. Section 2453 of the VCPA, asserted against MPHJ in the First Amended Complaint, cannot be violated by MPHJ because MPHJ is not a “seller” under 2451a(c).

8. The assertion of § 2453 of the VCPA against the patent enforcement activity of MPHJ is barred because prior to bringing such suit, the Attorney General of Vermont had promulgated no rules or regulations providing fair and reasonable notice to MPHJ of what conduct might be considered to violate that section. Further, the fact that the Vermont legislature subsequently enacted the Vermont Patent Assertions Act is *prima facie* evidence that § 2453 does not itself apply to such conduct.

9. The First Amended Complaint fails to state a claim under Vermont law, including but not limited to Rule of Civil Procedure 12(b)(6).

10. The First Amended Complaint fails to state a claim over which MPHJ is, or should be, subject to personal jurisdiction in this Court or the State of Vermont, pursuant to Vermont law and the Fourteenth Amendment of the U.S. Constitution.

11. The First Amended Complaint asserts state law claims that are preempted or barred by Title 35 of the U.S. Code, the Supremacy and Patent Clauses of the U.S. Constitution, and the First, Fifth and Fourteenth Amendments to the U.S. Constitution, inclusive of how that law has been construed and applied in reliance on *Globetrotter Software, Inc. v. Elan Computer Group, Inc.*, 362 F.3d 1367 (Fed. Cir. 2004).

12. The First Amended Complaint is barred under the “law of the case” doctrine under the decision of the U.S. District Court for the District of Vermont in this case (*Vermont v. MPHJ Tech. Invs., LLC*, 2014 U.S. Dist. LEXIS 52132 (D. Vt. Ap. 14, 2014)) holding that *Globetrotter Software, Inc. v. Elan Computer Group, Inc.*, 362 F.3d 1367 (Fed. Cir. 2004) applies to preempt this suit unless the plaintiff pleads and proves “bad faith,” which the First Amended Complaint fails to do, as recently confirmed by the decision in U.S. District Court for the District of Nebraska, *Activision TV, Inc. and MPHJ Technology Investments, LLC v. Bruning*, No. 13-cv-00215, slip op. at 4-7 (D. Neb. Sept. 2, 2014).

Counterclaims

MPHJ, in response to the allegations set forth in the First Amended Complaint, and the bases therefore, further asserts the following counterclaims and reserves the right to assert such additional counterclaims as may become apparent if and as

this litigation continues. This assertion by MPHJ of these counterclaims is made with the express reservation by MPHJ of its right to appeal this Court's finding that MPHJ is subject to personal jurisdiction in Vermont on the basis of the conduct accused in the First Amended Complaint. This assertion of counterclaims provided herein further is made subject to MPHJ's express reservation of any and all rights it has to have any of these counterclaims litigated in federal court, and in asserting these counterclaims, MPHJ hereby *expressly reserves, and preserves, any and all rights to which it is entitled under England v. Louisiana State Bd. of Medical Examiners*, 375 U.S. 411 (1964), including but not limited to those preserved by claims, allegations, assertions, or issues pled or raised by the Complaint filed by MPHJ against the State of Vermont and certain individual defendants on September 8, 2014, in the matter captioned *MPHJ Technology Investments, LLC v. Sorrell, et al.*, Docket No. 2:14-cv-191 (D. Vt. Filed Sept. 8, 2014) and subject to these express reservations, MPHJ hereby asserts the following counterclaims:

1. Counterclaim-Plaintiff is MPHJ.
2. Counterclaim-Defendant is the State of Vermont solely in its capacity as Plaintiff in this matter, and is the Counterclaim Defendant for purposes of the counterclaim recited herein.

3. William H. Sorrell is the Attorney General for the State of Vermont, and is named as a Counterclaim Defendant solely in his official capacity, and solely for purposes of bringing these counterclaims.

4. This Court lacks subject matter jurisdiction over this matter, and MPHJ reserves all rights to appeal or otherwise seek relief related to this Court's lack of subject matter jurisdiction. Subject to this reservation, MPHJ acknowledges that it is before this Court involuntarily, and presents these counterclaims without waiving its rights to challenge this Court's jurisdiction over the entire matter.

5. The Counterclaim-Defendants are subject to personal jurisdiction in this Court. This Court has personal jurisdiction over Counterclaim-Defendants at least because, on information and belief, Counterclaim Defendant State of Vermont consented to this Court's jurisdiction by filing this suit, and Counterclaim Defendant Sorrell, in his official capacity, has ongoing and systematic contacts within the jurisdiction of this Court, has and maintains offices within the jurisdiction of this Court, and has committed actions relevant to these Counterclaims within the jurisdiction of this Court, and which have had an impact or effect in the area within the jurisdiction of this Court. In contrast, MPHJ is not subject to the personal jurisdiction of this Court, and preserves its position on the lack of jurisdiction, as it submits these counterclaims as compulsory, and only as it is involuntarily before this Court.

6. Venue, for purposes of these counterclaims, and subject to the express reservations stated herein, is proper in this Court.

COUNTERCLAIM ONE

(Declaratory Judgment Re: Invalidity Or Preemption Of Vermont Bad Faith Assertions Of Patent Infringement Act Under First, Fifth & Fourteenth Amendments Of U.S. Constitution)

1. MPHJ restates and realleges the preceding allegations in all of these Counterclaims.

2. The First Amended Complaint seeks an injunction compelling MPHJ to comply with the Vermont Bad Faith Assertions of Patent Infringement Act, 9 V.S.A. §§ 4195-4199 (the “Vermont Patent Assertions Act”).

3. The Vermont Patent Assertions Act (Title 9, Chap. 120 of the V.S.A.) is invalid or preempted on its face, and as applied, under the First, Fifth and Fourteenth Amendments, and the Supremacy Clause and Patent Clause of the U.S. Constitution, for reasons including but not limited to the following:

- a. the Act (§ 4195) admits on its face that it is intended to regulate the content of patent infringement assertions, stating “it is necessary that [Vermont companies] receive specific information regarding how [they] may have infringed the patent at issue;”

- b. the Act (§ 4196) admits on its face that it is intended “to facilitate the efficient and prompt resolution of patent infringement claims” and is intended to have the State, by virtue of this Act, distinguish between “legitimate” and “illegitimate” patent enforcement actions;
- c. the Act (§§ 4196-4197) provides benefits to Vermont citizens who are “targets” of patent assertions differently than citizens of other States;
- d. the Act (§ 4197) requires inclusion of information, such as analysis of a target’s products, that may not be possible, such as in the situation of Likely Private Infringers, and thereby impairs the ability to enforce at least some types of U.S. patents, and the rights of the owners of such U.S. patents, in a manner that interferes with the U.S. patent law;
- e. the Act (§ 4197) refers to “bad faith” but permits a violation of the Act to be found, and penalties and injunctive relief imposed, without requiring proof of objective and subjective baselessness;
- f. the Act (§ 4197) specifically cites being “meritless” as to infringement as only one factor to consider in finding a violation of the Act, and thus by its terms permits finding a violation of the Act without a finding of baselessness as to infringement, or validity;

- g. the Act (§ 4197) expressly permits a sender of a patent assertion to be found liable for sending the communication after litigation on the merits of the infringement claim, thereby expressly chilling the exercise of the right to petition in the First and Fourteenth Amendments;
- h. the Act (§ 4197) puts a defendant at greater risk of being found in violation of the Act if the defendant does not provide defendants “analysis” of an infringement assertion, and thereby puts a defendant at risk of choosing between protecting material protected under attorney-client privilege or the work product doctrine, and instead enhanced liability, or risk of liability, under the Act;
- i. the Act (§ 4197) puts a defendant at greater risk of being found in violation of the Act if the defendant does not conduct an “analysis” that is not required by U.S. law prior to sending a patent enforcement communication;
- j. the Act (§ 4197) expressly discriminates among different classes of patent owners in a manner not recognized or permitted under Title 35 of the U.S. Code, inclusive of 35 U.S.C. § 261, and under the First and Fourteenth Amendments of the U.S. Constitution, including, for example, by expressly favoring patent owners who have made investment in use of the

patent or who are the inventor, or a university (§ 4197(c)(4 & 5));

- k. the Act (§ 4198) subjects the patent owner to the risk of posting a bond at the beginning of litigation under the Act, thereby substantially chilling the exercise of the First Amendment right to send patent assertions communications;
- l. the Act (§ 4199) subjects the patent owners to substantial damages, penalties and injunctive relief, thereby substantially chilling the exercise of the First Amendment right to send patent assertion communications;
- m. the Act (§§ 4195-4199) is unconstitutionally vague, and affords too much discretion to the state court, such that it fails to reasonably put a patent owner on notice of what conduct might be considered to violate the Act.

4. The Vermont Patent Assertions Act is invalid or preempted on its face and, as applied, under the First, Fifth and Fourteenth Amendments of the U.S. Constitution, and the Supremacy Clause and Patent Clause of the U.S. Constitution.

5. As the relief requested with respect to this Counterclaim One, MPHJ respectfully requests the following:

- a. a declaratory judgment that the Vermont Patent Assertions Act is invalid and/or preempted under the First, Fifth

and Fourteenth Amendments of the U.S. Constitution, and the Supremacy Clause and Patent Clause of the U.S. Constitution;

- b. that Counterclaim Defendants be barred from seeking relief from MPHJ that would include an injunction requiring compliance with the Vermont Patent Assertions Act;
- c. such other relief at law or in equity as MPHJ may show itself to be entitled.

6. This Counterclaim comprises a claim for relief arising under an Act of Congress relating to patents and therefore is subject to removal pursuant to 28 U.S.C. § 1454, and MPHJ expressly reserves, and will exercise, its right to remove this action on that basis.

COUNTERCLAIM TWO

(Declaratory Judgment Re: Invalidity Or Preemption Of Vermont Bad Faith Assertions Of Patent Infringement Act Under Title 35 Of The U.S. Code And The Supremacy Clause And The Patent Clause Of The U.S. Constitution)

1. MPHJ restates and realleges the preceding allegations in all of these Counterclaims.
2. The Vermont Patent Assertions Act (Title 9, Chap. 120 of the V.S.A.) is invalid or preempted on its face under the Title 35 of the U.S. Code and the Supremacy Clause and Patent Clause of the U.S.

Constitution, for reasons including but not limited to those set forth in Paragraph 2 of Counterclaim One.

3. The Vermont Patent Assertions Act is facially invalid or preempted under Title 35 of the U.S. Code and the Supremacy Clause and Patent Clause of the U.S. Constitution.

4. As the relief requested with respect to this Counterclaim Two, MPHJ respectfully requests the following:

- a. a declaratory judgment that the Vermont Patent Assertions Act is invalid and/or preempted under the Title 35 of the U.S. Code and the Supremacy Clause and Patent Clause of the U.S. Constitution;
- b. that Counterclaim Defendants be barred from seeking relief from MPHJ that would include an injunction requiring compliance with the Vermont Patent Assertions Act;
- c. such other relief at law or in equity as MPHJ may show itself to be entitled.

5. This Counterclaim comprises a claim for relief arising under an Act of Congress relating to patents and therefore is subject to removal pursuant to 28 U.S.C. § 1454, and MPHJ expressly reserves, and will exercise, its right to remove this action on that basis.

COUNTERCLAIM THREE
(Declaratory Judgment Regarding
Validity Of MPHJ's Patents)

1. MPHJ restates and realleges the preceding allegations in all of these Counterclaims.

2. At all times relevant to the First Amended Complaint, MPHJ was and is the owner of the following U.S. Patents which were referenced in the patent enforcement correspondence that is the subject of the allegations of the First Amended Complaint. These patents are identified below.

3. On July 26, 2011, United States Patent No. 7,986,426 (“the ’426 Patent”) entitled “Distributed Computer Architecture and Process for Document Management” was duly and legally issued by the United States Patent and Trademark Office, identifying Laurence C. Klein as the inventor. A true and correct copy of the ’426 Patent is attached as Exhibit A-1.

4. On January 13, 2009, United States Patent No. 7,477,410 (“the ’410 Patent”) entitled “Distributed Computer Architecture and Process for Virtual Copying” was duly and legally issued by the United States Patent and Trademark Office, identifying Laurence C. Klein as the inventor. A true and correct copy of the ’410 Patent is attached as Exhibit A-2.

5. On August 3, 2004, United States Patent No. 6,771,381 (“the ’381 Patent”) entitled “Distributed Computer Architecture and Process for Virtual Copying” was duly and legally issued by the United States

Patent and Trademark Office, identifying Laurence C. Klein as the inventor. A true and correct copy of the '381 Patent is attached as Exhibit A-3.

6. On February 6, 2001, United States Patent No. 6,185,590 ("the '590 Patent") entitled "Process and Architecture for Use on Stand-Alone Machine and in Distributed Computer Architecture for Client Server and/or Intranet and/or Internet Operating Environments for Migrating a Program Specific Application Programmer Interface (API) From an Original State into a Generic Interface by Building an Object" was duly and legally issued by the United States Patent and Trademark Office, identifying Laurence C. Klein as the inventor. A true and correct copy of the '590 Patent is attached as Exhibit A-4.

7. On July 16, 2013, United States Patent No. 8,488,173 ("the '173 Patent") entitled "Distributed Computer Architecture and Process for Document Management" was duly and legally issued by the United States Patent and Trademark Office, identifying Laurence C. Klein as the inventor. A true and correct copy of the '173 Patent is attached as Exhibit A-5.

8. The '426 Patent, '410 Patent, '381 Patent, '590 Patent and the '173 Patent are collectively referred to herein as "the Klein Patents" or "MPHJ's Patents."

9. Plaintiff MPHJ, is the assignee and owner of the Klein Patents, and together with its exclusive licensees, has the right to assert causes of action

arising under said patents and the right to any remedies for infringement thereof, and to license any and all of the Klein Patents, and to send notice and enforcement-related correspondence to third parties regarding the same, and to enjoy and exercise all rights and privileges pertaining to an owner of a U.S. patent under Title 35 of the U.S. Code and the laws and Constitution of the United States.

10. The '426 Patent was examined by the U.S. Patent and Trademark Office ("Patent Office") before issuance, and by law is presumed valid until a determination by lawful authority to the contrary.

11. The '410 Patent was examined by the Patent Office before issuance, and by law is presumed valid until a determination by lawful authority to the contrary.

12. The '381 Patent was examined by the Patent Office before issuance, and by law is presumed valid until a determination by lawful authority to the contrary.

13. The '590 Patent was examined by the Patent Office before issuance, and by law is presumed valid until a determination by lawful authority to the contrary.

14. The '173 Patent was examined by the Patent Office before issuance, and by law is presumed valid until a determination by lawful authority to the contrary.

15. At least one of the claims of the '426 Patent, '410 Patent, '381 Patent, '590 Patent, or the '173 Patent, is not invalid under Title 35 of the U.S. Code.

16. At the time of the patent enforcement communications by MPHJ that are the subject of the First Amended Complaint, it was not objectively baseless for a reasonable person to believe that at least one claim of the '426 Patent, '410 Patent, '381 Patent, '590 Patent, or the '173 Patent was not invalid under Title 35 of the U.S. Code.

17. Under the Vermont Bad Faith Assertions of Patent Infringement Act, with which the Counterclaim Defendants seek an injunction compelling MPHJ's compliance, factors the court "may" consider in deciding whether an assertion of patent infringement has been in "bad faith" is whether the conduct is meritless.

18. MPHJ submits that the Vermont Bad Faith Assertions of Patent Infringement Act should be not be [sic] applied to it, and an injunction compelling MPHJ's compliance with it is unlawful at least in part because any patent enforcement communications by MPHJ involve patents where at least one claim is valid, or at least may be believed by an objective reasonable person to have a reasonable chance of success on the merits of validity.

19. As the relief requested with respect to this Counterclaim Three, MPHJ respectfully requests the following:

- a. a declaratory judgment that at least one of the claims of the above-identified patents is not invalid;
- b. a declaratory judgment that with respect to at least one claim of the above-identified patents, that it would not be objectively baseless for a reasonable person to conclude that there was a chance of prevailing on the issue of the validity of such claim;
- c. such other relief at law or in equity as MPHJ may show itself to be entitled.

20. This Counterclaim comprises a claim for relief arising under an Act of Congress relating to patents and therefore is subject to removal pursuant to 28 U.S.C. § 1454, and MPHJ expressly reserves, and will exercise, its right to remove this action on that basis.

COUNTERCLAIM FOUR

(Declaratory Judgment Regarding Infringement Or Suspected Infringement Of MPHJ's Patents)

1. MPHJ restates and realleges the preceding allegations in all of these Counterclaims.

2. At least one of the claims of the '426 Patent, '410 Patent, '381 Patent, '590 Patent, or the '173 Patent, may reasonably be suspected of infringement by at least some of the businesses in Vermont who received patent enforcement correspondence from

MPHJ that is the subject of the First Amended Complaint.

3. On information and belief, at least one of the claims of '426 Patent, '410 Patent, '381 Patent, '590 Patent, or the '173 Patent, is infringed by at least one or more of the businesses in Vermont who received patent enforcement correspondence from MPHJ that is the subject of the First Amended Complaint.

4. Under the Vermont Bad Faith Assertions of Patent Infringement Act, with which the Counterclaim Defendants seek an injunction compelling MPHJ's compliance, factors that the court "may" consider in deciding whether an assertion of patent infringement has been in "bad faith" is whether the conduct is meritless.

5. MPHJ submits that the Vermont Bad Faith Assertions of Patent Infringement Act should be [sic] not be applied to it, and an injunction compelling MPHJ's compliance with it is unlawful at least in part because any patent enforcement communications by MPHJ involve patents where at least one claim is infringed, or likely infringed, by one or more Vermont businesses, including past recipients of MPHJ's patent enforcement communications, or at least may be believed by an objective reasonable person to have reasonable chance of success on the merits of infringement, or reasonable suspicion of infringement.

6. As the relief requested with respect to this Counterclaim Four, MPHJ respectfully requests the following:

- a. a declaratory judgment that at least one of the claims of the above-identified patents is infringed by at least one or more of the Vermont businesses who received patent enforcement correspondence from MPHJ that is the subject of the First Amended Complaint;
- b. a declaratory judgment that with respect to at least one claim of the above-identified patents, that it would not be objectively baseless for a reasonable person to conclude that there was a chance of prevailing on the issue of infringement of such claim by at least one or more of the Vermont businesses who received patent enforcement correspondence from MPHJ that is the subject of the First Amended Complaint;
- c. such other relief at law or in equity as MPHJ may show itself to be entitled.

7. This Counterclaim comprises a claim for relief arising under an Act of Congress relating to patents and therefore is subject to removal pursuant to 28 U.S.C. § 1454, and MPHJ expressly reserves, and will exercise, its right to remove this action on that basis.

COUNTERCLAIM FIVE

(Declaratory Judgment Re: VCPA Is Invalid
Or Preempted As Applied Under First, Fifth &
Fourteenth Amendments, And Supremacy And
Patent Clauses Of The U.S. Constitution
And Title 35 Of The U.S. Code)

1. MPHJ restates and realleges the preceding allegations in all of these Counterclaims.

2. The Counterclaim-Defendants have asserted and currently assert that the Vermont Consumer Protection Act may be applied against correspondence related to patent enforcement without pleading or proof that such conduct is objectively baseless and subjectively baseless.

3. The First Amended Complaint filed by the Counterclaim Defendants contains a number of allegations of violations of the Vermont Consumer Protection Act that all are based upon the sending of letters related to patent enforcement by MPHJ or the MPHJ Subsidiaries to certain businesses in Vermont.

4. Under at least some circumstances, federal law permits a patent owner to threaten suit even if the patent owner does not intend to bring suit.

5. With respect to the allegation in the preceding paragraph, Counterclaim Defendants have no evidence to support an allegation that such federal law would not apply to the circumstances related to MPHJ's conduct accused by the First Amended Complaint.

6. Under federal law, a patent owner may communicate an intention to bring suit for infringement without having conducted, or completed, such investigation as is necessary to satisfy FED. R. CIV. P. 11.

7. Counterclaim Defendants have no evidence to support an allegation that MPHJ, or its counsel, did not conduct a sufficient investigation to provide a lawful basis for sending the correspondence sent by MPHJ to Vermont companies.

8. Counterclaim Defendants have no basis to allege that 35 U.S.C. § 271 exempts from liability for infringement those companies that are smaller than a certain size as determined by number of employees.

9. Counterclaim Defendants have no basis to allege 35 U.S.C. § 271 exempts from liability for infringement those companies that are smaller than a certain size as determined by revenues.

10. Counterclaim Defendants have no basis to allege 35 U.S.C. § 271 exempts from liability for infringement those companies that are smaller than a certain size as determined by profits.

11. Counterclaim Defendants have no basis to allege 35 U.S.C. § 271 exempts from liability for infringement those companies that are smaller than a certain size as determined by the ability to pay for counsel in connection with an inquiry, or suit, related to the infringement.

12. Counterclaim Defendants have no basis to allege 35 U.S.C. § 271 exempts from liability for infringement those companies that are non-profit organizations.

13. Where infringement may be reasonably suspected, but not confirmed, from publicly available information, the Counterclaim Defendants have no basis to contend that federal law does not require a patent owner to send an inquiry regarding the suspected infringement to the suspected infringer to confirm the existence of infringement.

14. The Counterclaim Defendants have no basis to contend that an inquiry as set forth in the prior paragraph may be not be sent when the patent owner does not have in hand evidence demonstrating actual infringement by the suspected infringer.

15. The Counterclaim Defendants have no basis to contend that with respect to an inquiry as set forth in the prior paragraph, federal law does not permit seeking reasonable documentation to confirm any denial of infringement.

16. The Counterclaim Defendants have no basis to contend that federal law does not permit a patent owner to exclusively license its patents to subsidiaries, including the grant of a right to sub-license.

17. Prior to filing the First Amended Complaint, Counterclaim Defendants, or their agents, did not conduct an analysis sufficient to meet the requirements of law to determine the reasonable royalty to

which MPHJ would be entitled for infringement of its patents under 35 U.S.C. § 284.

18. Prior to filing the First Amended Complaint, Counterclaim Defendants, or their agents, did not conduct an analysis sufficient to meet the requirements of law to determine the reasonable royalty to which MPHJ would be entitled for infringement of its patents under 35 U.S.C. § 284 would be less than the royalty proposed by MPHJ in its correspondence to Vermont businesses.

19. Counterclaim Defendants, or their agents, have no basis to deny that it is common in patent licensing negotiations for the agreed upon royalty in a license to be less than the patent owner's initial proposed royalty.

20. Counterclaim Defendants, or their agents, have no basis to deny that a reference to prior recipients having had a "positive response" to letters regarding MPHJ's patents was accurate at least with respect to responses received by MPHJ's predecessor-in-interest of the patents.

21. Counterclaim Defendants, or their agents, do not plead in the First Amended Complaint that any claim of any MPHJ patent is invalid.

22. Counterclaim Defendants, or their agents, do not plead in the First Amended Complaint that no Vermont recipient of MPHJ's correspondence infringes at least one claim of any of MPHJ's patents.

23. Counterclaim Defendants, or their agents, do not deny, that at the time of MPHJ's correspondence regarding its patents elsewhere in this pleading, that MPHJ's patents were presumed valid under 35 U.S.C. § 261.

24. Counterclaim Defendants, or their agents, do not plead in the First Amended Complaint that it would have been objectively baseless to believe that at least one claim of MPHJ's patents was valid.

25. Counterclaim Defendants, or their agents, do not plead in the First Amended Complaint that it would have been objectively baseless to believe that a Vermont recipient of MPHJ's correspondence infringed at least one claim of any of MPHJ's patents.

26. No allegation contained in the First Amended Complaint relates to, pleads, or if proven, would demonstrate objective baselessness.

27. As a result, the Vermont Consumer Protection Act is invalid or preempted as applied under the First, Fifth and Fourteenth Amendments, and the Supremacy and Patent Clauses of the U.S. Constitution, and Title 35 of the U.S. Code.

28. As the relief requested with respect to this Counterclaim Five, MPHJ respectfully requests the following:

- a. a declaratory judgment that at [sic] the VCPA is invalid or preempted as applied under the First, Fifth and Fourteenth Amendments, and the Supremacy and Patent Clauses of the U.S. Constitution, and Title 35 of the U.S. Code;
- b. such other relief at law or in equity as MPHJ may show itself to be entitled.

COUNTERCLAIM SIX
(Declaratory Judgment Re:
No Violation Of The VCPA)

1. MPHJ restates and realleges the preceding allegations in all of these Counterclaims.

2. The First Amended Complaint filed by the Counterclaim Defendants contains a number of allegations of violations of the Vermont Consumer Protection Act that all are based upon the sending of letters related to patent enforcement by MPHJ or the MPHJ Subsidiaries to certain businesses in Vermont.

3. No state law may be asserted against a patent owner for the sending of patent enforcement correspondence unless it is first pled and proven that the conduct is objectively baseless as well as subjectively baseless.

4. No allegation contained in the First Amended Complaint relates to, pleads, or if proven, would demonstrate objective baselessness.

5. As a result, MPHJ, in the sending of its patent enforcement correspondence as described herein, cannot be found to have violated the Vermont Consumer Protection Act, on grounds established by the First, Fifth and Fourteenth Amendments, and the Supremacy and Patent Clauses of the U.S. Constitution, and Title 35 of the U.S. Code.

6. As the relief requested with respect to this Counterclaim Six, MPHJ respectfully requests the following:

- a. a declaratory judgment that at the [sic] MPHJ's conduct accused by the First Amended Complaint does not constitute any violation of the VCPA;
- b. such other relief at law or in equity as MPHJ may show itself to be entitled.

Request for Judgment

WHEREFORE, Defendants demand judgment as follows:

1. Dismissal of the First Amended Complaint.
2. Awarding judgment to MPHJ on its Counterclaims.
3. Awarding MPHJ its attorneys' fees, costs and interest; and
4. Such other and further legal and equitable relief as is just and proper.

Dated: Burlington, Vermont
September 9, 2014

/s/ [Illegible]

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For Defendant/Counterclaim
Plaintiff
