UNITED STATES DISTRICT COURT

FOR THE

DISTRICT OF VERMONT

STATE OF VERMONT, Plaintiff v. MPHJ TECHNOLOGY INVESTMENTS, LLC, Defendant	)	Docket No. 2:13-cv-170

MPHJ TECHNOLOGY INVESTMENTS, LLC'S MOTION
FOR SANCTIONS UNDER RULE 11,
28 U.S.C. § 1927, AND THE COURT'S INHERENT AUTHORITY

Defendant MPHJ Technology Investments, LLC ("MPHJ") respectfully moves this Court to impose sanctions under FED. R. CIV. P. 11(b & c), 28 U.S.C. § 1927, and the Court's inherent authority. The background, facts, and law relevant to demonstrating MPHJ is entitled to the relief requested by this Motion are set forth in the accompanying Memorandum. On the basis of the presentation made in that Memorandum, MPHJ respectfully requests this Court enter Findings and an Order finding that the conduct of the Plaintiff State of Vermont and its counsel have violated the requirements of Rule 11(b), and requests this Court to impose such sanctions as are permitted under Rule 11(c)(4). 28 U.S.C. § 1927, and as this Court finds appropriate, and as

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MPHJ may show itself to be entitled in the accompanying Memorandum and subsequent briefing.

Dated: Burlington, Vermont
February 7, 2014

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UNITED STATES DISTRICT COURT

FOR THE

DISTRICT OF VERMONT

STATE OF VERMONT, Plaintiff	)	
	)	
v.	)	Docket No. 2:13-cv-170
	)	
MPHJ TECHNOLOGY INVESTMENTS, LLC, Defendant	)	

MPHJ TECHNOLOGY INVESTMENTS, LLC'S MEMORANDUM
IN SUPPORT OF ITS MOTION FOR SANCTIONS
UNDER RULE 11, 28 U.S.C. § 1927, AND THE COURT'S INHERENT AUTHORITY

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INTRODUCTION

MPHJ Technology Investments, LLC ("MPHJ") respectfully submits this Memorandum in Support of its Motion for Relief pursuant to FED. R. CIV. P. 11, 28 U.S.C. § 1927, and the Court's inherent authority.

The circumstances of this case, and the circumstances of this Motion, are unusual. As the Court is aware, in the present case, the State of Vermont filed suit in Vermont state court against MPHJ, seeking a judgment that certain of MPHJ's efforts to enforce its patents in Vermont violated the Vermont Consumer Protection Act ("VCPA"). That suit was removed to this Court, where the Court has before it two motions. One motion is MPHJ's Motion to Dismiss for Lack of Personal Jurisdiction. In that Motion, MPHJ simply asks this Court to reach the same conclusion on personal jurisdiction as has already been decided by the Eastern District of Louisiana in a case involving the identical patent licensing conduct by MPHJ accused by the State in this case. *See Eng'g & Inspec. Servs, LLC v. IntPar, LLC,* 2013 U.S. Dist. LEXIS 146849 (E.D. La. Oct. 10, 2013). The second pending motion is the State's Motion to Remand.

MPHJ from the start of this case has maintained that the State's case is frivolous and brought in bad faith, at least because its conduct accused by the State does not fall within the scope of the VCPA, and separately because its conduct is protected speech under the First Amendment, unless the State pleads and proves that it was objectively baseless and subjectively baseless, two points which the State has consistently adamantly insisted it has not yet pled, and which it is clear the State could not plead without violating FED. R. CIV. P. 11, or the state equivalent.

Two recent decisions by two different courts have now confirmed MPHJ's positions, and done so in a way that the State can no longer reasonably contend that it has any good faith basis to maintain this suit. The first of these decisions is *Foti Fuels, Inc. v. Kurrle Corp.,* 2013 VT

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111 (Vt. 2013) (Exh. A). That decision was published December 13, 2013. In *Foti*, the Vermont Supreme Court interpreted the scope of the VCPA in a manner that puts it beyond peradventure that the statute cannot be applied against MPHJ's conduct. The State cannot contend in good faith after this decision that there is any set of facts upon which it can prevail in the present case, regardless of whether the issues are ultimately decided by this Court, or by a state court.

The second of the two decisions that have confirmed MPHJ's positions is a decision by the U.S. District Court for the District of Nebraska entered as of January 14, 2014. *See Activision TV, Inc.,et al. v. Pinnacle Bancorp, Inc., et al.*; In the United States District Court for the District of Nebraska; C.A. No. 8:13-cv-00215-JFB-TDT [Dkt. 111] (Exh. B[1]). In that case, the State of Nebraska, via power invested in the State Attorney General, had issued a Cease and Desist Order against MPHJ's counsel from continuing the patent enforcement efforts of MPHJ in Nebraska, which were identical to the efforts in Vermont. In its decision of January 14, the Nebraska District Court held that MPHJ's conduct had not been shown to be objectively and subjectively baseless, and was protected free speech under the First Amendment. *See* Exhs. B [Dkt. 111] & Exhs. D [Dkt. 41]. The Court then preliminarily enjoined the State Attorney General from any further interference with MPHJ's patent enforcement activity.[2] It is significant that in the Nebraska case, every single accusation made by the State of Vermont in this case was placed before the Nebraska District Judge for consideration, and in the face of those allegations, the

[1] The Order in Exhibit B makes reference to earlier preliminary injunction orders issued by the Court with respect to a second plaintiff in the same case, and those Orders are included herein for the Court's convenience as Exhibits C [Neb. Dkt. 38] and D [Neb. Dkt. 41].

[2] The decision was made in the context of the grant in MPHJ's favor of a preliminary injunction enjoining the Nebraska Attorney General from enforcing in any manner the Cease and Desist Order against MPHJ's counsel with respect to MPHJ's licensing activity. However, as part of that Order, the Court also found that a permanent injunction was appropriate, and ordered the parties to agree upon a form of that motion, or to submit summary judgment briefing on the subject.

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Court still found that preemption applied and that there was no evidence that MPHJ's patent enforcement efforts were objectively baseless or subjectively baseless.

The holding in Nebraska confirming MPHJ's position that its conduct is constitutionally protected free speech means that the State of Vermont cannot persist in its unlawful interference with the identical speech of MPHJ in Vermont unless the State can show that the protections of the First Amendment somehow do not apply in Vermont in the same manner that they do in Nebraska. The law is clear that the only way the State could contend that MPHJ's conduct was not protected by the First Amendment is if it were to argue that MPHJ's conduct has been both objectively baseless and subjectively baseless.[3] But here, the State up until now has expressly chosen to not plead that MPHJ's conduct was objectively baseless, which would require showing the relevant patents are either invalid, or not reasonably suspected of infringement. Moreover, given that the Nebraska District Court has already considered this issue, and given the State's representation to date that it is not making allegations regarding the validity or infringement of the patents, the State cannot make a showing of objective baselessness in any pleading or submission that would still satisfy FED. R. CIV. P. 11, or the state equivalent. Given this position, and given the recent confirmation by the District Court of Nebraska that MPHJ's conduct is otherwise constitutionally protected, there is no set of circumstances upon which the State can prevail in either this Court, or Vermont state court. As such, this case has become a textbook case of sham litigation.[4]

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[3] *See infra* Section II(B).

[4] Moreover, it has become a textbook case of the government attempting to interfere with free speech for a reason specifically prohibited to the government – namely, that it happens not to like the particular speech, which in this case, is patent enforcement activity by an entity that acquired the patents and does not engage in business activity related to the patents.

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Thus, in this case, we now have a situation where MPHJ's accused conduct has been found by a federal court to be constitutionally protected free speech, and the only way it could be shown to not be protected free speech is by proof of legal and factual points that the State to date has not pled or asserted, and for which it would be frivolous for it to plead or assert.[5]

We further have the situation where the Vermont Supreme Court itself has interpreted the relevant statute in a manner that excludes coverage by that statute of the conduct accused by the State Attorney General in this case.

Finally, it is at least worth noting that we also have the situation where a federal district court has already ruled on identical circumstances involving MPHJ in a different state that there cannot be personal jurisdiction over MPHJ in this case.

Thus, there are three decisions, two of them involving MPHJ and the same exact conduct accused by the State here, each of which independently demonstrate that there is no set of circumstances under which the State can prevail on its case, regardless of whether the case remains in the federal district court or were to be improperly remanded to state court. One would expect that a party in the same position as the State should not be able to persist in maintaining what has become demonstrably sham and frivolous litigation without there being sanctions, remedy and recourse. And, such sanctions, remedy, and recourse are in fact available, and should be awarded in this case to MPHJ on the grounds set forth below.

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[5] It is not insignificant that the State's disavowal of any intention to prove the elements necessary to establish that the First Amendment protections do not apply to this case at this stage of the proceedings, even though such pleading is required at this stage under applicable decisions of the Federal Circuit and of the U.S. Supreme Court, is motivated by the overwhelming desire of the State and its counsel to not have the substantive issues in this case decided by the federal courts. *See, e.g.*, *Prof'l Real Estate Investors, Inc. v. Columbia Pictures Indus., Inc.*, 508 U.S. 49, 60 (1993); *Globetrotter Software, Inc. v. Elan Computer Croup, Inc.*, 362 F.3d 1367, 1374 (Fed. Cir. 2004).

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For these reasons, which are presented and discussed in greater detail below, MPHJ respectfully requests that the Court award sanctions against the State and its counsel, including dismissal of the State's case against MPHJ, fees and costs incurred by MPHJ at least from the date on which this motion was served on the State, and such other relief as the Court deems just and proper. As explained below, sanctions and other relief should be awarded to MPHJ under FED. R. CIV. P. 11, 28 U.S.C. § 1927, and under the inherent powers of this Court.

I. SUMMARY OF RELEVANT LAW.

A. Rule 11 Applies and Warrants Sanctions.

Rule 11 of the Federal Rules of Civil Procedure requires that:

> By presenting to the court a pleading, written motion, or other paper—whether by signing, filing, submitting, *or later advocating it*—an attorney or unrepresented party certifies that to the best of the person's knowledge, information, and belief, formed after an inquiry reasonable under the circumstances:
>
> (1) it is not being presented for any improper purpose, such as to harass, cause unnecessary delay, or needlessly increase the cost of litigation;
>
> (2) the claims, defenses, and other legal contentions are warranted by existing law or by a nonfrivolous argument for extending, modifying, or reversing existing law or for establishing new law.

FED. R. CIV. P. 11 (emphasis added). Compliance with Rule 11's requirements is evaluated under a standard of objective reasonableness. *Storey v. Cello Holdings L.L.C.*, 347 F.3d 370, 387 (2d Cir. 2003). A showing of subjective bad faith is not required to trigger Rule 11 sanctions, nor does a showing of subjective good faith provide a safe harbor against sanctions. *Eastway Constr. Corp. v. City of New York*, 762 F.2d 243, 253-54 (2d Cir. 1985).

Rule 11 sanctions are warranted when a party has asserted a legal theory or contention that is either not supported by, or instead is contradicted by, legal authority. *See, e.g., Caisse Nationale De Credit Agricole-CNCA v. Valcorp, Inc.*, 28 F.3d 259, 264-65 (2d Cir. 1994) (holding that sanctions were appropriate where the attorneys' legal argument clearly misapplied

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relevant law to the facts). In addition, and of particular importance in the present case, Rule 11 prohibits a party from "insisting upon a position after it is no longer tenable." FED. R. CIV. P. 11, Advisory Committee note to 1993 amendments. Rule 11 obligations "are not measured solely as of the time they are filed with or submitted to the court, but include reaffirming to the court and advocating positions contained in those pleadings and motions after learning that they cease to have any merit." *See O'Brien v. Alexander*, 101 F.3d 1479, 1489 (2d Cir. 1996) (quoting Rule 11's Advisory Committee's notes). Thus, attorneys "have a continuing obligation to monitor the strength of their clients' claims and discontinue representing clients who pursue claims that—although not obviously frivolous at the outset—are entirely unsupported or refuted by the evidence." *McGowan v. Ananas Spa East*, LLC, 2009 U.S. Dist. LEXIS 79378, at *4 (E.D.N.Y. Sept. 2, 2009). Further, a court may sanction a party who deliberately ignores or misstates case law that is unfavorable to its position. *Teamsters Local No. 579 v. B & M Transit, Inc.*, 882 F.2d 274, 280 (7th Cir. 1989).

1. Federal Rule 11 Applies To This Case Even Though The Frivolous Assertions Of The State's Claims Occurred In The Complaint Filed In Vermont State Court, Because The State Has A Continuing Obligation to Monitor Its Case Under Rule 11.

The State of Vermont may argue that it should not be subjected to sanctions here for two reasons. First, the State may argue that, to the extent its claims are barred by the application of Constitutional law to patent licensing activities, or by the application of Vermont case law to the State's jurisdiction over such activities, its frivolous assertions of its claims occurred in the complaint filed in Vermont state court prior to the removal, and, thus, Federal Rule 11 does not apply. Second, the State may argue that the motion for remand filed in this Court does not itself advocate the frivolous positions addressed in this motion. Both of these arguments fail as a matter of law for the reasons set forth below.

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While it is true that Federal Rule 11 does not apply to filings made prior to a removal, as discussed above, the State and its counsel have an affirmative duty to continue monitoring their case to avoid advocating a position that is baseless. *O'Brien*, 101 F.3d at 1489. Indeed, as the Sixth Circuit has held, when a complaint is filed in state court and is subsequently removed to federal court, Rule 11 applies at the instant federal jurisdiction is invoked over proceedings, since once removed, plaintiff is impressed with continuing responsibility to review and reevaluate his pleadings and, where appropriate, to modify them to conform to the Rule. *Herron v Jupiter Transp. Co.*, 858 F2d 332 (6th Cir. 1988).

Moreover, the case law makes it quite clear that, although this Court may not apply Federal Rule 11 to the State's conduct prior to the removal, the Court may apply the analogous rule in the state court, if one exists. *See Griffen v. City of Oklahoma City*, 3 F.3d 336, 341 (10th Cir. 1993) (recognizing that a federal court may impose sanctions under a state rule of procedure or state statute for conduct that occurred in state court before removal, including the filing of a pleading in state court prior to removal). In fact, Vermont has adopted a rule identical to Federal Rule 11, and has adopted all amendments to the rule. Oakley, John B., "A Fresh Look at the Federal Rules in State Court," 3 NEV. L.J. 354, 372. Thus, although it is not required to do so in order to find the conduct of the State and its counsel sanctionable here, it is quite clear that the Court may look to Vermont's own Rule 11 and find that it compels the same result as Federal Rule 11.

Importantly, both attorneys and clients, or each individually, may be subject to sanctions under Rule 11. *Bus. Guides, Inc. v. Chromatic Communs. Enters.*, 498 U.S. 533, 549-50 (1991). Here, in advocating for the remand of this case, the State and its counsel have repeatedly certified, both implicitly and explicitly, that the underlying state law claims they assert have

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merit. However, such certifications fly directly in the face of the law applicable to those claims. The Vermont Supreme Court decision in *Foti* directly explains that the VCPA does not apply to MPHJ's patent licensing conduct accused of here and thus that the Vermont Attorney General even lacks authority to bring the claim brought against MPHJ. Moreover, the State's unequivocal admission that it has not and will not meet the *Globetrotter* burden[6] of pleading that MPHJ's conduct was both objectively and subjectively baseless, as required by governing law and reaffirmed by the Nebraska District Court on January 14, 2014, *in itself* renders the underlying claims without merit and makes clear that the State's continued prosecution of its claims through the briefing and arguing of its remand motion is a violation of Federal Rule 11. Further, the State could not plead or make assertions that MPHJ's conduct was objectively baseless, because it would be frivolous and sanctionable to contend that the relevant patents were objectively invalid or objectively not infringed.

B. The Court May Also Award Sanctions Under Its Inherent Powers.

Although it is clear that Rule 11 applies to the State of Vermont's conduct in this case and that the Court can and should award sanctions on that basis, to the extent the Court concludes that some of the conduct falls outside the Rule, the Court may nonetheless award sanctions under its inherent power. *Alyeska Pipeline Sew. Co. v. Wilderness Soc'y*, 421 U.S. 240, 258-59 (1975). Although this power is to be used sparingly where, as here, the Rules are "up to the task," the Court may nonetheless award attorneys' fees against a "party [that] has 'acted in bad faith, vexatiously, wantonly, or for oppressive reasons.'" *Id.* (quoting *F.D. Rich Co. v.*

[6] *Globetrotter Software, Inc.*, 362 F.3d at 1374. *See, e.g., See GP Indus. v. Eran Indus.*, 500 F.3d 1369, 1375 (Fed. Cir. 2007) citing *Globetrotter Software, Inc.*, 362 F.3d at 1377 ("a plaintiff claiming that a patent holder has engaged in wrongful conduct by asserting claims of patent infringement must establish that the claims of infringement were objectively baseless."). *See also Zenith Elecs. Corp. v. Exzec, Inc.*, 182 F.3d 1340, 1352 (Fed. Cir. 1999) (explaining that the initiation of patent infringement suits against a plaintiff in bad faith means that the patentee did so "with knowledge that the patents, though lawfully-obtained, were invalid.").

United States for the Use of Indus. Lumber Co., 417 U.S. 116, 129 (1974)); *see also Chambers v. NASCO, Inc.*, 501 U.S. 32, 45-46 (1991); *Ransmeier v. Mariani*, 718 F.3d 64, 68 (2d Cir. 2013) (relying on inherent power "vested in courts to manage their own affairs" to award sanctions). Subjective bad faith is not a requirement for the imposition of sanctions in this context. *Dubois v. U.S. Dept of Agric.*, 270 F.3d 77, 80 (1st Cir. 2001).

Here, the State of Vermont concedes that it has failed to plead (and, apparently, has not even investigated) whether the accused conduct by MPHJ was objectively and subjectively baseless, as required for its claim to pass constitutional muster. Further, as noted, the State cannot plausibly make such a claim, and in particular cannot do so in the face of the decision by the Nebraska District Court. It is thus beyond dispute that the sole purpose for the State's persistence in this lawsuit is for vexatious or oppressive reasons and is being conducted in bad faith. Moreover, even if that were not sufficient to induce the Court to exercise its inherent power and sanction the State, the decision of the Vermont Supreme Court in the *Foti* case makes it clear that MPHJ's patent enforcement activity that forms the basis of the State's claims here does not fall under the purview of the VCPA, and thus renders the State's lawsuit frivolous as a matter of law. To the extent Rule 11 is not "up to the task" of curbing the State's attempt to recover for alleged violations of a law that does not apply to MPHJ's conduct, the Court should exercise its inherent power to do so. *See Alyeska Pipeline Sew. Co.,* 421 U.S. at 258-59.

C. <u>This Case, And The Conduct Of The State Attorney General, Constitutes A Plain Violation Of 28 U.S.C. § 1927</u>.

Congress has made it clear that counsel engaging in vexatious litigation, or engaging in conduct that improperly multiplies proceedings, may be required by the Court personally to satisfy the fees and costs incurred by the victim of such conduct. Specifically, Congress has enacted 28 U.S.C. § 1927, which provides as follows:

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> Any attorney or other person admitted to conduct cases in any court of the United States or any Territory thereof who so multiplies the proceedings in any case unreasonably and vexatiously may be required by the court to satisfy personally the excess costs, expenses, and attorneys' fees reasonably incurred because of such conduct.

Here, there can be no doubt that the attorneys for the State have engaged in vexatious conduct with no purpose other than to multiply and extend these proceedings unreasonably and vexatiously. These attorneys have conceded that they will be required to address the preemption issues in this case. Carried with that concession, by necessity, is a concession that they must follow the binding precedent and both plead and prove that the conduct by MPHJ accused here is both objectively and subjectively baseless. Yet, in order to defeat this Court's subject matter jurisdiction, the attorneys for the State have so far failed to plead objective and subjective baselessness, and they have taken the position in this court that they have no intention of ever pleading baselessness as part of their affirmative case, even though such pleading is required by the Federal Circuit in *Globetrotter*.[7] In short, for the sole purpose of obtaining the remand of this case to state court and thereby guaranteeing the multiplication and delay of proceedings—including greatly increasing the costs associated therewith—the attorneys for the State have cynically pled their case in a manner that guarantees it will ultimately fail as preempted by Federal law. A clearer case for Section 1927 sanctions would be difficult to find. While imposition of Section 1927 sanctions has been held to require evidence of clear bad faith, or willful misconduct, that high standard is without doubt met in these circumstances. This is particularly so where counsel for the State, having been provided this Motion for the full 21

[7] Further, as noted, particularly in light of the Nebraska District Court decision, and the State's statements taken so far with respect to validity and infringement, neither the State nor its counsel could make an assertion that the relevant patents are objectively invalid or objectively not infringed and remain in compliance with FED. R. CIV. P. 11 or the state equivalent.

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days, have chosen not to dismiss this suit, or to pursue withdrawal from further representation of their client in this matter. *See* Section IV, *infra*.

Even if this conduct were not sufficient to warrant sanctions here (and it clearly is), the State's persistence in prosecuting this case in the face of the *Foti* decision unquestionably is. As discussed extensively herein, the Vermont Supreme Court holding in *Foti* takes patent licensing activities undertaken privately with individual infringers outside the scope of Vermont's consumer protection laws. As a result, this action cannot proceed and the State of Vermont's complaint fails for failure to state a claim on which relief can be granted. Nonetheless, the attorneys for the State have persisted in litigating this case and have engaged in aggressive efforts to remand the suit to state court where any reasonable attorney would know that the decision in *Foti* deprives them of a claim. Again, such conduct serves no purpose other than the vexatious multiplication of proceedings and thus falls squarely within the conduct prohibited by Section 1927. Again, on these circumstances as well, the high standard of "clear bad faith" and "willful misconduct" is self-evidently present. This is particularly so given the failure of the counsel involved to take advantage of a 21-day safe harbor period provided by MPHJ, even though it was not required under Section 1927.

The State of Vermont may assert that it has immunity from a cost award under Section 1927. While MPHJ does not concede this point if indeed the State makes such an assertion, it is nevertheless clear that any immunity the State might claim does not apply to its counsel of record in this case. The courts have been clear that there is no sovereign immunity for individual attorneys under Section 1927. *See, e.g., United States v. Prince,* 1994 U.S. Dist. LEXIS 2962 (E.D.N.Y. Mar. 9, 1994) ("[r]ecognizing that sovereign immunity is no obstacle" to the court's imposition of costs on individual prosecutors); *In re C F & I Steel Corp.*, 489 F. Supp. 1302,

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1311 n.4 (D. Colo. 1980) (explaining that "although it may be that there is 'government' immunity from a cost award, 28 U.S.C. § 1927 doesn't exclude government lawyers"). Therefore, individual attorneys prosecuting this case should be sanctioned personally for the unnecessary expenses incurred as the result of their conduct, and have no immunity by virtue of the fact that they represent the State in this case.

In this case, the conduct by the State Attorney General and the counsel of record plainly and explicitly constitutes an effort to multiply the proceedings unreasonably. As such, this Court has the power under Section 1927 to award fees, costs and other expenses against such attorneys, and should do so. This is particularly true in these circumstances, where even though Section 1927 does not require any safe harbor warning similar to that required by Rule 11, MPHJ nevertheless afforded the State's attorneys that safe harbor and they have chosen not to avail themselves of it and to either dismiss their client's case, or at least personally to withdraw from their further representation of their client's case, a case which, on its face, has now been conclusively demonstrated as frivolous and without basis.

II. ARGUMENT.

A. The Vermont Supreme Court In *Foti* Makes It Clear That Any Vermont Court Lacks Jurisdiction Over MPHJ's Patent Licensing Activities Under The VCPA.

On December 13, 2013, the Vermont Supreme Court decided *Foti Fuels, Inc. v. Kurrle Corp.*, 2013 VT 111 (Vt. 2013) (Exh. A), interpreting the Vermont Consumer Protection Act ("the VCPA"). The VCPA is the sole authority relied upon by the State and its counsel in this case. As MPHJ has contended from the outset, and as the *Foti* court has now confirmed, the VCPA is limited exclusively to consumer transactions, and does not apply to patent licensing activity, at least of the type accused in this case. In short, the *Foti* decision makes it clear that

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the statute relied upon by the State and its counsel cannot be applied to patent licensing activity, as patent licensing relates to a dispute between two private parties as to existing infringement, and thus is, at its essence, the resolution of a dispute over a civil tort.

Specifically, the Vermont Supreme Court held as follows:

> We hold that the "in commerce" requirement narrows the CFA's application to prohibit only unfair or deceptive acts or practices that occur in the consumer marketplace. To be considered "in commerce," the transaction must take place "in the context of [an] ongoing business in which the defendant holds himself out to the public." [citation omitted]. Further, the practice must have a potential harmful effect on the consuming public, and thus constitute a break of a duty owed to consumers in general. *Id.* By contrast, transactions resulting not from "the conduct of any trade or business" but rather from "private negotiations between two individual parties who have countervailing rights and liabilities established under common law principles of contract, tort and property law" remain beyond the purview of the statute. [citation omitted].

Id. at 18-19 (¶ 21).

Given this clear interpretation by the Vermont Supreme Court, it is beyond reasonable dispute that the correspondence by MPHJ to Vermont companies suspected of infringement cannot be subject to the statute. The accused correspondence plainly related to an inquiry as to whether the recipient might be infringing MPHJ's patent—a civil tort. *See, e.g., Neato, LLC v. Great Gizmos,* 2000 U.S. Dist. LEXIS 20684, at *6 (D. Conn. Feb. 24, 2000) citing *North American Philips Corp. v. American Vending Sales, Inc.*, 35 F.3d 1576, 1579 (Fed. Cir. 1994) (explaining that patent infringement is a tort). The correspondence further made it clear that if there was no infringement, MPHJ asked merely to be so informed so that it could cease further inquiry. *See* Dkt. 6-1 (Exhibits A, B & C to the Complaint). It further made it clear that if there was infringement, a resolution of that ongoing civil tort by the recipient was available by entering into a license (a private contract related to principles of intellectual property law between two private parties). *See id.*

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Communications by MPHJ, which plainly were individual correspondence between MPHJ and a particular company suspected of infringement, where such communications sought to confirm whether a civil tort was being committed by the recipient, and sought to propose resolution of such a civil tort, simply is not conduct that the *Foti* court considers to be within the scope of the VCPA. The somewhat lengthy discourse of the *Foti* court on this topic is worth repeating here, as it is applicable to plainly demonstrate that the *Foti* court would not consider MPHJ's conduct to be within the scope of the VCPA.

> The "in commerce" language, in particular, limits the act's application to the consumer context. *Commonwealth. v. DeCotis*, 366 Mass. 234, 316 N.E.2d 748, 752 (Mass. 1974) (holding that act's purpose is to provide "a more equitable balance in the relationship of consumers to persons conducting business activities"). Similarly, the New Hampshire Consumer Protection Act broadly defines its equivalent of the "in commerce" requirement. N.H. Rev. Stat. Ann. § 358-A:1. Nevertheless, the state's highest court has determined that the act's scope "is narrower than its broad language may suggest." *Ellis v. Candia Trailers & Snow Equip., Inc.*, 164 N.H. 457, 58 A.3d 1164, 1171 (N.H. 2012). In particular, the court has held that "[r]emedies under the Consumer Protection Act are not available where the transaction is strictly private in nature ... [as] the purpose of the Act is to ensure an equitable relationship between consumers and persons engaged in business." *Hughes v. DiSalvo*, 143 N.H. 576, 729 A.2d 422, 424 (N.H. 1999) (quotations omitted).
>
> * * *
>
> Here, the parties' transaction does not constitute a transaction "in commerce" for CFA purposes because it did not occur in the consumer marketplace. First, plaintiff held his offer out to defendant only, not to the public at large. *See Zeeman*, 273 S.E.2d at 913-14. Second, the transaction did not involve products, goods or services purchased or sold for general consumption, as those terms are generally understood, but rather the sale of an entire business from one party to another. *See 539 Absecon Blvd., L.L.C. v. Shan Enters. Ltd. P'ship*, 406 N.J. Super. 242, 967 A.2d 845, 868 (N.J. Super. Ct. App. Div. 2009) (declining to expand scope of consumer fraud statute to include sale of ongoing business from one group of owners to another).

Id. at *17-18, *22-23. The Vermont Supreme Court further held that it would be inappropriate to expand the reach of the VCPA to private transactions because existing law amply protects the participants to those transactions:

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> Broadening the scope of the CFA to encompass transactions that do not occur in the consumer marketplace would not serve the CFA's aim of public protection. In purely private transactions, remedies available through well-established principles of contract, tort, and property law are adequate to redress wrongs. Therefore, granting a remedy that benefits only the buyer in a purely private transaction would create an imbalance arbitrarily favoring one party. Cf. *Lantner*, 373 N.E.2d at 977 (when both parties have equal bargaining power, "arming the 'consumer' [with additional legal remedies] … does not serve to equalize the positions of buyer and seller. Rather, it serves to give superior rights to only one of the parties, even though as nonprofessionals both stand on an equal footing."). Additionally, expanding the CFA to cover purely private transactions would allow the act to subsume the common law claims traditionally employed to remedy contractual wrongs. *See Winey v. William E. Dailey, Inc.*, 161 Vt. 129, 136, 636 A.2d 744, 749 (1993) (cautioning against "confusing principles of contract with principles of fraud so that the elements of fraud are made out by a mere breach of contract").

Id. at *21-22.

Both a Vermont court and a federal court considering this matter under Vermont state law would necessarily have to reach the same conclusion – that the Vermont Attorney General's Complaint under the VCPA fails to state a claim upon which relief can be granted because the VCPA, as a matter of law, cannot be applied to the conduct accused here. As the State has proceeded to prosecute its claims despite the *Foti* decision, and thus continued to advocate claims that are directly contradicted by legal authority, sanctions are appropriate here under both FED. R. CIV. P. 11 and 28 U.S.C. § 1927. *See, e.g., Caisse Nationale De Credit Agricole-CNCA*, 28 F.3d at 264-65 (holding that sanctions were appropriate where the attorneys' legal argument clearly misapplied relevant law to the facts); *Teamsters Local No. 579*, 882 F.2d at 280 (holding that a court may sanction a party who deliberately ignores case law that is unfavorable to its position); FED R. CIV. P. 11, Advisory Committee note to 1993 amendments (explaining that Rule 11 prohibits a party from "insisting upon a position that is no longer tenable"). *See also* 28 U.S.C. § 1927; *Prince*, 1994 U.S. Dist. LEXIS 2962; *CF&I Steel Corp.*, 489 at 1311 n.4.

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B. It Is Well-Settled Law That The State Must Ultimately Plead And Prove Bad Faith Patent Enforcement In Order To Avoid Preemption.

Assuming, *arguendo*, that the conduct complained of here would even fall within the scope of activity regulated by the VCPA (which, for the reasons explained above, it would not), it is well-settled that communications related to patents are part of the patent owner's rights.[8] It is clear that MPHJ has a First Amendment right to enforce its patents against alleged infringers, including sending correspondence to alleged infringers, notifying them of MPHJ's patent rights, and offering a license.[9] It is also clear that the State's claims under the VCPA are preempted by federal law.[10] Finally, it is clear that in order to avoid preemption, the State must both plead and prove objective and subjective baselessness.[11] The Federal Circuit has made clear that both of these aspects of baselessness – objective and subjective – must be shown to avoid First Amendment preemption. Any argument by the State that a Vermont state court would ignore the bad faith standard reinforced by the Federal Circuit would be meritless, as it was the United States Supreme Court that set out the objective baselessness standard that has since been

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

[9] *See id.*

[10] *See Zenith Elecs. Corp.*, 182 F.3d at 1352 (patentee's statements regarding its patent rights are conditionally privileged under the patent laws, so that such statements are not actionable unless made in bad faith); *Hunter Douglas, Inc. v. Harmonic Design,* 153 F.3d 1318, 1336 (Fed. Cir. 1998) (citing numerous cases for this proposition). The Federal Circuit has extended *Noerr-Pennington* immunity to all of the types of affirmative claims, including the Vermont State law claims in the State's Complaint. *See, e.g., Globetrotter Software, Inc.*, 362 F.3d at 1376 (state law claims).

[11] *See id.*

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repeatedly reaffirmed by the Federal Circuit. *See Prof'l Real Estate Investors, Inc.*, 508 U.S. at 60 ("Only if the challenged litigation is objectively meritless may a court examine the litigant's subjective motivation."). Plainly, any Vermont state court would be required to follow the law of the United States Supreme Court, and, thus, would require the State to prove objective and subjective baselessness to avoid preemption.

Not only are these well-settled principles true for all patent owners, but they have been specifically applied to MPHJ and the conduct complained of here. *See* Exhs. B & C. In fact, the Nebraska District Court very recently issued a preliminary injunction in MPHJ's favor and against the Nebraska Attorney General because that State's Attorney General failed to show that MPHJ's patent enforcement activities, the same activities complained of here, were objectively and subjectively baseless. *See id.* Thus, the letters presented here are perfectly permissible under the relevant law and the State has not,[12] and cannot, plead or prove that the accused correspondence was objectively and subjectively baseless. Without such a showing, the State's attempt to assert the VCPA is necessarily preempted by the First Amendment, and there is no set of circumstances upon which the State could prevail.

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[12] *See, e.g.,* Dkt. 29 at p. 16 ("the State's complaint does not seek an adjudication of patent validity or infringement"); p. 1 ("MPHJ emphasizes that its letters asserted patent infringement. True."); *See* Dkt. 9 at p. 1 ("True, the letters sent by MPHJ alleged patent infringement. But the State's consumer fraud claims have nothing to do with the validity of MPHJ's patents. Nor does the State's complaint address whether, in fact, any Vermont businesses are infringing the patents. Even assuming the patents may be valid, and some Vermont businesses may have infringed those patents, the letters sent to Vermont consumers were unfair and deceptive."); p. 5 ("The State's complaint does not dispute the validity or scope of MPHJ's patents, or assert any other claim under federal patent law."); p. 11 ("The State's claim has nothing to do with the validity or scope of MPHJ's patents. Whatever the status of the patents, the letters sent by MPHJ were not a good faith attempt to enforce those patents."); p. 11 ("None of these theories underlying the State's claim for relief require the court to evaluate the validity of MPHJ's patents. Neither the State's claim nor the legal theories supporting the claim challenge the validity of the patents."); p. 15 ("None of the State's allegations require determination by a court that MPHJ's patents were invalid, or that they were infringed.").

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1. The Central Message Of The Communication Must Be Objectively And Subjectively Baseless, And Conclusory Allegations Of Bad Faith Are Insufficient To Avoid Preemption.

Not only must the State plead and prove that MPHJ's conduct in communicating its patent rights was both objectively and subjectively baseless, but, importantly, the State must plead and prove that the central message of the communication itself was objectively and subjectively baseless. *In re Innovatio IP Ventures, LLC Litigation,* 921 F. Supp. 2d 903 (N.D. Ill. 2013), vividly illustrates that assessing alleged deceptiveness in a patent letter must consider the essential message, and not peripheral statements. Applying essentially the same test as the Vermont Supreme Court uses for the VCPA, the *Innovatio* court found that each accused misrepresentation, even if false, was not central to the essential message of the letter: that the recipient infringed and needed a license. Unless this essential message was baseless, no state law claim could stand. *Id.* at 921. *See also Bath Petroleum Storage, Inc. v. Market Hub Partners, L.P.*, 129 F. Supp. 2d 578, 593 (W.D.N.Y. 2000) (to invoke the sham exception, the claimed accused misrepresentations must have been significant to the proceeding's ultimate outcome); *Music Center S.N.C. di Luciano Pisoni v. Prestini Musical Instruments Corp.*, 874 F. Supp. 543, 549 (E.D.N.Y. 1995) (similar).

Not only must the essential message of the communication be pled and proven to be objectively and subjectively baseless, but the Federal Circuit and Supreme Court have made it clear that it is legally insufficient simply to make conclusory allegations or bald assertions that conduct was in "bad faith." Instead, the pleading must identify some communication made by a defendant that was, on its face, objectively baseless. *See Ashcroft v. Iqbal,* 556 U.S. 662, 678 (2009) (conclusory allegations are insufficient and do nothing more than raise "the sheer possibility that a defendant has acted unlawfully"); *Matthews Int'l Corp. v. Biosafe Eng'g, LLC*, 695 F.3d 1322 (Fed. Cir. 2012) (affirming the district court's finding that the plaintiff failed to

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sufficiently plead the bad faith element necessary to avoid *Noerr-Pennington* immunity, because the plaintiff had only pled, in a conclusory fashion, that the defendant engaged in bad faith acts); *Matthews Int'l, Corp. v. Biosafe Eng'g, LLC*, 2011 U.S. Dist. LEXIS 110010, at *40 (W.D. Pa. Sept. 27, 2011) ("[T]he Court has already explained that it finds allegations of legal activity coupled with bald assertions of bad faith insufficient to raise even the *plausibility* of bad faith. All that is alleged is the making of accusations of infringement, which activity it is legal for a patentee to undertake."); *Noble Fiber Techs., LLC v. Argentum Med. LLC*, 2006 U.S. Dist. LEXIS 43357 (M.D. Pa. June 27, 2006) (holding that the plaintiff's allegations were conclusory and insufficient to allege bad faith with the particularity necessary). Further, in *GP Indus. v. Eran Indus.*, 500 F.3d 1369, 1373 (Fed. Cir. 2007), the Federal Circuit made it clear that the requirements to plead and prove that the accused conduct was "objectively baseless" and "subjectively baseless" were independent requirements, and that each must be pled and proven. The Federal Circuit went on to make clear that proof of objective baselessness requires proof that the asserted patent(s) was objectively invalid, objectively not infringed, or both. *See id.*

2. The State's Intentional Avoidance Of Pleading With Respect To Baselessness At This Stage Cannot Avoid The Ultimate Dismissal Of Its Case And The Imposition Of Sanctions Here.

Apparently recognizing this deficiency in its case, the State has, in its pleadings to this Court, taken the position that this is not a "patent case," and the State has attempted to artfully craft its Complaint in a way to specifically avoid pleading that MPHJ enforced its patents in bad faith, or that those patents are invalid or not infringed. [13] In its briefs, however, the State has admitted that the question of whether MPHJ's patent enforcement efforts is preempted by federal law will eventually be analyzed in this case. *See* Dkt. 29 at p. 4. Indeed, the State not only

[13] *See, e.g.*, Dkt. 9 at p. 15 ("While there may be a basis for challenging the validity of the patents and the scope of the patents described in the letters, the State chose not to pursue such theories, so the court should not consider them for the purpose of deciding jurisdiction.").

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admits to this omission, it adamantly relies upon it and does so explicitly for the purpose of attempting to avoid federal question jurisdiction. Thus, it is clear, and all parties agree, that whether this case remains in this Court, or is remanded back to Vermont State Court, there will be an investigation as to whether or not MPHJ's conduct is preempted by federal law. The Nebraska District Court has now found this identical conduct to be protected by the First Amendment, and thus found that application of state law to it is preempted. The State has so far abandoned and avoided asserting the one argument that could in theory be made to overcome this preemption. Further, the State would have no good faith basis to make any allegation of objective baselessness. As a result, the Nebraska decision has made it clear that the State cannot ultimately prevail on this case, regardless of whether the preemption issue were to be decided by this Court, or a state court.

As the State has repeatedly explained in its briefing on its Motion to Remand, it has chosen to plead its Complaint in a way that purposely avoids raising patent issues – including the absence of the <u>required</u> allegations that MPHJ's patent enforcement efforts were objectively and subjectively baseless. As the well-settled law under *Globetrotter* makes clear, including that law reaffirmed by the Nebraska District Court specifically with respect to MPHJ's conduct, in order to survive preemption, a party must <u>*plead*</u> and <u>*prove*</u> that the patentee enforced its patents in bad faith. As the State, by its own admission, has purposely avoided pleading bad faith in its Complaint in order to have a Vermont state court, rather than a Federal District Court, hear its case, and it is clear at least in part from the Nebraska District Court decision that no such pleading or proof of baselessness could be made in good faith, whether the State's Motion to Remand is granted or denied is simply irrelevant – as, at the next stage, in either court, the State's case will be dismissed for failure to state a claim. As the *Globetrotter* decision merely

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applies the principles of the U.S. Supreme Court decision in *Prof'l Real Estate Investors*, a Vermont state court would be bound by the same standard.

It is clear, pursuant to Rule 11, that even if the filing of the State's Motion to Remand might not be itself considered "frivolous," in its briefing to this Court, the State and its counsel have repeatedly certified that their VCPA claims have merit.[14] It is clear, however, that the only scenario in which the State's claims under the VCPA could have merit and not be preempted by federal law is if MPHJ's activities were undertaken in bad faith – meaning they were both objectively and subjectively baseless. The State, in asserting bad faith, must plead and prove that MPHJ's patent enforcement efforts were both objectively and subjectively baseless. As the State cynically concedes that it has purposely so far avoided pleading bad faith, and it could not in the future make such an allegation in good faith, its case must fail. Thus, the State's continued advocacy of its meritless positions through its briefing and arguments to this Court, including its Motion to Remand, not only needlessly wastes the parties' and this Court's time and resources, but is undoubtedly sanctionable conduct under Rule 11.

Moreover, the position taken by attorneys for the State presents a textbook case of a violation of 28 U.S.C. § 1927. In effect, counsel for the State have pled their case in a manner to avoid interjecting the issues of whether MPHJ's conduct is objectively baseless or subjectively baseless, because to do so would necessarily mean that their Motion to Remand would fail and that they would have to defend their frivolous case in federal court, which they are loath to do. But, by carefully sidestepping the allegations of whether MPHJ's conduct is objectively baseless

[14] Further, even if the particular motion presented by the State does not expressly relate to whether its claims have merit, such a contention is implicit in any filing. Thus, where the suit itself is meritless, a motion for remand that on its face may legitimately present jurisdictional arguments, such a motion implicitly asserts that the underlying suit itself is warranted by existing law. Where such an implicit representation is plainly incorrect, the submission necessarily violates Rule 11.

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or subjectively baseless, the counsel for the State has set up a situation where they cannot argue that preemption under the First Amendment does not apply to this case. Making an argument in one court that specifically omits assertion of elements otherwise required to win on the ultimate merits, solely for the purpose of multiplying proceedings on a case to extend to another court, where the positions taken get to that second court then necessarily means that one cannot prevail in that second court, is by definition vexatious multiplication of proceedings. It is exactly the type of conduct for which Congress intended to provide a remedy under 28 U.S.C. § 1927.

III. PROPER REMEDIES FOR THE VIOLATIONS OF RULE 11, AND SECTION 1927, INCLUDE AN AWARD OF FEES AND COSTS AND DISMISSAL OF THIS SUIT.

A. Proper Remedy For The Rule 11 Violation Is Dismissal Of The Suit, And An Award Of Fees And Costs At Least Since The Service Of This Motion.

If the Court agrees with MPHJ that the State violated Rule 11 by filing and advocating its Motion for Remand for an improper purpose, then one aspect of an appropriate sanction is dismissal of the State's suit. *See, e.g., Business Guides, Inc. v. Chromatic Communications Enterprise,* 498 U.S. 533, 543 (1991) and *Simpson v. Lear Astronics Corp.*, 77 F.3d 1170, 1177 (9th Cir. 1996) (permitting a sanction of dismissal for Rule 11 violations). In this case, the State's violation of Rule 11 turns on the baselessness of the State's Complaint as a matter of law, and, therefore, an appropriate sanction in this case is dismissal of the Complaint. Further, the Court should award such additional sanctions as are appropriate under Rule 11(c)(2 & 4). If the State chooses to maintain its untenable position after receipt of this Motion, under Rule 11(c)(2), MPHJ should certainly be entitled to its fees and costs incurred in connection with this Motion and all fees and costs moving forward.

Under Rule 11(c)(4), this Court may impose such additional sanctions as may be appropriate to deter repetition of its conduct. Such sanctions are particularly appropriate here,

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where the State has made public statements proclaiming its efforts to get other states to undertake similar improper actions. At a minimum, the sanctions awarded here should include MPHJ's fees and costs incurred at least since the service of upon the State of notice of this Motion. Beyond these remedies, MPHJ requests the Court to enter such other sanctions and remedies as its finds appropriate, including its fees and costs associated with this case since its inception.

B. The Proper Remedy To Be Awarded Under 28 U.S.C. § 1927 Is An Award To MPHJ Of Its Expenses, Fees and Costs Incurred As A Result Of The Violation Of That Statute By Counsel For The State.

By its terms, Section 1927 provides that it is counsel that must be personally liable for vexatiously multiplying proceedings. While the State itself may argue it is immune, the law is clear that individual counsel is not. Counsel for the State, for motivations which have been at least partially identified to this Court in other briefings, have chosen to bring this baseless litigation against MPHJ, an owner of U.S. patent rights granted by the United States Patent Office, who is engaging in the enforcement of those patent rights in a manner that have now been conclusively found to be protected by the First Amendment. It is apparent that counsel for the State took this action either because they, or their client, a state government, disfavors the constitutionally protected speech in which MPHJ has engaged. Such a motivation is inconsistent with the long and honored history of the First Amendment and is not to be condoned. While admittedly unusual to make such an award of fees, the entirety of this case is unusual, and warrants unusual remedy. Only by the grant of such remedy may a court deter future governmental actors from interfering with the constitutional free speech rights of persons similarly situated to MPHJ in the future.

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IV. THE ATTORNEY GENERAL'S POSITION AFTER THE 21-DAY RULE 11 REVIEW PERIOD.[15]

As noted at the outset, MPHJ recognizes this is an unusual motion. But this is an unusual case. It is a rare circumstance to have a state Attorney General seek so adamantly to violate a party's First Amendment rights, and to persist in doing so in the face of three separate court decisions, two directly involving the same party and facts, each of which make it clear the suit is ultimately meritless. Out of a sense of courtesy and professionalism, during the Rule 11 period, MPHJ's counsel twice consulted with the State's counsel to ascertain whether they had any response. This included sending a letter directly asking whether the Attorney General believed this Motion was based on any misunderstanding, or was incorrect in any position. *See* Exh. E. Making such an inquiry was done by MPHJ's counsel in good faith simply to confirm its belief that this unusual Motion is both proper and warranted.[16]

The Attorney General's response to that inquiry was telling. *See* Exh. F. Despite having nearly three weeks to review the Motion, the Attorney General refused to provide any reason as to why MPHJ might be wrong in its reading of the *Foti* case and the inapplicability of the VCPA, wrong about the Nebraska case and the preemption of state law under the First Amendment, or wrong about the *EIS* case and the clear lack of personal jurisdiction over MPHJ in this case. Indeed, the Attorney General refused to provide any reason why any of this Motion is not warranted.

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[15] MPHJ notes that this section was added to the version sent to the State's attorneys for review.

[16] The letter also explained and attached an Assurance of Discontinuance that was recently entered into by MPHJ with the Attorney General of the State of New York. *See id.* That AOD confirms New York's recognition that MPHJ has a right to enforce its patents even under state law (that is, even ignoring the decision by the Nebraska District Court reconfirming that state law in this area is preempted).

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Instead, the Attorney General used the occasion of MPHJ's reasonable inquiry to contend that the inquiry itself somehow shows that MPHJ believes its Motion lacks merit. Nothing could be further from the truth. And the Attorney General's assertion that MPHJ is using this Motion to test the merits of MPHJ's position, or to intimidate an adversary into withdrawing contentions that are fairly debatable, is simply nonsense, and belied by the correspondence. This Motion is being made precisely because two federal courts, and the Vermont Supreme Court, have made it clear that the Attorney General should not be maintaining this lawsuit.

CONCLUSION

On the basis of the evidence and the law provided above, MPHJ respectfully requests this Court grant its Motion and award MPHJ the sanctions and remedies set forth herein.

Dated: Burlington, Vermont
February 7, 2014

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EXHIBIT A

Foti Fuels, Inc. v. Kurrle Corp.

Supreme Court of Vermont
December 13, 2013, Filed
No. 12-195

Reporter: 2013 VT 111; 2013 Vt. LEXIS 117; 2013 WL 6516384

Foti Fuels, Inc. and Robert A. Foti v. Kurrle Corporation, Payjack, LLC and James J. Kurrle

Notice: THIS OPINION IS SUBJECT TO MOTIONS FOR REARGUMENT UNDER *V.R.A.P. 40* AS WELL AS FORMAL REVISION BEFORE PUBLICATION IN THE VERMONT REPORTS.

Prior History: **[**1]** On Appeal from Superior Court, Washington Unit, Civil Division. Geoffrey W. Crawford, J. (motions for summary judgment). Michael S. Kupersmith, J. (final judgment).

Disposition: Affirmed as to defendant's counterclaim under the Vermont Consumer Fraud Act; reversed and remanded with respect to the trial court's grant of judgment as a matter of law on defendant's counterclaims for breach of contract and breach of the covenant of good faith and fair dealing.

Core Terms

business, agreement, transaction, party, consumer, breach, contract, motion, act, damage, judgment, claim, matter of law, non-competition, fuel, jury, counterclaims, remedy, commerce, provision, evidence, gasoline, requirement, term, consequential damages, trial court, distributorship, commerce, purchase, renewed

Counsel: *Christopher D. Roy of Downs Rachlin Martin PLLC, Burlington, for Plaintiffs-Appellees.*

L. Brooke Dingledine of Valsangiacomo, Detora & McQuesten, Barre, for Defendants-Appellants.

Judges: Present: **Reiber, C.J., Dooley, Skoglund, Burgess and Robinson, JJ.**

Opinion by: REIBER

Opinion

[*P1] **Reiber, C.J**. Plaintiff Robert Foti sold most of his fuels business to defendant James Kurrle and agreed to sell gasoline to defendant through his retained wholesale distributorship. When their business relationship soured after several years, plaintiff sued defendant for one month's nonpayment of gasoline and other claims. Defendant counterclaimed for breach of contract, breach of the covenant of good faith and fair dealing, and violation of the Vermont *Consumer Fraud Act* (CFA), all arising from his **[**2]** original purchase of plaintiff's business. Defendant now appeals the court's judgments as a matter of law on these counterclaims in favor of plaintiff. We affirm in part and reverse in part.

[*P2] In 1976, plaintiff began selling and distributing gasoline and other fuels from a facility on Route 2 in Montpelier, Vermont. He formed two corporations to run his business: Foti Fuels, Inc., consisting of an Exxon-branded retail gasoline station, a convenience store, a petroleum bulk storage tank, and a wholesale fuel distributorship supplying retail stations with gasoline; and Foti Fuels Enterprises, Inc., a transportation company that delivered gasoline to other retail stations. In 2000, he offered to sell his business to defendant. Because defendant did not have experience in the fuels industry, the two agreed that plaintiff would train and employ defendant as a manager for several years before executing purchase agreements for the business. Plaintiff expressed that he would move permanently to Arizona after selling his Vermont business, and had already begun to develop a similar business in Tucson.

[*P3] The parties structured the purchase, which closed on March 1, 2004, pursuant to three agreements. **[**3]** First, an asset-purchase agreement dated November 8, 2003 transferred to defendant nearly all of Foti Fuels' assets, with the primary exception of the wholesale fuel distributorship. Second, a stock-purchase agreement conveyed ownership of Foti Fuels Enterprises, the transportation company, to defendant. Finally, a post-closing agreement outlined the arrangements concerning plaintiff's remaining wholesale fuel distributorship. The post-closing agreement provided that defendant would manage, rent storage space to, and purchase gasoline for his retail station from plaintiff's remaining wholesale distributorship for five years, at which point defendant would have the first opportunity to purchase the distributorship if plaintiff chose to sell it. This way, plaintiff could develop his new business in Arizona while retaining his health insurance through the wholesale distributorship, which had only two customers besides defendant's retail station.

[*P4] The asset-purchase agreement contained a five-year non-competition provision for $30,000 in consideration, to be paid in five equal annual installments. The provision prohibited plaintiff from directly or indirectly engaging or taking an interest **[**4]** in "any business which is in competition with the business of [the defendant]" within a ten-mile radius of the acquired operations, whether as an owner, officer, director, employee, or otherwise. The provision similarly barred plaintiff from managing, financing, owning or controlling any interest in a fuels-transportation business in Maine, Vermont, or New Hampshire. Although the asset-purchase agreement indicated that the provision was to survive closing, the parties later executed a separate non-competition agreement outlining similar, but more specific, terms regarding the prohibited competition. The new agreement prohibited plaintiff from engaging in "any business which is in competition with the business of retail sale of gasoline and/or the operation of a convenience store by [defendant]." The language barring plaintiff's participation in the petroleum-transportation business remained the same in the new agreement. Finally, the new agreement called for the first installment payment on January 1, 2005, one year later than the less-specific non-competition provision contained in the asset purchase agreement.

[*P5] Soon after closing, plaintiff's retirement and moving plans were delayed. **[**5]** For several months in 2007 and 2008, plaintiff worked as a salesman and delivery coordinator for Packard Fuels, a retail diesel and home-heating-oil company that delivered its products directly to its customers. Even so, plaintiff appeared to maintain a close business relationship with defendant. Packard would purchase its diesel and home heating oil from plaintiff's wholesale distributorship, which defendant managed, and defendant's transportation company would deliver it to Packard.

[*P6] The legal dispute between plaintiff and defendant arose from a breakdown of the arrangements established by the five-year post-closing agreement. Coincidentally, this agreement was set to terminate at around the same time that Exxon planned to withdraw from the New England market, which left both plaintiff and defendant scrambling to rebrand their businesses. Before plaintiff could do so, defendant signed an agreement to rebrand with Shell that required him to stop doing business with plaintiff and to purchase gasoline from a competing distributorship, Evans Motor Fuels. At the same time, plaintiff's two remaining customers also decided to end their business with plaintiff in favor of purchasing gasoline **[**6]** from Evans. Finally, defendant agreed to deliver gasoline to plaintiff's former customers through his transportation company. Left without any customers for his distributorship, plaintiff terminated all business relations with defendant.

[*P7] Both plaintiff and defendant raised claims arising from the termination of their business relationship. Many of these claims were disposed of before trial, and we now limit our analysis only to those three counterclaims by defendant raised in his appeal.[1] Defendant's counterclaims are for breach of contract and breach of the covenant of good faith and fair dealing — both of which arise from plaintiff's alleged violation of the non-competition provision through his employment by Packard Fuels — and for consumer fraud, based on plaintiff's allegedly false promises to move to Arizona, to abide by the non-competition agreement, and to sell the distributorship to defendant within three to five years.

[*P8] Plaintiff moved for judgment as a matter of law under *Vermont Rule of Civil Procedure 50(a)* on these counterclaims after the close of evidence. The trial court granted the motion as to the first two counterclaims and concluded that the defendant failed to establish damages. However, after explaining that it needed more time to research whether the CFA covered the fuels business transactions at issue, the court submitted the CFA counterclaim to the jury. The jury awarded $520,000 in actual damages and $2,000,000 in punitive damages **[**8]** to defendant on the CFA claim. The court, however, granted plaintiff's renewed motion for judgment as a matter of law under *Rule 50(b)* and vacated the damages award, reasoning that the CFA did not, as a matter of statutory interpretation, cover this fuels business transaction because it did not occur "in commerce" as defined in the CFA.

[*P9] Defendant appeals the court's order of judgment as a matter of law on the CFA counterclaim, arguing that the court should not have considered plaintiff's motion because plaintiff did not raise the argument that the CFA did not cover the transaction until after trial, and further that the court erred in holding that the transaction was not "in commerce." Defendant also appeals the court's judgment as a matter of law on the breach of contract and breach of the covenant of good faith and fair dealing counterclaims arising from the non-competition provision.

I.

[*P10] We first address defendant's claim that the trial court erred in granting plaintiff's renewed motion for judgment as a matter of law on defendant's CFA claim. We address this argument de novo because the issues it raises are strictly matters of law. *State v. Neisner*, 2010 VT 112, ¶ 11, 189 Vt. 160, 16 A.3d 597. **[**9]** We therefore evaluate it by the same standard that the trial court applied to plaintiff's renewed motion, and consider the evidence "in the light most favorable to the nonmoving party, excluding the effect of modifying evidence." *Vincent v. DeVries*, 2013 VT 34, ¶ 9, ___ Vt. ___, 72 A.3d 886 (quotation omitted). Judgment as a matter of law is appropriate if "there is no legally sufficient evidentiary basis for a reasonable jury to find for that party on that issue." *V.R.C.P. 50(a)(1)*. We will therefore reverse only where "no evidence exists that fairly and reasonably supports the jury's verdict." *Vincent*, 2013 VT 34, ¶ 9, 72 A.3d 886. We conclude, as the trial court did, that the CFA does not apply to this transaction as a matter of law. Because there is no legally sufficient evidentiary basis to support the jury's verdict, we affirm.

A.

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[1] The disposed-of claims include plaintiff's claims for: (1) breach of contract for defendant's nonpayment of one month's supply of gasoline, (2) breach of the covenant of good faith and fair dealing for defendant's gross neglect in managing the wholesale -fuel distributorship, **[**7]** (3) breach of the non-compete agreement for defendant's failure to pay the final installment, and (4) breach of fiduciary duty owed by defendant to the fuel distributorship. Defendant's counterclaims for (1) unpaid fees for transporting plaintiff's distributorship's gasoline, (2) intentional or negligent interference with contractual relations for interfering with defendant's opportunity to deliver gasoline for Evans, (3) breach of the post-closing agreement for failing to pay for his management of plaintiff's wholesale distributorship, and (4) breach of the covenant of good faith and fair dealing regarding this management were also disposed of prior to trial.

[*P11] As an initial matter, we address defendant's contention that the court improperly considered plaintiff's renewed motion for judgment as a matter of law because, according to defendant, the motion raised a novel issue not presented in plaintiff's original motion under *Rule 50(a)*. A motion for judgment as a matter of law must be made prior to submission of the case **[**10]** to the jury, *V.R.C.P. 50(a)(2)*, and "must specify the judgment sought and the law and facts upon which the moving party relies." *EBWS, LLC v. Britly Corp.*, 2007 VT 37, ¶ 10, 181 Vt. 513, 928 A.2d 497. These requirements of timely filing and specificity place the nonmoving party on notice of potential evidentiary deficiencies and provide the opportunity to "cure any defects in proof, if possible." *Id.* ¶ 10; see also Advisory Committee Notes, 1991 Amendment, *F.R.C.P. 50(a)* ("In no event … should the court enter judgment against a party who has not been apprised of the materiality of the dispositive fact and been afforded an opportunity to present any available evidence bearing on that fact.").

[*P12] If the trial court declines to grant a motion for judgment as a matter of law, the moving party may renew its request after trial. *V.R.C.P. 50(b)*. The grounds for the renewed motion are limited to "those specifically raised in the prior motion." *Samuels v. Air Transp. Local 504*, 992 F.2d 12, 14 (2d Cir. 1993) (discussing analogous federal provision); *Meriwether v. Coughlin*, 879 F.2d 1037, 1044 (2d Cir. 1989) ("Because a [*Rule 50(b)* motion] is technically a renewal of a motion for a directed **[**11]** verdict, it cannot assert a new ground [for relief]."). The prohibition on raising novel arguments in a *Rule 50(b)* motion serves the rule's underlying purposes: to permit parties to correct evidentiary shortcomings and to avoid unfair surprise. *Samuels*, 992 F.2d at 14; see also 5A J. Moore et al, Moore's Federal Practice 50-89 (2d ed. 1993) (noting that requiring previous motion and limiting grounds is "in keeping with the spirit of the rules to avoid tactical victories at the expense of substantive interests").

[*P13] Here, plaintiff's renewed motion did not raise a claim distinct from the consumer fraud claim advanced in its original motion. Even before the end of plaintiff's case in chief, the court expressed its concerns regarding whether the sale of plaintiff's businesses constituted a consumer transaction for the purposes of the CFA. In addressing the issue, the court indicated: "I think that the consumer fraud statute only … applies to consumer transactions, broadly speaking… . This isn't a consumer transaction." The parties engaged in a brief discussion, during which defendant argued that the transaction fell within the scope of the CFA because plaintiff was engaged in the **[**12]** business of selling businesses and because the transaction involved the transfer of real property. The court specifically noted: "I brought it up because I think it's a valid point to raise and I wanted to get people thinking about it before we got down to the instructions." The court, unwilling to make a ruling without the benefit of additional briefing, urged defendant to provide authority for the proposition that the CFA covered this type of transaction.

[*P14] The following day, during plaintiff's motion for judgment as a matter of law, the parties again engaged in a lengthy discussion regarding the act's applicability to the transaction. Defendant, in fact, had submitted to the court a brief arguing that the CFA covered the sale of plaintiff's business, emphasizing the broad remedial purpose of the statute and analogizing this case to other covered transactions. Plaintiff responded that defendant failed to present evidence establishing that plaintiff was a "seller" of businesses or that defendant was a "consumer" as required under the statute, and that the comprehensive nature of the agreement obviated any potential claim under the CFA. The court reiterated its concern that defendant **[**13]** had not offered evidence to prove that plaintiff met the statutory definition of a seller and that the transaction was not, therefore, a consumer transaction. The court noted, "[i]t's not really the property, tangible or intangible, that's being transferred that's a hang-up. It's the parties and the nature of the transaction." The court again reserved judgment, stating "I'm thinking at this point we'll be giving it to the jury and giving you folks the chance to brief this further after the verdict if it becomes appropriate." At the court's behest, plaintiff clarified in its renewed motion its position regarding the scope of the CFA.

[*P15] It is beyond question that defendant was on notice of the precise nature of plaintiff's argument and, indeed, the court's concerns with respect to the act's applicability to a private business transaction. Accordingly, plaintiff's argument in the renewed motion for judgment as a matter of law was not new, but rather a fuller explanation of the argument presented in plaintiff's original motion. Considered in this light, defendant had ample opportunity to respond to plaintiff's argument. *EBWS*, 181 Vt. 513, 2007 VT 37, ¶ 10, 928 A.2d 497.

B.

[*P16] We now turn to the substance of defendant's **[**14]** argument, that the trial court erred in refusing to apply the CFA to the transaction at issue. In granting plaintiff's renewed motion for judgment as a matter of law, the trial court held that there was no sufficient evidentiary basis for the jury to find that the transaction occurred "in commerce," as defined by the CFA.

[*P17] A party violates the CFA if he or she engages in an unfair or deceptive act or practice in commerce. See *Christie v. Dalmig, Inc.*, 136 Vt. 597, 600, 396 A.2d 1385, 1387 (1979). Both the Attorney General and injured private parties may prosecute violations of the CFA. Private parties are encouraged to prosecute CFA violations by the act's provision allowing treble damages and attorney's fees, but they must meet additional standing requirements. Specifically, the private party must be a consumer who was harmed by the unfair or deceptive act or practice. *9 V.S.A. § 2461(b)*.

[*P18] The Legislature passed the CFA as a complement to federal law to promote honest competition and to protect the public. See *9 V.S.A. § 2451*. Indeed, the operative language of the Vermont CFA and *Section 5* of the *Federal Trade Commission Act* (FTCA) are nearly identical. Compare *9 V.S.A. § 2453(a)* ("Unfair **[**15]** methods of competition in commerce, and unfair or deceptive acts or practices in commerce, are hereby declared unlawful.") with *15 U.S.C. § 45(a)(1)* ("Unfair methods of competition in or affecting commerce, and unfair or deceptive acts or practices in or affecting commerce, are hereby declared unlawful."). The Vermont Legislature expressly instructed the courts to construe the CFA to parallel the construction of *Section 5* of the FTCA. See *9 V.S.A. § 2453(b)* ("[I]n 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.").

[*P19] In the case at hand, we must interpret the act's central provision: the prohibition of unfair or deceptive acts or practices that occur "in commerce." *Sawyer v. Robson*, 2006 VT 136, ¶ 11, 181 Vt. 216, 915 A.2d 1298. The CFA does not define "in commerce," and our case law interpreting the term is limited. See *Carter v. Gugliuzzi*, 168 Vt. 48, 54, 716 A.2d 17, 22 (1998) (determining that the ordinary meaning of "in commerce" "obviously applies" **[**16]** to broker that sold real estate throughout Chittenden County); *Wilder v. Aetna Life & Cas. Ins. Co.*, 140 Vt. 16, 18, 433 A.2d 309, 310 (1981) (noting that "[t]he business of insurance is clearly within commerce"). In *Sawyer*, we noted that the "scope of potential plaintiffs and defendants under the CFA was deliberately broadened over time." *181 Vt. 216, 2006 VT 136, ¶ 11 n.7, 915 A.2d 1298*. Although the CFA originally permitted only the Attorney General to enforce its provisions, the Act was amended to permit private causes of action by individual consumers. *Id.* Later, the language was further broadened to expand the possible range of defendants from "sellers" and "solicitors" to include "other violators." *Id.*; see also *9 V.S.A. § 2461(b)*. Nevertheless, the fact that the Legislature created broad categories of potential plaintiffs and defendants does not eliminate the threshold inquiry of whether the transaction was "in commerce" — a question we intentionally avoided deciding in *Sawyer*. *Id.* ¶ 10 n. 6. Here, we must decide whether the transactions at issue were "in commerce" for the purpose of defendant's CFA counterclaim.

[*P20] Courts in states with similar statutes have found that the "in commerce" requirement narrows **[**17]** the statute's applicability. The *Massachusetts Consumer Protection Act*, for example, broadly defines its equivalent of the "in commerce" requirement to include any trade or commerce directly or indirectly affecting the people of the state. *Mass. Gen. Laws ch. 93A, § 1*. Reading the statute as a whole, however, the state's highest court has held that "in commerce" necessarily limits the act's application to the "business context." *Lantner v. Carson*, 374 Mass. 606, 373 N.E.2d 973, 977 (Mass. 1978). The "in commerce" language, in particular, limits the act's application to the consumer context. *Commonwealth. v. DeCotis*, 366 Mass. 234, 316 N.E.2d 748, 752 (Mass. 1974) (holding that act's purpose is to provide "a more equitable balance in the relationship of consumers to persons conducting business activities"). Similarly, the *New Hampshire Consumer Protection Act* broadly defines its equivalent of the "in commerce" requirement. *N.H. Rev. Stat. Ann. § 358-A:1*. Nevertheless, the state's highest court has determined that the act's scope "is narrower than its broad language may suggest." *Ellis v. Candia Trailers & Snow Equip., Inc.*, 164 N.H. 457, 58 A.3d 1164, 1171 (N.H. 2012). In particular, the court has held that "[r]emedies under **[**18]** the Consumer Protection Act are not available where the transaction is strictly private in nature … [as] the purpose of the Act is to ensure an equitable relationship between consumers and persons engaged in business." *Hughes v. DiSalvo*, 143 N.H. 576, 729 A.2d 422, 424 (N.H. 1999) (quotations omitted). The Massachusetts and New Hampshire holdings echo other state courts. See *Zeeman v. Black*, 156 Ga. App. 82, 273 S.E.2d 910, 913 (Ga. Ct. App. 1980) (holding that state consumer fraud act covers only wrongs committed in context of public consumer marketplace); *Nelson v. Lusterstone Surfacing Co.*, 258 Neb. 678, 605 N.W.2d 136, 141 (Neb. 2000) (holding that state consumer fraud statute prohibits acts or practices that affect public interest).

[*P21] For similar reasons, we hold that the "in commerce" requirement narrows the CFA's application to prohibit only unfair or deceptive acts or practices that occur in the consumer marketplace. To be considered "in commerce," the transaction must take place "in the context of [an] ongoing business in which the defendant holds himself out to the public." *Zeeman*, 273 S.E.2d at 915. Further, the practice must have a potential harmful effect on the consuming public, and thus constitute a breach of **[**19]** a duty owed to consumers in general. *Id.* By contrast, transactions resulting not from "the conduct of any trade or business" but rather from "private negotiations between two individual parties who have countervailing rights and liabilities established under common law principles of contract, tort and property law" remain beyond the purview of the statute. *Id.* (quotation omitted).

[*P22] This interpretation reinforces the Act's underlying purpose of consumer protection. See *Rathe Salvage, Inc. v. R. Brown & Sons, Inc.*, 2012 VT 18, ¶ 8, 191 Vt. 284, 46 A.3d 891 (requiring plaintiffs to prove that they are consumers to recover under CFA); *Carter*, 168 Vt. at 56, 716 A.2d at 23 (articulating three-element test for "deceptive" acts or practices that emphasizes effects on consumers); *Christie*, 136 Vt. at 601, 396 A.2d at 1388 (quoting *F.T.C. v. Sperry & Hutchinson Co.*, 405 U.S. 233, 244 n.5, 92 S. Ct. 898, 31 L. Ed. 2d 170 (1972)) (adopting United States Supreme Court formulation of FTCA factors emphasizing public policy and injury to consumers to determine whether act is "unfair").

[*P23] This interpretation of the CFA also comports with the accepted understanding that its federal counterpart, the FTCA, protects consumers in the general **[**20]** public. See *15 U.S.C. § 45(n)* ("[T]he Commission shall have no authority under [*Section 5* of the FTCA] ... to declare unlawful an act or practice on the grounds that such act or practice is unfair unless the act or practice causes or is likely to cause substantial injury to consumers ... ."); *Cal. Apparel Creators v. Wieder of Cal.*, 68 F. Supp. 499, 506 (S.D.N.Y. 1946) ("Where the unfair competition arises out of a controversy essentially private in its nature, the Federal Trade Commission lacks jurisdiction."). Statutory protection of consumers serves an important function because, in certain respects, the consumer marketplace is tilted against buyers in favor of sellers. Individual buyers often hold less bargaining power and knowledge about the products they are purchasing than do sellers, and they face barriers to pursuing their claims if they are wronged in a transaction. Common law remedies are frequently inadequate for addressing wrongs committed against individual consumers because the costs of litigation often outweigh the rewards. See *Spinner Corp. v. Princeville Dev. Corp.*, 849 F.2d 388, 391 (9th Cir. 1988) (noting that Hawaii's consumer fraud act "is designed to provide **[**21]** encouragement to people whose damages are relatively small by granting to them, if successful, treble damages").

[*P24] Broadening the scope of the CFA to encompass transactions that do not occur in the consumer marketplace would not serve the CFA's aim of public protection. In purely private transactions, remedies available through well-established principles of contract, tort, and property law are adequate to redress wrongs. Therefore, granting a remedy that benefits only the buyer in a purely private transaction would create an imbalance arbitrarily favoring one party. Cf. *Lantner*, 373 N.E.2d at 977 (when both parties have equal bargaining power, "arming the 'consumer' [with additional legal remedies] ... does not serve to equalize the positions of buyer and seller. Rather, it serves to give superior rights to only one of the parties, even though as nonprofessionals both stand on an equal footing."). Additionally, expanding the CFA to cover purely private transactions would allow the act to subsume the common law claims traditionally employed to remedy contractual wrongs. See *Winey v. William E. Dailey, Inc.*, 161 Vt. 129, 136, 636 A.2d 744, 749 (1993) (cautioning against "confusing principles **[**22]** of contract with principles of fraud so that the elements of fraud are made out by a mere breach of contract").

[*P25] Here, the parties' transaction does not constitute a transaction "in commerce" for CFA purposes because it did not occur in the consumer marketplace. First, plaintiff held his offer out to defendant only, not to the public at large. See *Zeeman*, 273 S.E.2d at 913-14. Second, the transaction did not involve products, goods or services purchased or sold for general consumption, as those terms are generally understood, but rather the sale of an entire business from one party to another. See *539 Absecon Blvd., L.L.C. v. Shan Enters. Ltd. P'ship*, 406 N.J. Super. 242, 967 A.2d 845, 868 (N.J. Super. Ct. App. Div. 2009) (declining to expand scope of consumer fraud statute to include sale of ongoing business from one group of owners to another). Third, the transaction's high level of customization — which was achieved through particularly negotiated contract terms rather than boilerplate language — does not typically occur in the consumer marketplace. See *Cetel v. Kirwan Fin. Grp., Inc.*, 460 F.3d 494, 514-15 (3d Cir. 2006) (determining that *New **Jersey** **Consumer Fraud*** Act did not cover participation of physician **[**23]** groups in employee welfare benefit plans in part because of plans' customization).

[*P26] Defendant was free to pursue his claims through the common law remedies available to any party. Because the transaction did not occur "in commerce" as we interpret that phrase in the CFA context, we do not address the CFA's other requirements.

II.

[*P27] Finally, defendant contends that the court erred in granting plaintiff judgment as a matter of law on defendant's claims stemming from plaintiff's alleged breach of the noncompetition agreement that accompanied the business sale.[2] We agree that the court should have sent the case to the jury on those grounds and therefore remand.

A.

[*P28] Before proceeding, we address which of two separate documents purporting to bar plaintiff from competing with defendant's business governs the analysis. As stated above, the asset-purchase agreement contained a non-competition provision that, among other things, barred defendant from engaging in "any business which is in competition with the business of [the defendant]." A separate non-competition agreement specified that plaintiff agreed not to compete with defendant's "business of retail sale of gasoline and/or the operation of a convenience store."

[*P29] We conclude that the latter agreement governs the contractual relationship between the parties. Parties are generally free to alter or amend the terms of their contractual arrangements by mutual assent provided all requirements are met for a valid contract, including adequate consideration. See *Archambo v. Lawyers Title Ins. Corp.*, 466 Mich. 402, 646 N.W.2d 170, 176 (Mich. 2000) **[**25]** ("It is hornbook law that parties to a contract are not forever locked into its terms. They are at all times free to alter, amend, or modify their agreement." (quotation omitted)). Moreover, "[i]t is a basic tenet of contract interpretation that specific terms are given greater weight than are general terms." *In re Adelphia Bus. Solutions of Vt., Inc.*, 2004 VT 82, ¶ 15, 177 Vt. 136, 861 A.2d 1078 (citing *Restatement (Second) of Contracts § 203(c)* (1981)). Here, the stand-alone agreement represented a modification of the terms, defining more specifically the precise scope of the agreement not to compete. Further, the year-long reprieve defendant obtained for the first installment payment constituted adequate consideration for this contract modification. On remand, it is the terms of this stand-alone agreement that must govern the issue.

B.

[*P30] We turn now to the substance of defendant's breach of contract and good faith and fair dealing counterclaims. These counterclaims were based on plaintiff's alleged violation of the non-competition agreement by working for Packard Fuels. Defendant argued that Packard delivered diesel fuel to several of defendant's existing customers and planned to establish **[**26]** a potentially competing retail gasoline station. After the close of evidence, plaintiff moved for judgment as a matter of law, arguing that defendant's counterclaims should not go to the jury because defendant failed to show damages.

[*P31] The court granted plaintiff's motion. It held that failure to establish lost profits is fatal to a breach of contract claim based upon an alleged violation of a non-competition agreement. In doing so, the court specifically rejected using consideration as the measure of damages and observed that "other evidence regarding damages from any breach of contract or breach of covenant in good faith is speculative."

[*P32] We reject the court's rationale because a party claiming breach of contract may seek relief based on more than one theory of measurement of damages. Broadly speaking, the correct measure for recovery in breach of contract cases is:

> (a) the loss in the value to [the nonbreaching party] of the other party's performance caused by its failure or deficiency, plus

[2] Plaintiff also argues that the evidence was insufficient as a matter of law for the jury to conclude that plaintiff breached the non-compete agreement. This argument was never raised in either plaintiff's motion for judgment as a matter of law under Rule 50(a), or in its renewed motion under Rule 50(b). Rather, plaintiff explicitly argued that the basis of both motions was the "contention that the [non-competition provision breach] claim fails because [defendant] has failed to establish damages." Therefore, because this issue was not **[**24]** raised in either of plaintiff's motions for judgment as a matter of law, we do not address this issue on appeal. Likewise, we do not address whether the non-competition agreement permits apportionment of damages proportional to defendant's loss in the event that the jury finds that plaintiff breached the agreement.

(b) any other loss, including incidental or consequential loss, caused by the breach, less

(c) any cost or other loss that [the non-breaching party] has avoided by not having to perform.

McGee Constr. Co. v. Neshobe Dev. Inc., 156 Vt. 550, 557, 594 A.2d 415, 419 (1991) **[**27]** (quoting *Restatement (Second) of Contracts § 347*); see also *WSP, Inc. v. Wyo. Steel Fabricators and Erectors, Inc.*, 2007 WY 80, ¶ 21, 158 P.3d 651 ("As a type of consequential damages, lost profits are merely one measure of damages.").

[*P33] Here, defendant claimed consequential damages in the form of lost profits from the loss of three particular customers.[3] It is also clear, however, that defendant sought in the alternative to measure its loss by the value of the non-competition agreement, as evidenced by the separate consideration assigned to that arrangement. Defendant expressly contended that it paid $30,000 for the non-competition agreement but received nothing in return.

[*P34] In order to award consequential damages based **[**28]** on lost profits, the jury must "estimate the amount within reasonable limits based upon the evidence before it." *Lemnah v. Am. Breeders Serv., Inc.*, 144 Vt. 568, 580, 482 A.2d 700, 707 (1984). Difficulty in computing damages does not necessarily preclude the jury from awarding damages if there is "sufficient evidence from which it could have made a reasonable determination of damages." *Id.*; see also *Smith v. Country Village Int'l, Inc.*, 2007 VT 132, ¶ 9, 183 Vt. 535, 944 A.2d 240 (rejecting damages recovery where evidence could not establish either direct or consequential damages).[4] In particular, when a plaintiff has sought consequential damages as a result of a breach of a non-competition provision, we have stressed that "[t]he proper measure of damages for breach of a non-competition agreement is the plaintiff's provable loss and not the gain accruing to the defendant by reason of the breach." *Vt. Elec. Supply Co. v. Andrus*, 135 Vt. 190, 192, 373 A.2d 531, 532 (1977). Moreover, a litigant must establish that consequential damages "pass the tests of causation, certainty and foreseeability, and, in addition, be reasonably supposed to have been in the contemplation of both parties **[**29]** at the time they made the contract." *A. Brown, Inc. v. Vt. Justin Corp.*, 148 Vt. 192, 196, 531 A.2d 899, 902 (1987).

[*P35] In this case, we agree with the trial court that defendant failed to establish consequential damages with the type of specificity that would permit a fact finder to make an appropriate and rational award. See *Ferrisburgh Realty Investors v. Schumacher*, 2010 VT 6, ¶ 26, 187 Vt. 309, 992 A.2d 1042 (noting, in affirming post-verdict judgment for defendant,

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3 Given our conclusion regarding the insufficiency of the evidence to establish consequential damages, we need not address plaintiff's contention that defendant failed to properly plead its claim for these damages. See V.R.C.P. 9(g) ("When items of special damage are claimed, they shall be specifically stated."); see also *Vineyard Brands, Inc. v. Oak Knoll Cedar*, 155 Vt. 473, 483, 587 A.2d 77, 82 (1990) (lost profits are special damages that must be specifically stated).

4 We recognize that our language in *Smith* was perhaps overbroad and may have led to confusion with respect to the elements necessary to establish a breach of contract as opposed to the evidence necessary to permit the recovery of either direct or consequential damages as a result of that breach. See 183 Vt. 535, 2007 VT 132, ¶ 9, 944 A.2d 240 ("To prove breach of contract, plaintiff must show damages."); *id.* ¶ 10 ("Failure to prove damages is fatal to a claim for breach of contract."); see also *Ianelli v. U.S. Bank*, 2010 VT 34, ¶ 16, 187 Vt. 644, 996 A.2d 722 (citing *Smith*, 183 Vt. 535, 2007 VT 132, ¶ 10, 944 A.2d 240) ("If damages are not proven, a breach of contract claim will fail."). Failure to prove damages is fatal not to an action for breach of contract, as it would be for most tort actions, but rather to recovery on the basis of those damages. The overbroad language in *Smith* derived from our holding in *Dufresne-Henry Engineering Corporation v. Gilcris Enterprises, Inc.*, 136 Vt. 274, 388 A.2d 416 (1978). *Dufresne-Henry* dealt with a suit to recover the value of services rendered, an action based on quantum meruit rather **[**30]** than breach of contract, and the failure to adequately establish damages therefore precluded any recovery. *Id.* at 277, 388 A.2d at 419. In *Smith*, we also cited *Donovan v. Towle*, 99 Vt. 464, 472, 134 A. 588, 591 (1926), which was an action for fraud in which, unlike breach of contract, "fraud without damage, or damage without fraud, will not sustain [the] action." In *Smith*, the real issue, although inartfully framed as a failure to establish damages, was that the alleged breach never occurred because the plaintiff was never entitled to the losses he sought to recover.

that "[plaintiff] identifies no evidence in the record whatsoever that would support such a large award of damages" in claim for breach of covenant of good faith and fair dealing).

[*P36] Defendant alleged that it lost diesel revenue of about $60,000 a year from three former customers: **[**31]** Packard Fuels, J.M. McDonald, and Bolduc Auto Salvage. Defendant also alleged that it suffered a reduction in transportation revenue from home-heating oil of about $80,000 a year, excluding the impact of a potential offset for a brief period. Even assuming that defendant could establish that the lost revenues were caused by a breach, see *A. Brown*, 142 Vt. at 196, 531 A.2d at 902, the jury had "nothing at all to go on" in determining any corresponding loss of profits, as the trial court noted. Absent any understanding of profit margins, the jury would be unable to rationally translate these lost revenues into a reasonable estimate of lost profits. The trial court, therefore, properly declined to submit the claim for consequential damages to the jury.

[*P37] Nevertheless, defendant's inability to establish consequential damages does not foreclose all remedies for a breach of non-competition agreement. Consequential damages are merely one way to determine a remedy in a breach of contract action. Cf. *Tour Costa Rica v. Country Walkers, Inc.*, 171 Vt. 116, 124, 758 A.2d 795, 802 (2000) (discussing range of breach of contract remedies in promissory estoppel case, including expectation damages, restitution, **[**32]** and reliance damages). Restitution, or a refund of the consideration paid, may be available as an alternative measure of damages. See *Morris v. Homco Int'l, Inc.*, 853 F.2d 337, 346 (5th Cir. 1988) (citing *Restatement (Second) of Contracts § 373* (1979) in support of "general rule" that "restitution may be had only as an alternative to damages for actual losses resulting from a breach, not in addition to such damages" in non-competition case based on Louisiana law); see also D. Dobbs, Law of Remedies § 4.1(1), at 552 (2d ed. 1993) ("Restitution is often an appropriate remedy for breach of an enforceable contract, whether or not there is a 'rescission' of that contract."). When awarded to remedy a breach of contract, restitution is an appropriate remedy at law for the unjust enrichment that would occur if a breaching party to the contract were permitted to retain the benefit of the plaintiff's performance. *Tour Costa Rica*, 171 Vt. at 124, 758 A.2d at 802; see also *Restatement (Second) of Contracts § 373(1)* (1981) ("[O]n a **[**33]** breach by non-performance ... the injured party is entitled to restitution for any benefit that he has conferred on the other party by way of part performance or reliance.").[5] Indeed, such a measure of the loss suffered by a plaintiff may be the most appropriate where consequential damages, such as lost profits, are speculative and thus difficult to establish.

[*P38] We hold that defendant is entitled to claim the return of the consideration as an alternative form of contractual relief if the jury concludes that plaintiff breached the terms of the non-competition agreement. In light of the potential remedy of the consideration refund, we hold that **[**34]** the trial court erred in granting plaintiff's motion for judgment as a matter of law on defendant's claims arising from the non-competition agreement and therefore reverse and remand on this issue.

Affirmed as to defendant's counterclaim under the Vermont Consumer Fraud Act; reversed and remanded with respect to the trial court's grant of judgment as a matter of law on defendant's counterclaims for breach of contract and breach of the covenant of good faith and fair dealing.

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[5] The Restatement (Second) of Contracts limits the availability of contractual restitution damages of this type by expressly excluding situations in which the injured party "has performed all of his duties under the contract *and* no performance by the other party remains due *other than* payment of a definite sum of money for that performance." § 373(2) (emphasis added). This limitation does not apply to this case because plaintiff's performance due under the non-compete agreement was not a payment but rather fulfillment of his promise to not compete.

EXHIBIT B

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF NEBRASKA

ACTIVISION TV, INC.,

Plaintiff,

and

MPHJ TECHNOLOGY INVESTMENTS LLC,

Intervenor-Plaintiff,

vs.

PINNACLE BANCORP, INC.,

Defendant,

and

JON BRUNING, Attorney General of Nebraska; DAVID COOKSON, Chief Deputy Attorney General of Nebraska; and DAVID LOPEZ, Assistant Attorney General of Nebraska (in their official capacities),

Defendants and Intervenor-Defendants..

8:13CV215

ORDER ON PRELIMINARY INJUNCTION

This matter is before the court on the preliminary injunction motions, Filing No. 53 and Filing No. 85, of intervenor MPHJ Technology Investments, LLC. ("MP The Nebraska Attorney General issued a cease and desist order against plaintiff Activision's counsel for attempting to send letters to potential patent infringers. Filing No. 7-11, Ex. F. Activision filed a preliminary injunction which this court granted in two separate orders and one amended order. Filing Nos. 31, 38 and 41. MPHJ then filed for intervention and also asked for a preliminary injunction. Filing Nos. 50 and 53. The court granted the motion to intervene. Filing No. 81. In the interim, the Nebraska Attorney General filed an appeal to the Eighth Circuit. Filing No. 65. The Nebraska

Attorney General thereafter dismissed the appeal and withdrew the cease and desist orders against any party or counsel to this litigation and represented the State would not "issue any cease and desist order directed at or effective against any party or counsel to this litigation without first providing notice to the affected party and an opportunity to be heard." Filing No. 90, p. 2. MPHJ still requests an injunction. The Attorney General says the issue is now moot, Filing No. 91, as there are no pending cease and desist orders.

I. Mootness

The court will first address the issue of mootness. The Attorney General argues that because he has withdrawn the July 18, 2013, cease and desist order, there is no issue left before the court with regard to either Activision or MPHJ. However, MPHJ and Activision both disagree. MPHJ contends that the Attorney General did not issue a withdrawal of the cease and desist order as it relates to Farney Daniel's dealings on behalf of MPHJ. The cease and desist withdrawal only dealt with Farney Daniels and Activision. Further, Activision and MPHJ argue that merely withdrawing the cease and desist order is insufficient. Both of these parties filed claims alleging constitutional violations of their rights.

The court agrees with Activision and MPHJ. First, the withdrawal does not address the rights of MPHJ and its representation by Farney Daniels. More importantly, the withdrawal letter clearly does not admit to liability and indicates the Attorney General might pursue further courses of action for violation of state law. See Filing No. 95. Attachments A and B. Finally, the court agrees with Activision and MPHJ that the Attorney General cannot claim this is a moot issue simply because he withdraw the cease and desist order. Making a voluntary decision to stop the unconstitutional conduct does not create a moot issue. *See,* e.g., *Center for Special Needs Trust Administration, Inc. v. Olson*, 676 F.3d 688, 697 (8th Cir. 2012) (holding that "[m]ere voluntary cessation of allegedly illegal conduct does not moot a case; otherwise the courts would be compelled to leave the defendant . . . free to return to his old ways"). This is true particularly where the party could repeat the same conduct at a later date. *See Buckhannon Bd. & Care Home v. W. Va. Dep't of Health & Human Res.,* 532 U.S. 598, 609 (2001) ("'It is well settled that a defendant's voluntary cessation of a challenged practice does not deprive a federal court of its power to determine the legality of the practice' unless it is 'absolutely clear that the allegedly wrongful behavior could not reasonably be expected to recur.'") (citations omitted). It is clear based on the language of the withdrawal of the cease and desist order that the Attorney General has not made it "absolutely clear" that further enforcement measures will not occur. For all of these reasons, the court finds the motion for preliminary injunction is not moot.

II. Preliminary Injunction

The issue, then, is whether MPHJ is entitled to a preliminary injunction in this case. MPHJ argues that the issues presented in this motion are identical to those presented previously in the motion by Activision for a preliminary injunction.[1] The court agrees. The court incorporates by reference the background set forth in Filing No. 41, pp. 1-3. Likewise, the court incorporates by reference those sections dealing with standing, ripeness, and the First Amendment, as it applies to MPHJ and its

[1] The court notes for the record that the Attorney General responded to the motion for a preliminary injunction with his argument about mootness. He filed no additional arguments regarding the motion for preliminary injunction.

representation by Farney Daniels and Kutak Rock. *Id*., pp.3-9. The court now turns to the *Dataphase* requirements.

The extraordinary remedy of a preliminary injunction should not be granted unless the movant has demonstrated: (1) the threat of irreparable harm to it; (2) the state of the balance between this harm and the injury that granting the injunction will inflict on other parties; (3) the probability that it will succeed on the merits; and (4) the public interest. *Dataphase Systems, Inc. v. C L Systems, Inc*., 640 F.2d 109, 113-14 (8th Cir. 1981) (en banc). No single factor is determinative, although the failure to demonstrate the threat of irreparable harm is, by itself, a sufficient ground upon which to deny a preliminary injunction. *See Adam-Mellang v. Apartment Search, Inc*., 96 F.3d 297, 299 (8th Cir. 1996); *see also Modern Computer Sys., Inc. v. Modern Banking Sys., Inc*., 871 F.2d 734, 738 (8th Cir. 1989) (en banc). The burden on a movant to demonstrate that a preliminary injunction is warranted is heavier when, as here, granting the preliminary injunction will in effect give the movant substantially the relief it would obtain after a trial on the merits. *Calvin Klein Cosmetics Corp. v. Lenox Lab*., 815 F.2d 500, 503 (8th Cir. 1987). "A preliminary injunction is an extraordinary remedy never awarded as of right. In each case, courts must balance the competing claims of injury and must consider the effect on each party of the granting or withholding of the requested relief." *Winter v. Natural Resources Defense Council,* 555 U.S. 7, 24 (2008). In exercising their sound discretion, courts of equity should pay particular regard for the public consequences in employing the extraordinary remedy of injunction. *Id*. "No single factor in itself is dispositive; rather, each factor must be considered to determine whether the balance of equities weighs toward granting the injunction." *United Indus.*

Corp. v. Clorox Co., 140 F.3d 1175, 1179 (8th Cir. 1998). "At base, the question is whether the balance of equities so favors the movant that justice requires the court to intervene to preserve the status quo until the merits are determined . . . ." Dataphase, 640 F.2d at 113.

At the early stage of a preliminary injunction motion, the speculative nature of the inquiry into the probability of ultimate success on the merits militates against any wooden or mathematical application of the test; instead, a court should flexibly weigh the case's particular circumstances to determine whether the balance of equities so favors the movant that justice requires the court to intervene to preserve the status quo until the merits are determined. *Clorox*, 140 F.3d at 1179.

1. Merits

MPHJ argues it has a likelihood of success as it relates to the July 18, 2013, order. This court has already determined that Activision will likely succeed on the merits, as the Nebraska Attorney General has not shown any bad faith on the part of Activision. The court further determined that the letters related to patent infringement were likely preempted by the federal government. Finally, the court determined that the cease and desist order operated as a prior restraint against Activision and violated its right to choose its own counsel. The court has carefully reviewed the complaint filed by MPJH as well as the motion for a preliminary injunction. The facts are very similar to those alleged by Activision. For the reasons set forth in the preliminary injunctions granted as to Activision, based on the facts as applied to MPHJ which are virtually the same as Activision, the court likewise finds that MPHJ is likely to win on the merits of this case.

2. Irreparable Harm

"'The basis of injunctive relief in the federal courts has always been irreparable harm and inadequacy of legal remedies.'" *Bandag, Inc. v. Jack's Tire & Oil, Inc.*, 190 F.3d 924, 926 (8th Cir. 1999) (quoting *Beacon Theatres, Inc. v. Westover*, 359 U.S. 500, 506-07 (1959)). Thus, to warrant a preliminary injunction, the moving party must demonstrate a sufficient threat of irreparable harm. *Id*. A showing of irreparable harm does not automatically mandate a ruling in the plaintiff's favor; the court must proceed to balance the harm to the defendant in granting the injunction. *Hill v. Xyquad, Inc.*, 939 F.2d 627, 630-31 (8th Cir. 1991).

MPHJ contends it has and continues to suffer irreparable harm. The cease and desist order, argues MPHJ, is unconstitutional. Thus its ability to enforce its patents and hire counsel of its own choosing is impaired. As previously stated, the withdrawal of the case and desist order does not denigrate the constitutional violations, nor does it protect MPHJ from future review by the attorney general. The court agrees and finds that MPHJ has suffered and continues to suffer irreparable harm.

3. Balance of Harm

The balance of harm clearly weighs in favor of MPHJ. As stated in the court's ruling on behalf of Activision, "The public has a right to protection from scams and unfair trade practices. However, Activision's constitutional right to hire counsel of its choosing to pursue investigations and lawsuits against infringers is clearly impeded by the cease and desist order. Further, the federal government has preempted to a great extent the area of patent law. Allowing the attorney general to interfere might be harmful to the patent process. Based on the facts as presented, which indicates no bad faith, the court finds this factor likewise weighs in favor of Activision." Filing No. 41, at 15. This same analysis applies to MPHJ. Accordingly, the court finds this factor weighs in favor of MPHJ.

4. Public Interest

Again, the same analysis applies to this factor. "The public interest is served by enforcing the Constitution of the United States. This means that Activision and others have a right to counsel and a right to have counsel pursue their interests. It also means that Activision and others have a due process right to a meaningful process prior to issuance of a cease and desist order." *Id*. at 15-16. The same analysis applies to MPHJ, and accordingly, the court finds this factor weighs in favor of MPHJ.

III. Negotiation of a Final Injunction

The defendants have stated in their brief that they will agree to sign some type of final injunction encompassing the findings this court previously made in conjunction with the withdrawal of the cease and desist order and the Nebraska Attorney General's agreement not to further pursue the cease and desist orders in this case, if the court determines an entry of a permanent injunction is appropriate. *Id*. Both Activision and MPHJ contend that the defendants must agree to a finding that they committed an unconstitutional violation under 42 U.S.C. § 1983 and must pay some amount of costs and fees. The court does find that an order permanently enjoining the state defendants from enforcing the cease and desist orders will likely occur in this case.

The court is ordering the parties to attempt to draft an agreed upon final permanent injunction and submit the draft to the court within fourteen (14) days of the date of this order. If that is not possible, the court will order the magistrate judge to enter an expedited progression order dealing with this part of the case as to both Activision and MPHJ and the nonbank defendants, so that that this portion of the case can proceed to the merits, and the court can enter a permanent injunction or address the merits on motions for summary judgments.

THEREFORE, IT IS ORDERED:

1. MPHJ's motions for preliminary injunction, Filing Nos. 53 and 85, are granted, and defendants Bruning, Cookson and Lopez are enjoined from taking any steps to enforce the cease and desist order issued to Farney Daniels on July 18, 2013, in any manner that would prevent or impede the Farney Daniels firm from representing MPHJ in connection with licensing and litigation of U.S. patents owned by MPHJ with respect to companies based in, or having operations in, Nebraska. If, however, at some point during the investigation evidence supports a claim of bad faith, the Attorney General is free to revisit this preliminary injunction with the court.

2. The parties shall attempt to draft an agreed upon final permanent injunction and submit the draft to the court within fourteen (14) days of the date of this order. If that is not possible, the court will order the magistrate judge to enter an expedited progression order dealing with this part of the case, so that the case can proceed to the merits and the court can enter a permanent injunction or address the merits on motions for summary judgments.

Dated this 14th day of January, 2014.

BY THE COURT:

s/ Joseph F. Bataillon
United States District Judge

EXHIBIT C

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF NEBRASKA

ACTIVISION TV, INC.,

Plaintiff,

vs.

PINNACLE BANCORP, INC., JON BRUNING, DAVID COOKSON, DAVID LOPEZ,

Defendants.

8:13CV215

AMENDED MEMORANDUM AND ORDER

This matter is before the Court on plaintiff Activision TV, Inc.'s (Activision) motion for a preliminary injunction, Filing No. 8, against defendants Jon Bruning, David Cookson and David Lopez. The Court conducted a hearing on the preliminary injunction on September 19, 2013. Filing No. 30. Following the hearing, the Court indicated that it would file two separate orders. This first order addresses the issue of whether the law firm of Farney Daniels[1] could represent the plaintiff in this case without running afoul of the Nebraska Attorney General's cease and desist order (discussed hereinafter). The second order will be issued at a later date and will address whether this court has jurisdiction to determine the constitutionality of the cease and desist order.

BACKGROUND

Activision, through counsel Farney Daniels, believed that certain companies were violating its patents[2] throughout the United States. Farney Daniels sent letters to these

[1] Farney Daniels is a patent law firm that represents Activision nation-wide.

[2] The patents in this case involve digital signage.

companies (five in Nebraska) asking for information to determine if in fact violations occurred or were occurring. *See* Filing No. 7, Exs. C1-C6x. **From February to June of 2013, the Nebraska Attorney General's Office Consumer Mediation Center received three complaints regarding patent license solicitation letters sent by Farney Daniels PC ("Farney Daniels") and/or an entity named BriPol LLC, AccNum LLC, or IsaMai LLC, on behalf of an entity named MPHJ Technology Investments, LLC. Filing 23-1 at ¶ 3.** On July 12, 2013, Activision filed this lawsuit against Pinnacle Bancorp, Inc., alleging patent infringement. On July 18, 2013, the Nebraska Attorney General filed a cease and desist letter against the law firm Farney Daniels. Filing No. 7, Ex. F. This cease and desist letter prohibited the law firm from initiating new patent infringement enforcement efforts within the State of Nebraska. Id. at 2. As a result of the cease and desist order, the law firm of Farney Daniels contends it is unable to represent Activision in this and other federal court cases.

DISCUSSION

During the hearing, the Court questioned counsel for the Nebraska Attorney General. Counsel conceded that this court has complete and exclusive jurisdiction over patent cases. He further conceded that the cease and desist order is not intended to keep Farney Daniels from representing Activision in this case or a case in any other jurisdiction. He also agreed that counsel for Activision can pursue any of the prospective infringers that have already been identified and can file suit against any newly identified potential infringers. Counsel for the Nebraska Attorney General stated that the cease and desist order only prohibits Farney Daniels law firm from sending out letters to potential new infringers.

With these concessions, the Court will rule that Farney Daniels can file an appearance in this case or any other federal cases without running the risk of violating the State of Nebraska Attorney General's cease and desist order. Further, Farney Daniels and its attorneys may proceed to prosecute their cases, including all discovery, as it would in any other lawsuit.

THEREFORE, IT IS ORDERED THAT:

1. Activision's motion for a preliminary injunction, Filing No. 8, is granted to the extent set forth herein.

2. The law firm of Farney Daniels and the attorneys in that law firm may file their application pro hac vice in this case.

4. The law firm of Farney Daniels and the attorneys therein are free to represent their client Activision in this case and any other federal patent case directly or indirectly associated with this case and the Nebraska Attorney General's cease and desist order is not applicable to those cases.

Dated this 26th day of September, 2013.

BY THE COURT:

s/ Joseph F. Bataillon
United States District Judge

EXHIBIT D

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF NEBRASKA

ACTIVISION TV, INC., Plaintiff, vs. PINNACLE BANCORP, INC., JON BRUNING, DAVID COOKSON, and DAVID LOPEZ, Defendants.	**8:13CV215** **MEMORANDUM AND ORDER**

This matter is before the court on plaintiff Activision TV, Inc.'s ("Activision") motion for a preliminary injunction pursuant to Fed. R. Civ. P. 65. Filing No. 8. Activision asks the court to permanently enjoin the Attorney General for the State of Nebraska from enforcing a cease and desist order entered by him on July 18, 2013, Filing No. 7, Ex. F.[1] This court previously enjoined enforcement of the cease and desist order as to this case and future federal court cases. Filing No. 31. There is nothing left for this court to determine in the motion for preliminary injunction other than whether the State of Nebraska can order counsel for Activision TV, Inc. to cease and desist initiation of all new patent infringement enforcement efforts in Nebraska.[2]

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[1] The Nebraska Attorney General stated that he was investigating possible violations of the Nebraska Unfair Competition Act and the Nebraska Deceptive Trade Practices Act.

[2] Defendants also filed an objection to plaintiff's exhibits and declarations. Filing No. 35. The court has reviewed the same and determines that it should be denied. The court has ignored the hearsay, and only identified that information as is relevant and made its conclusions based on the uncontested evidence and argument presented to the court.

BACKGROUND

Activision originally filed this case against Pinnacle Bancorp, Inc., alleging patent infringement in violation of 35 U.S.C. § 271 *et seq*.[3] Filing No. 1. Activision, acting through counsel Farney Daniels, PC ("Farney Daniels"), believed that certain companies were violating its patents[4] throughout the United States. Farney Daniels sent letters to these companies (five in Nebraska) asking for information to determine if in fact violations occurred or were occurring. See Filing No. 7, Exs. C1-C6. From February to June of 2013, the Nebraska Attorney General's Office Consumer Mediation Center received three complaints regarding patent license solicitation letters sent by Farney Daniels and/or an entity named BriPol LLC, AccNum LLC, or IsaMai LLC, on behalf of an entity named MPHJ Technology Investments, LLC. Filing No. 23-1 at ¶ 3. On July 12, 2013, Activision filed this lawsuit against Pinnacle Bancorp, Inc., alleging patent infringement.

On July 18, 2013, the Nebraska Attorney General filed a cease and desist order against the Farney Daniels law firm. Filing No. 7, Ex. F. The cease and desist order prohibited the law firm from initiating new patent infringement enforcement efforts within the State of Nebraska. *Id*. at 2. Following the issuance by the Nebraska Attorney General of the cease and desist order, Activision amended its complaint to include Nebraska Attorney General Jon Bruning, and his employees, David Lopez and David Cookson. Filing No. 7. Activision contends that its First Amendment rights are infringed as a result of the cease and desist order, as it cannot hire and associate with the counsel of its choice; that its Fifth and Fourteenth Amendment rights to due process

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[3] It is clear that Activision invented the technology that is covered by these patents.

[4] The patents in this case involve digital signage.

have been violated; that federal patent law preempts state law; and that the Noerr-Pennington doctrine is applicable in this case. The Attorney General argues that Farney Daniels is not a party to this lawsuit, and thus the cease and desist order is not relevant to this lawsuit.

DISCUSSION

A. Jurisdiction

1. Standing

The court must first determine if it has jurisdiction to hear this case. The Attorney General argues that the cease and desist order applies only to Farney Daniels, and not to Activision. Consequently, the Attorney General argues there is no standing for Farney Daniels, a nonparty, to raise the constitutional issues regarding the cease and desist order in this lawsuit,[5] and further argues the issue is not ripe. Counsel for the Attorney General agreed in open court that Farney Daniels is prohibited from sending these letters to new potential violators, similar to those in Filing No. 7, Ex. C1-C6, on behalf of Activision.

"The issue of standing involves constitutional limitations on federal court jurisdiction under Article III of the Constitution, which confines the federal courts to adjudicating actual 'cases and controversies.'" *Potthoff v. Morin*, 245 F.3d 710, 715 (8th Cir. 2001); *see Oti Kaga v. South Dakota Hous. Dev. Auth.*, 342 F.3d 871, 878 (8th Cir. 2003). The threshold question in every federal case is the plaintiff's standing to sue. *Steger v. Franco, Inc.,* 228 F.3d 889, 892 (8th Cir. 2000). Without standing, the court

[5] The court agrees that Farney Daniels is not a party to this lawsuit. Accordingly, the court will review the case as it pertains to Activision.

lacks subject matter jurisdiction to hear the suit. *Young Am. Corp. v. Affiliated Computer Servs.*, 424 F.3d 840, 843 (8th Cir. 2005).

To acquire Article III standing, "a plaintiff must have a 'personal stake in the outcome of the controversy.'" *Potthoff*, 245 F.3d 710, 714 (8th Cir. 2001) (quoting *Baker v. Carr*, 369 U.S. 186, 209 (1962)). To satisfy the burden of establishing Article III standing, the plaintiff must show: (1) plaintiff suffered an "injury-in-fact," (2) a causal relationship exists between the injury and the challenged conduct, and (3) the injury likely will be redressed by a favorable decision. *Eckles v. City of Corydon*, 341 F.3d 762, 767 (8th Cir. 2003) (quoting *Friends of the Earth, Inc. v. Laidlaw Envtl. Servs. (TOC), Inc.*, 528 U.S. 167, 180-81 (2000)); *see Lujan v. Defenders of Wildlife*, 504 U.S. 555, 560-61 (1992).

"An injury-in-fact is a harm that is 'concrete and particularized' and 'actual or imminent, not conjectural or hypothetical.'" *Steger*, 228 F.3d at 892 (quoting *Lujan*, 504 U.S. at 560); *Faibisch v. Univ. of Minn.*, 304 F.3d 797 (8th Cir. 2002). Additionally, the injury must be "fairly traceable to the challenged action of the defendant." *Saunders v. Farmers Ins. Exch.*, 440 F.3d 940, 943 (8th Cir. 2006) (quoting *Lujan*, 504 U.S. at 560); *McClain v. Am. Econ. Ins. Co.*, 424 F.3d 728, 731 (8th Cir. 2005)). "To establish standing, a plaintiff must show that it is likely that the remedy she seeks can redress her injury." *Faibisch,* 304 F.3d at 801; *see Monsanto v. Geertson Seed Farms*, 130 S. Ct. 2743, 2752 (2010) (Article III standing requires that an injury be concrete, particularized, and actual or imminent; fairly traceable to the challenged action; and redressable by a favorable ruling).

In addition to the immutable requirements of Article III, "the federal judiciary has also adhered to a set of prudential principles that bear on the question of standing." *Valley Forge Christian Coll. v. Americans United for Separation of Church and State, Inc.*, 454 U.S. 464, 474–75 (1982); *Oti Kaga*, 342 F.3d at 880. Prudential principles of standing are statutorily imposed jurisdictional limitations separate from and in addition to constitutional standing requirements. *Davis v. U.S. Bancorp*, 383 F.3d 761, 767 (8th Cir. 2004). "By imposing prudential limits on standing, 'the judiciary seeks to avoid deciding questions of broad social import where no individual rights would be vindicated and to limit access to the federal courts to litigants best suited to assert a particular claim.'" *Oti Kaga*, 342 F.3d at 880 (quoting *Gladstone, Realtors v. Village of Bellwood*, 441 U.S. 91, 99–100 (1979)); *Elk Grove Unified Sch. Dist. v. Newdow*, 542 U.S. 1, 11 (2004) (stating the prudential standing doctrine "embodies judicially self-imposed limits on the exercise of federal jurisdiction").

The Attorney General argues there is no showing of a concrete injury to Activision, as the July 18 cease and desist letter does not mention Activision. The Attorney General further contends that Activision cannot speculate on what Farney Daniels might attempt to do in the future on behalf of Activision in the state of Nebraska. In this regard, the Attorney General states that Activision has not explained who it is planning to send additional patent letters to in Nebraska, and further, that the cease and desist letter only prohibits Farney Daniels from sending the letters, not Activision. Thus, any claim regarding the letter prohibition must be brought by Farney Daniels, not Activision, argues the Attorney General.

Activision contends that it clearly has standing to raise this issue. The court agrees. Activision has suffered an injury in fact. Farney Daniels was ostensibly unable to represent Activision in this case until the court found the cease and desist order did not apply to this case. Second, the settlement negotiations between Activision and other defendants in this and other jurisdictions came to a standstill, as the other parties believed the cease and desist order prohibited them from negotiating with Farney Daniels on behalf of Activision. Third, Farney Daniels cannot pursue further investigations on behalf of Activision in the State of Nebraska. There is no doubt that this injury is causally related to the cease and desist order and such injury is directed at Activision's activities via counsel. A favorable decision by this court redresses the respective injuries. Accordingly, the court finds Activision has standing to raise these issues.

2. Ripeness

The Attorney General also argues this case is not ripe because, as of this date, no one has incurred any injury as a result of the cease and desist order. "The ripeness doctrine is drawn both from Article III limitations on judicial power and from prudential reasons for refusing to exercise jurisdiction." *Nat'l Park Hospitality Ass'n v. Dep't of the Interior,* 538 U.S. 803, 808 (2003) (quotation omitted).

> The judicially created doctrine of ripeness "flows from both the Article III 'cases' and 'controversies' limitations and also from prudential considerations for refusing to exercise jurisdiction." *Neb. Pub. Power Dist. v. MidAm. Energy Co*., 234 F.3d 1032, 1037 (8th Cir. 2000) (citing *Reno v. Catholic Soc. Servs., Inc.,* 509 U.S. 43, 57 n. 18, 113 S. Ct. 2485, 125 L.Ed.2d 38 (1993)). " 'Ripeness is peculiarly a question of timing' and is governed by the situation at the time of review, rather than the situation at the time of the events under review." *Id*. at 1039 (quoting *Anderson v. Green,* 513 U.S. 557, 559, 115 S.Ct. 1059, 130 L.Ed.2d 1050 (1995) (per curiam)). A party seeking review must show both "the fitness of the issues

> for judicial decision and the hardship to the parties of withholding court consideration." *Pub. Water Supply Dist. No. 10 of Cass Cnty. v. City of Peculiar*, 345 F.3d 570, 572–73 (8th Cir. 2003) (quoting *Abbott Labs. v. Gardner*, 387 U.S. 136, 149, 87 S.Ct. 1507, 18 L.Ed.2d 681 (1967)). Both of these factors are weighed on a sliding scale, but each must be satisfied "to at least a minimal degree." *Neb. Pub. Power Dist*., 234 F.3d at 1039.

Iowa League of Cities v. E.P.A., 711 F.3d 844, 867 (8th Cir. 2013).

For the reasons previously set forth herein with regard to standing and as set forth hereinafter with regard to patent infringement law, the court finds the issue is ripe for review. Activision suffered injury, and continues to suffer injury, as a result of the cease and desist order. Failure to address this issue now will permit continued injury to Activision.

B. First Amendment

The First Amendment, applicable to the states through the Fourteenth Amendment, provides that "Congress shall make no law . . . abridging the freedom of speech . . . or the right of the people peaceably to assemble, and to petition the government for a redress of grievances. U.S. CONST. amend I. "The hallmark of the protection of free speech is to allow 'free trade in ideas'—even ideas that the overwhelming majority of people might find distasteful or discomforting." *Virginia v. Black*, 538 U.S. 343, 357 (2003) (quoting *Abrams v. United States*, 250 U.S. 616, 630 (1919) (Holmes, J., dissenting)). An individual's interest in self-expression is a concern of the First Amendment separate from the concern for open and informed discussion, although the two often converge. *First Nat'l Bank of Boston v. Bellotti,* 435 U.S. 765, 776 n.12 (1978) (identifying "the inherent worth of the speech in terms of its capacity for informing the public" as "more than self-expression; it is the essence of self-government," and noting "self-government suffers when those in power suppress competing views on public issues 'from diverse and antagonistic sources.'"). The First Amendment "presupposes that the freedom to speak one's mind is not only an aspect of individual liberty—and thus a good unto itself—but also is essential to the common quest for the truth and the vitality of society as a whole." *Bose Corp. v. Consumers Union of United States, Inc.,* 466 U.S. 485, 503-04 (1984); *see also Bellotti*, 435 U.S. at 776 (noting that the Constitution often protects interests broader than those of the party seeking their vindication and that the First Amendment in particular serves important societal interests). The First Amendment affords protection to symbolic or expressive conduct as well as to actual speech. *R.A.V. v. City of St. Paul,* 505 U.S. 377, 382 (1992).

The right to free speech encompasses the right to association, which is constitutionally protected in two distinct senses: freedom of expressive association and freedom of intimate association. *Roberts v. United States Jaycees,* 468 U.S. 609, 617-18 (1984). Expressive association—the right to associate for the purpose of engaging in those activities protected by the First Amendment (speech, assembly, petition for the redress of grievances, and the exercise of religion)—is governed by First Amendment principles. *Id*. at 618 (noting that "[t]he Constitution guarantees freedom of association of this kind as an indispensable means of preserving other individual liberties."). Intimate association, characterized as "choices to enter into and maintain certain intimate human relationships" receives protection as a fundamental element of personal liberty under the Due Process Clause. *Id*. at 617-18; *Bellotti,* 435 U.S. at 778 (stating "the liberty of speech and of the press which the First Amendment guarantees against abridgment by the federal government is within the liberty safeguarded by the Due

Process Clause of the Fourteenth Amendment”). These two constitutionally-protected freedoms can coincide particularly when the state interferes with an individual’s selection of those with whom they wish to join in a common endeavor. *Roberts*, 468 U.S. at 618.

A cease and desist order has been considered an unconstitutional prior restraint on speech when it “prohibits future statements which, although possibly similar to prior statements, have not yet found to be false, misleading, and deceptive.” *Weaver v. Bonner*, 309 F.3d 1312, 1323 (11th Cir. 2002) (noting that there is a “heavy presumption” against a cease and desist request’s constitutional validity); *see also Pestrak v. Ohio Elections Comn’n*., 926 F.2d 573, 578 (6th Cir. 1991) (holding that “cease and desist orders are a forbidden prior restraint. . . . Prior restraint of speech is unconstitutional unless certain safeguards are present.”), citing *Southeastern Promotions, Ltd. v. Conrad*, 420 U.S. 546, 550 (1975) (“Any system of prior restraint, however, ‘comes to this court bearing a heavy presumption against its constitutional validity.’” And stating further that “The settled rule is that a system of prior restraint ‘avoids constitutional infirmity only if it takes place under procedural safeguards designed to obviate the dangers of a censorship system.’”) *Id*. at 558-59.

C. Dataphase

The extraordinary remedy of a preliminary injunction should not be granted unless the movant has demonstrated: (1) the threat of irreparable harm to it; (2) the state of the balance between this harm and the injury that granting the injunction will inflict on other parties; (3) the probability that it will succeed on the merits; and (4) the public interest. *Dataphase Systems, Inc. v. C L Systems, Inc*., 640 F.2d 109, 113-14

(8th Cir. 1981) (en banc). No single factor is determinative, although the failure to demonstrate the threat of irreparable harm is, by itself, a sufficient ground upon which to deny a preliminary injunction. *See Adam-Mellang v. Apartment Search, Inc.,* 96 F.3d 297, 299 (8th Cir. 1996); *see also Modern Computer Sys., Inc. v. Modern Banking Sys., Inc.,* 871 F.2d 734, 738 (8th Cir. 1989) (en banc). The burden on a movant to demonstrate that a preliminary injunction is warranted is heavier when, as here, granting the preliminary injunction will in effect give the movant substantially the relief it would obtain after a trial on the merits. *Calvin Klein Cosmetics Corp. v. Lenox Lab*., 815 F.2d 500, 503 (8th Cir. 1987). "A preliminary injunction is an extraordinary remedy never awarded as of right. In each case, courts must balance the competing claims of injury and must consider the effect on each party of the granting or withholding of the requested relief." *Winter v. Natural Resources Defense Council*, 555 U.S. 7, 24 (2008). In exercising their sound discretion, courts of equity should pay particular regard for the public consequences in employing the extraordinary remedy of injunction. *Id*. "No single factor in itself is dispositive; rather, each factor must be considered to determine whether the balance of equities weighs toward granting the injunction." *United Indus. Corp. v. Clorox Co*., 140 F.3d 1175, 1179 (8th Cir. 1998) . "At base, the question is whether the balance of equities so favors the movant that justice requires the court to intervene to preserve the status quo until the merits are determined . . . ." *Dataphase,* 640 F.2d at 113.

At the early stage of a preliminary injunction motion, the speculative nature of the inquiry into the probability of ultimate success on the merits militates against any wooden or mathematical application of the test; instead, a court should flexibly weigh the case's particular circumstances to determine whether the balance of equities so favors the movant that justice requires the court to intervene to preserve the status quo until the merits are determined. *Clorox,* 140 F.3d at 1179.

1. *Merits*

Activision argues this cease and desist order is unconstitutional under 42 U.S.C. § 1983 because it violates the Fifth and Fourteenth Amendment Due Process Clauses and the free speech clause of the First Amendment,[6] interferes with its right to hire counsel of its choice, federal patent law,[7] and the Noerr-Pennington doctrine.[8] The cease and desist order, argues Activision, initially prohibited Activision from seeking its rights in court to enforce its patents with counsel of its choosing, in violation of the First, Fourteenth and Fifth Amendments. Further, Activision argues that the cease and desist order constitutes a taking of its patents without due process as it cannot adequately prosecute those entities who infringe on the patent. In addition, patent law is preempted, absent a showing of bad faith. Accordingly, Activision argues that the letters sent by Farney Daniels on behalf of Activision are absolutely immune unless the activity is a sham.

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[6] The court likewise notes that the United States Constitution states: "To promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries." United States Constitution, Art. 1, § 8, cl. 8.

[7] *See Christopher v. Harbury*, 536 U.S. 403, 415 n.12 (2002) (noting that a number of decisions have concluded that the right of access to the courts in the Article IV Privileges and Immunities Clause, the First Amendment Petition Clause, the Fifth Amendment Due Process Clause, and the Fourteenth Amendment Equal Protection and Due Process Clauses); *see also Harrison v. Springdale Water & Sewer Comm'n,* 780 F.2d 1422, 1427-28 and n.7 (8th Cir. 1986) (finding the constitutional right litigants have to petition courts for redress of grievances impliedly includes a right to counsel); "The right to counsel in civil matters 'includes the right to choose the lawyer who will provide that representation.'" *Texas Catastrophe Property Ins. Ass'n v. Morales*, 975 F.2d 1178, 1181 (5th Cir. 1992).

[8] *United Mine Workers v. Pennington,* 381 U.S. 657 (1965) (right to petition the government); *Eastern R.R. Presidents Conference v. Noerr Motor Freight, Inc*., 365 U.S. 127 (1961) (same).

The court notes there is no doubt the Attorney General generally has the power to investigate activity that it believes violates state law. Neb. Rev. Stat. § 87-303.03 (1)(a) allows the Attorney General to conduct the investigation and § 87-303.03 (1)(b) allows the attorney general to issue a cease and desist order against any person engaged in violation of the Deceptive Trade Practices Act.

The court is deeply concerned about the ability of the Attorney General to issue cease and desist orders, prior to the conclusion of the investigation, prior to any negative findings, prior to any hearings, and prior to permitting submission of documents and evidence by the Farney Daniels law firm. On the contrary, the Attorney General sent a request for information to Farney Daniels the same day it sent the cease and desist order, and gave Farney Daniels until August 18, 2013, to respond. Farney Daniels responded, and no further actions have been taken. The inability of Farney Daniels to submit such letters to businesses in Nebraska clearly infringes on the First Amendment rights of Activision to be represented by the counsel of their choice.[9]

The court finds the cease and desist order in this case is akin to a prior restraint. "[C]ease and desist orders are a forbidden prior restraint. . . . Prior restraint of speech is unconstitutional unless certain safeguards are present"). *Pestrak*, 926 F.2d at 578 citing *Southeastern Promotions, Ltd. v. Conrad,* 420 U.S. 546, 550 (1975). The Federal Circuit in the Globetrotter case made this point quite clearly:

> Our decision to permit state-law tort liability for only objectively [and subjectively] baseless allegations of infringement rests on both federal preemption and the First Amendment. The federal patent laws preempt

[9] The court might view this matter very differently if (1) there was an imminent threat of significant harm to the citizens or the State of Nebraska; or (2) if the investigation uncovered what clearly appeared to be violations of state law, that reach the standard of "bad faith" as discussed hereinafter. That is not the case at this point in the investigation.

> state laws that impose tort liability for a patent holder's good faith conduct in communications asserting infringement of its patent and warning about potential litigation. In addition, the same First Amendment policy reasons that justify the extension of *Noerr* immunity to pre-litigation conduct in the context of federal antitrust law apply equally in the context of state-law tort claims.
>
> . . . .
>
> Accordingly, to avoid preemption, bad faith must be alleged and ultimately proven, even if bad faith is not otherwise an element of the tort claim. This preemption is based on the following concept: "A patentee that has a good faith belief that its patents are being infringed violates no protected right when it so notifies infringers." Accordingly, a patentee must be allowed to make its rights known to a potential infringer so that the latter can determine whether to cease its allegedly infringing activities, negotiate a license if one is offered, or decide to run the risk of liability and/or the imposition of an injunction.

Globetrotter Software, Inc. v. Elan Computer Group, Inc., 362 F.3d 1367, 1374, 1377 (Fed. Cir. 2004) (emphasis added) (internal quotations and citations omitted); *see*, e.g., *Mirafi, Inc. v. Murphy*, 928 F.2d 410 (Fed. Cir. 1991) (explaining that "bad faith infringement litigation, [in knowingly asserting an invalid patent, for example] could violate North Carolina's Unfair Competition Statute"); *Globetrotter Software, Inc*., 362 F.3d at 1374 ("State [tort] law claims . . . can survive federal [patent law] preemption only to the extent that those claims are based on a showing of 'bad faith' action in asserting infringement."); *ClearPlay, Inc. v. Nissim Corp*., 2011 WL 3878363 *8-9 (S.D. Fla. 2011) (finding that federal patent law preempted the state-law claim of violation of Florida's Deceptive and Unfair Trade Practices Act); *DeSena v. Beekley Corp*., 729 F. Supp. 2d 375, 401 (D. Me. 2010) (finding that bad faith in the publication of the patent must be established to avoid preemption by patent law for a state law claim under the Maine Uniform Deceptive Trade Practices Act); *Alien Tech. Corp. v. Intermec, Inc.,* 2008 WL 504527 *4 (D.N.D. Feb. 20, 2008) (citing the Washington Consumer

Protection Act and explaining that deceptive conduct falls within Washington's Consumer Protection Act, and further holding that a finding of bad faith for publicizing a patent in the marketplace is required in order to survive federal preemption); *In re Innovatio IP Ventures, LLC Patent Litigation*, 921 F. Supp.2d 903, 914 (N.D. Ill. 2013) (stringent bad faith requirement); *Zenith Elecs. Corp. v. Exzec, Inc*., 182 F.3d 1340, 1348 (Fed. Cir. 1999) (need bad faith).

The court finds Activision is likely to win on the merits as there is no claim or evidence to date of bad faith. Further, as there is no claim of bad faith, federal law governing these patents, including sending initial letters to businesses believed to violate a patent owned by Activision, is preempted by the federal government. Also, Activision has a First Amendment right to associate with counsel of its choosing without interference from the state of Nebraska. In addition, the cease and desist order operates in this case as a prior restraint on Activision's speech and association rights. For these reasons, the court finds Activision is likely to win on the merits.

2. *Irreparable Harm*

"'The basis of injunctive relief in the federal courts has always been irreparable harm and inadequacy of legal remedies.'" *Bandag, Inc. v. Jack's Tire & Oil, Inc*., 190 F.3d 924, 926 (8th Cir. 1999) (quoting *Beacon Theatres, Inc. v. Westover,* 359 U.S. 500, 506-07 (1959)). Thus, to warrant a preliminary injunction, the moving party must demonstrate a sufficient threat of irreparable harm. *Id*. A showing of irreparable harm does not automatically mandate a ruling in the plaintiff's favor; the court must proceed to balance the harm to the defendant in granting the injunction. *Hill v. Xyquad, Inc.,* 939 F.2d 627, 630-31 (8th Cir. 1991).

It is clear in this case that injury has occurred and will continue to occur under the cease and desist order. Activision's First Amendment rights are being violated, and it is questionable whether the Attorney General has the right to maintain the cease and desist order given the preemption in this area of law. Further, Activision is entitled to pursue cases in both Nebraska and other courts to the extent of the law. Other cases have already been impacted, such as the case in the Eastern District of Texas, *Activision TV, Inc. v. Century Link,* 2:13CV462 (E.D. Tex. filed June 5, 2013).[10] That case is held in abeyance because of the cease and desist order, and Activision is almost out of time to serve defendants. Under the cease and desist order, such pursuit is questionable and affects those in negotiations and lawsuits with Activision. Accordingly, the court finds this factor favors Activision.

3. *Balance of Harm*

The public has a right to protection from scams and unfair trade practices. However, Activision's constitutional right to hire counsel of its choosing to pursue investigations and lawsuits against infringers is clearly impeded by the cease and desist order. Further, the federal government has preempted to a great extent the area of patent law. Allowing the attorney general to interfere might be harmful to the patent process. Based on the facts as presented, which indicates no bad faith, the court finds this factor likewise weighs in favor of Activision.

4. *Public Interest*

The public interest is served by enforcing the Constitution of the United States. This means that Activision and others have a right to counsel and a right to have

[10] Century Link is also located in Omaha, Nebraska.

counsel pursue their interests. It also means that Activision and others have a due process right to a meaningful process prior to issuance of a cease and desist order. Accordingly, the court finds this factor weighs in favor of Activision.

THEREFORE, IT IS ORDERED:

1. Activision's motion for preliminary injunction, Filing No. 8, is granted and defendants Bruning, Cookson and Lopez are enjoined from taking any steps to enforce the cease and desist order issued to Farney Daniels on July 18, 2013, in any manner that would prevent or impede the Farney Daniels firm from representing Activision in connection with licensing and litigation of U.S. patents owned by Activision with respect to companies based in, or having operations in, Nebraska. If, however, at some point during the investigation evidence supports a claim of bad faith, the Attorney General is free to revisit this preliminary injunction with the court.

2. Defendants' objection to plaintiff's exhibits, Filing No. 35, is denied.

Dated this 30th day of September, 2013.

BY THE COURT:

s/ Joseph F. Bataillon
United States District Judge

EXHIBIT E

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February 4, 2014

E-MAIL AND MAIL

Bridget C. Asay, Esq.
Vermont Attorney General's Office
109 State Street
Montpelier, VT 05609

Re: State of Vermont v. MPHJ Technology Investments, LLC
Docket No. 2:13-cv-170

Dear Bridget:

I have returned from being out last week and thought I would follow up on our conversation regarding the Motion we sent you for 21-day review under Fed. R. Civ. P. 11. I understand that you have been reviewing the Motion and considering your response. As a reminder, the review period ends this week, and we hope to hear from you before then. Again, if you believe we have misunderstood something, or are incorrect about a position taken in the Motion, it would helpful to us (and ultimately to the Court) if you would kindly let us know. We can then take your position into account in considering whether the Motion should be filed, or in considering whether any adjustments to the Motion might be warranted. Of course, we believe that when you review the cases set forth in the Motion, you will see that this case should be closed, and we are open to discussing that as well. As I mentioned, we have raised this Motion on the client's behalf only because we believe the courts have now strongly agreed with us that MPHJ's activity was lawful, in cases that were not available to you at the time this suit was filed, and we think our client is entitled to have the needless expense of this litigation now come to an end. This seemed to be the most efficient and direct way of achieving that goal.

I look forward to hearing from you before Friday, so that we have the benefit of your response before we file. Just so you know, if we file, we will hand-serve you so that your response will be due Friday, February 21. This will give us the weekend to get our reply to the Court on February 24, prior to the hearing on February 25.

On a separate note, I also meant to inform you before I left that MPHJ recently entered into an Assurance of Discontinuance with the New York Attorney General that provides some interesting guidelines for patent enforcement letters. Notably, the New York Attorney General not only approved letters to be sent by MPHJ that we believe are not substantively different from gravel & shea | ATTORNEYS AT LAW

Bridget C. Asay, Esq.

prior letters, but the New York Attorney General approved MPHJ's method of identifying suspected infringers. (*See* attached.) The AOD confirms New York's recognition that MPHJ's has a right to enforce its patents even under state law (that is, even ignoring the correct decision in Nebraska that state law in this area is preempted). If you have any questions about this, please be in touch.

I look forward to hearing from you.

Very truly yours,

GRAVEL & SHEA PC

Andrew D. Manitsky

ADM:lbb

Enclosures

OFFICE OF THE ATTORNEY GENERAL
OF THE STATE OF NEW YORK

In the Matter of the

Assurance No. 14-015

Investigation by Eric T. Schneiderman, Attorney General of the State of New York, of MPHJ Technology Investments, LLC

ASSURANCE OF DISCONTINUANCE

In June 2013, the Office of the Attorney General of the State of New York ("the OAG") commenced an investigation, pursuant to Section 63(12) of the New York State Executive Law, of potentially deceptive statements and other conduct by MPHJ Technology Investments, LLC ("MPHJ") relating to MPHJ's patent licensing program in which it targeted New York businesses as potential infringers of its patents. As part of its investigation, the OAG, among other things, reviewed complaints by New York businesses, issued a subpoena duces tecum to MPHJ, and reviewed MPHJ's production in response to the subpoena.

This Assurance of Discontinuance ("Assurance") contains the findings of the OAG's investigation and the relief agreed to by the OAG and MPHJ (collectively, "the parties").

THE ATTORNEY GENERAL'S FINDINGS

1. MPHJ (together with its subsidiaries and controlled affiliates, "the Company") is what is sometimes called a "patent assertion entity." As such, the Company acquires patents, offers patent licenses to businesses that it believes have been and are infringing those patents, and may bring patent litigation against those businesses that decline to enter into a license agreement.

2. In 2012, the Company acquired patents with U.S. Patent Numbers 7,986,426, 7,477,410, 6,771,381, and 6,185,590, and patent application 13/182,857, which was later issued as Patent Number 8,488,173 ("the Patents"), for one dollar.

3. The Company created one hundred subsidiaries with names purportedly created to signify their licensing responsibilities, such as AbsMea, AccNum, AdzPro, AllLed, AllOrd, AppVal, ArdSan, ArdTec, BarMas, BavLin, BetNam, BosTra, BriPol, BruSed, BunVic, CalLad, CalNeb, CapMat, CelSta, ChaPac, CleOrv, DayMas, DelLog, DesNot, DolVol, DreOcc, DriSud, DucPla, ElaMon, EleLand, EliPut, EntNil, EquiVas, EstSto, EtaTri, FanPar, FasLan, FenObe, FloVis, FolNer, FraMor, FreSta, GamSta, GanOrb, GanPan, GenTro, GimVea, GosNel, GraMet, GreLea, HanMea, HarNol, HasVen, HeaPle, HorSan, HunLos, HurTom, IbiVen, InaNur, InkSen, InnLost, IntPar, IntTen, IsaMai, JabTre, JamVor, JitNom, JonMor, JudPur, JunSpe, and JusLem ("the Subsidiaries").

4. The Company granted each of the Subsidiaries a license to assert and enforce the Patents against a different group of businesses.

5. Between September 2012 and May 2013, the Subsidiaries directly sent letters to over one thousand New York businesses. In these letters (the "First-Round Letters"), the Subsidiaries purported to describe the Patents, stated that each recipient "likely" infringed the Patents, inquired as to whether the recipient actually engaged in purportedly infringing activity, and offered to enter negotiations for a license to the Patents. The First Round Letters conveyed the impression to each of the thousand-plus New York recipients that the Company had conducted a meaningful review of the facts and circumstances of the recipient's business and concluded that the recipient very likely infringed the Patents.

6. In over five hundred of the First-Round Letters, the Subsidiary that sent the letter stated that it "ha[s] had a positive response from the business community to [its] licensing program," that "most businesses, upon being informed that they are infringing someone's patent rights, are interested in . . . taking a license promptly," and that "[m]any companies have responded to this licensing program in such a manner."

7. In fact, at the time those First-Round Letters were sent, no business had yet entered into a license agreement with respect to the Patents with the Company. When the Patents' previous owner conducted a similar licensing program, a substantial majority of businesses did not respond to the first letters sent by that previous owner and were never contacted again. Only a handful of the businesses targeted by the Patents' previous owner ultimately agreed to reach a settlement and/or enter into a license to the Patents.

8. In the time since the Company sent the First-Round Letters, only one of the New York businesses targeted by the Company agreed to enter into a license agreement with respect to the Patents.

9. In over two hundred fifty of the First-Round Letters, the Subsidiary that sent the letter stated that because "[m]any companies" had entered into license agreements with respect to the Patents, the Subsidiary that sent the letter had been able to "determine that a fair price for a license negotiated in good faith and without the need for court action is a payment of $1200 per employee."

10. In fact, as noted, at the time those First-Round Letters were sent, no businesses had yet paid any money to the Company for a license to the Patents. In the Patents' previous owner's licensing program, as noted, most recipients did not respond to the first letters sent by that previous owner and were never contacted again. For the small number of the Patents'

previous owner's targets that did enter into license agreements, the average price paid as a result of such an agreement was significantly less than $1200 per employee.

11. Between October 2012 and May 2013, the Subsidiaries followed the First-Round Letters with over seven hundred letters sent through the Company's counsel, the law firm Farney Daniels, P.C. (the "Second-Round Letters").

12. The Company's counsel began each Second-Round Letter by stating, "We are writing on behalf of our client, [Subsidiary]. Several weeks ago, they wrote you a letter regarding their licensing program with respect to certain U.S. patents."

13. However, several recipients of the Second-Round Letters claimed that they had not received a previous letter from the Subsidiary. The Company then provided those recipients with copies of the First-Round Letters it claims to have sent.

14. In each Second-Round Letter, the Company's counsel stated that, having not received a response to the first inquiry, its Subsidiary client "assume[d]" that the recipient infringed the Patents, described Farney Daniels, and urged the recipient to retain patent counsel.

15. Each of the seven-hundred-plus Second-Round Letters was printed on Farney Daniels letterhead and signed by a Farney Daniels attorney.

16. The fact that the Second Round Letters were signed by outside attorneys conveyed the impression to each of the seven-hundred-plus recipients that an outside attorney had conducted a meaningful review of the facts and circumstances of that business' alleged infringement.

17. Between December 2012 and May 2013, the Subsidiaries sent, via Farney Daniels, an additional three-hundred-plus letters to New York businesses (the "Third-Round Letters"). In each Third-Round Letter, the Company's counsel briefly restated the content of the

First- and Second-Round Letters, and then raised the possibility of bringing a lawsuit against the recipient alleging that the recipient had infringed the patents.

18. In each Third-Round Letter, the Company's counsel stated:

> This is the third letter you have received on this topic. . . . As you have not contacted us to explain that you do not have an infringing system, we reasonably can only assume the system you are using is covered by the patents. In that case, you do need a license.
>
> Accordingly, if 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 District Court . . . . As stated in both the first and second letters you received, our client has no interest in seeking a license from someone who does not infringe. To reiterate this point one last time, if your company does not use a system covered by the patents, we urge you to contact us to confirm non-infringement so that we may discontinue our correspondence with you and avoid the unnecessary expense associated with a lawsuit.
>
> In the far more likely scenario that you do need a license, we are prepared to work with you to reach an agreement on reasonable terms, but we 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 removed).

19. Each Third-Round Letter attached a draft complaint alleging that the recipient had infringed two of the Patents, based in part on the Company's assumption that the recipient's lack of response to the Company's two previous inquiries indicated that the recipient could be assumed to be infringing the Patents.

20. Most businesses that received a Third Round Letter did not respond to it. Nonetheless, the Company has not, to this day, filed a single patent infringement lawsuit against a New York business.

21. In each Third-Round Letter, the Company's counsel stated that it was "the third letter [the recipient has] received on this topic."

22. However, several recipients of Third-Round Letters claimed that they had not received previous letters from the Subsidiary. The Company then provided those recipients with copies of the First- and Second-Round Letters it claims to have sent.

23. Like the Second-Round Letters, each of the three-hundred-plus Third-Round Letters was printed on Farney Daniels letterhead and signed by a Farney Daniels attorney.

24. The OAG believes that each of the First-, Second-, and Third-Round letters was sent to a New York Person with the intent that the recipient rely on the affirmative statements therein in New York and that, if the New York Person decided to enter into a license agreement with respect to the patents, the New York Person do so by sending money to the Company from an account in New York.

25. In May 2013, the Vermont Attorney General filed a lawsuit against MPHJ, alleging that statements in its letters constituted deceptive and unfair practices in violation of Vermont state law, and litigation in that suit is ongoing in the U.S. District Court for the District of Vermont. In June and July 2013, the Subsidiaries sent, either directly or through Farney Daniels, yet another letter (the "Fourth-Round Letter") to most of the New York businesses to which they had previously sent letters. Each Fourth-Round Letter notified the recipient that Canon USA had negotiated a covenant not to sue on behalf of its customers for infringement of the Patents to the extent that the allegedly infringing activity involves Canon products, and further that the Company's licensing program was suspended while the Company reviewed petitions filed in late May 2013 with the United States Patent and Trademark Office for review

of two of the Patents. The Fourth-Round Letters stated that the recipients may consider the matter closed, "unless and until you hear from us in writing."

26. Over five hundred of the First-Round Letters did not explicitly identify MPHJ as the owner of the Patents. The Company also sent over three hundred Second-Round Letters and over two hundred Third-Round Letters to the same recipients as the aforementioned five-hundred-plus First-Round Letters; none of the Letters to these recipients explicitly identified MPHJ as the owner of the Patents.

27. The OAG believes that the number of different, cryptic names of the Subsidiaries made it more difficult for targeted businesses to find information about the Company and the Company's licensing program. MPHJ had recorded the Patents' assignments to MPHJ with the United States Patent and Trademark Office (USPTO) which provides publicly available records of the assignees who submit assignments for recordation, but the OAG notes that many of the New York businesses targeted by MPHJ's patent licensing program may have been unaware of that fact and, moreover, the recordation of patent assignments in the USPTO is not mandatory.

28. Several of the targeted businesses received duplicate letters from either the same or different Subsidiaries, due to clerical or other errors by the Company. For example, Subsidiary BriPol sent two First-Round Letters and two Second-Round Letters to New York business Edsim Leather Company. As a further example, Subsidiaries GosNel and FolNer both sent First- and Second-Round letters to New York business Digital Pulp, Inc.

29. The Company required its targets to sign non-disclosure agreements before providing them with certain relevant information about the Patents, such as claim charts and file histories for the Patents. The OAG is concerned that this tactic prevented targeted businesses from obtaining information from one another regarding the accusations of infringement.

30. The OAG believes that the Company's practices described above constitute repeated deceptive acts in violation of Section 63(12) of the Executive Law. The OAG believes the Company's use of the foregoing tactics to have been especially harmful to the New York economy because the Company's tactics (1) were targeted at small and medium businesses that in many cases lacked the resources to fully assess the Company's allegations of infringement, especially in light of what the OAG believes was inadequate and misleading information; (2) involved businesses that did not manufacture or develop the products or systems that were the basis of the infringement and were therefore poorly positioned to assess the merits of the Company's assertions of infringement; and (3) were targeted concurrently at hundreds of New York-based small businesses with what the OAG believes was inadequate concern for the accuracy of the statements within, how recipients would interpret the Letters and, in particular, the likelihood that each recipient of the letters actually infringed the Patents.

PROSPECTIVE RELIEF

WHEREAS, the Company neither admits nor denies the OAG's Findings 1–30 above, and relies on its public statements regarding its licensing program;

WHEREAS, the OAG is willing to accept the terms of this Assurance pursuant to Section 63(15) of the Executive Law and to discontinue its investigation; and

WHEREAS, the parties each believe that the obligations imposed by this Assurance are prudent and reasonable, but by agreeing to the standards imposed herein, the Company does not concede that its prior conduct failed to meet those standards;

WHEREAS, this Assurance is not intended for use by any third party in any other proceeding and is not intended, and should not be construed, as an admission by the Company of liability or jurisdiction, nor an admission by the Company to any fact finding herein;

IT IS HEREBY UNDERSTOOD AND AGREED, by and between the parties that:

1. In consideration of the making and execution of this Assurance, and within 10 business days thereafter, the Company agrees that it will provide a written notice to the New York Person that entered into a license agreement with respect to the Patents from the Company as a result of its receipt of the Letters referenced in this Assurance, including a copy of this Assurance and informing the licensee that pursuant to this Assurance it has the right to void its license agreement with the Company, and in return receive a full refund of all license payments made, provided the New York Person provides written notice to the Company of its election to cancel the license agreement within 21 days of its receipt of the notice. In the event that such licensee requests rescission of the license agreement, the Company shall make such refund within ten business days of the licensee's election.

2. The Company further confirms that it had previously concluded that it would not assert, and that it will not assert, the Patents against New York Persons to which the Company previously sent one of the Letters referenced in this Assurance, where such New York Persons are individuals or businesses which had been understood by the Company to have fewer than 50 employees.

3. All correspondence related to this Assurance must reference Assurance # 14-015.

4. Following the date of execution of this Assurance, the Company agrees to comply with the following guidelines.

Scope of Relief

5. As used below, the term "Assert" or "Assertion" shall mean:

a. To communicate to a New York Person about that person's actual or potential infringement of a patent and shall include any offer or demand for a license to a patent as well as threat to file a lawsuit alleging infringement of a patent,

b. As part of a bulk communication, which for the purposes of this Assurance shall be defined as a communication that is reasonably concurrent with similar communications to at least nine additional New York Persons.

6. As used below, the term "New York Person" means any natural person who resides in New York, or any small or medium business or Entity that is incorporated, or has a place of business in the State of New York (where activities at such New York location are a basis for the patent Assertion). The following Entities shall be excluded from this definition:

a. A business or Entity that, based on reasonably commercially available information, has 1,000 employees or more; and

b. A business or Entity that, in the context in which the Company has Asserted a patent against it, originates or manufactures Assertedly infringing products or services for commercial sale.

7. The OAG intends that the definitions in Paragraphs 5 and 6 exclude from the prohibitions of this Assurance:

a. An infringement allegation against a large business, which is more likely than a small- or medium-size business to be in a position to assess the reasonableness and accuracy of the allegations of infringement and other statements in the letters sent by the Company, potentially with the aid of patent counsel;

b. Specific, individual, infringement disputes that are more carefully targeted at a specific alleged infringer, in contrast to the bulk communications identified in this investigation; and

c. An infringement allegation against a party that originates or manufactures the allegedly infringing products or services, and offers them for commercial sale (as opposed, for example, to a party that is merely a user of a commercially available product manufactured by another company).

Additional Definitions

8. The following definitions shall apply below:

a. "Assign" shall include sale or any other transfer of ownership of a patent;

b. "Fraudulent" shall include any device, scheme or artifice to defraud and any deception, misrepresentation, concealment, suppression, false pretense, false promise or unconscionable contractual provisions that could mislead the ignorant, the unthinking, or the credulous;

c. "Entity" means without limitation any corporation, company, limited liability company or corporation, partnership, limited partnership, association, or other firm or similar body, or any unit, division, agency, department, or similar body;

d. "Identity," as applied to any Entity, means the provision in writing of such Entity's legal name, any d/b/a, former, or other names, any parent, jurisdiction of organization/incorporation, and an address, e-mail address, and telephone number thereof;

e. "Identity," as applied to any natural person, means the provision in writing of the natural person's name.

Guidelines for Future Patent Assertion Conduct

Good faith basis for asserting patents after conducting reasonable diligence

9. The Company shall not Assert any patent against a New York Person unless:

a. The Company has a good faith basis for Asserting the patent, after:

1. The Company has made reasonable efforts to evaluate the scope of the Asserted patent in a manner consistent with the law on patent claim construction applicable at the time;

2. If the Assertion accuses the New York Person of infringing the patent, the Company has made reasonable efforts to identify and evaluate a specific accused product, system, or method that the New York Person makes, uses, offers to sell, or sells that the Company believes in good faith actually infringes the Asserted patent; and

3. If the Assertion merely inquires as to whether the New York Person infringes the patent, the Company has made reasonable efforts to identify and review reasonably available facts about the New York Person and/or any products that such Person makes, sells (or offers to sell), or uses that are relevant to whether there is a reasonable likelihood that the New York Person infringes the Asserted patent.

b. In the alternative, the Company will not be considered in violation of this Paragraph if:

1. It is objectively reasonable to believe that the patent is valid; and

2. It is objectively reasonable to believe that the New York Person infringes it or, in the case of a mere inquiry, that the New York Person likely infringes the Asserted patent.

10. When Asserting any patent against a New York Person, the Company shall not communicate through its legal counsel unless that counsel has a good faith basis for Asserting the patent after the legal counsel has made reasonable efforts to perform the requirements of Paragraph 9.

Material information necessary for an accused infringer to evaluate a claim

11. The Company shall not:

a. Assert any patent against a New York Person without describing with reasonable specificity its basis for believing that the New York Person actually engages in activity that infringes (or may infringe) the Asserted patent;

b. Assert any patent against a New York Person if such patent has been held invalid in a final judicial decision for which all appeals have been exhausted;

c. Assert a patent against a New York Person without:

i. Disclosing information sufficient to identify any pending or completed litigation in which a court found the Asserted patent to be invalid or non-infringed in a context relevant to the Assertion of the patent against the New York Person, and

ii. Disclosing the existence of findings by the USPTO related to the Asserted patent that raise questions regarding the validity of the Asserted patent, including but not limited to preliminary findings during inter partes review and reexamination proceedings;

d. Assert a patent that is subject to a terminal disclaimer that has terminated or will terminate before the end of the proposed license period against a New York Person without disclosing the disclaimer; or

e. If the Company has identified a product, system, or method that the New York Person makes, uses, offers to sell, or sells that the Company believes actually infringes the Asserted patent, refuse to provide a claim chart or equivalent document that sets forth the basis of the Company's belief that the allegedly infringing product or activity satisfies the elements of the Asserted claims, upon the request of any New York Person against which the Company has Asserted any patent.

Material information necessary to evaluate a reasonable royalty rate

12. Where the Company Asserts any patent against a New York Person and proposes a license fee, the Company shall not provide supposed reasons or justifications for a proposed license fee for the patent without setting forth in reasonable detail the factual support for those reasons or justifications.

Transparency of ownership of and financial interest in the patents

13. When Asserting any patent against a New York Person, the Company shall not:

a. Assert a patent through a licensing agent or other Person where the Company remains the real party in interest, without expressly disclosing to the New York Person the nature of the Company's relationship with such agent or other Person;

b. Assert a patent in which another person or Entity has a financial interest of five percent or more without disclosing to the New York Person the Identity of such other person or Entity and the fact that such other person or Entity has a significant financial interest in the patent (unless such other person is a natural person and the Company and its counsel are unaware of any independent relationship between that other person and the New York Person that could reasonably be considered material to the infringement allegation and/or proposed licensing agreement);

c. Represent that it has granted a license for the Asserted patent to any third party or imply that a third party has a right to Assert the Asserted patent, where such representation is inconsistent with the rights actually granted; or

d. Require the New York Person to enter into a non-disclosure agreement ("NDA") that would restrict communications between the New York Person and any other Person against whom the Company has Asserted the patent, except to the extent the NDA relates to maintaining the confidentiality of actual negotiations for a license to the Asserted patent, and in such case only to the extent reasonably necessary to protect the Company's proprietary business information, trade secrets, or attorney work product.

Additional safeguards against deceptive patent assertion conduct

14. When Asserting any patent against a New York Person, the Company shall not:

a. Represent that it has sent previous communications Asserting the patent against the New York Person unless it includes copies of the previous communications or has documentation verifying that the Company actually sent such previous communications; or

b. Make any other Fraudulent statement.

Material information necessary to evaluate the value of a proposed license

15. The Company shall not enter into a license agreement with a New York Person for an Asserted patent without first:

a. If the license is not to every patent the Company owns that it believes the New York Person may also infringe, disclosing to the New York Person that the Company owns other patents that it believes the New York Person might infringe;

b. If the Company has information suggesting that a parent, subsidiary, or affiliate of the licensor may subsequently make an offer or demand for a license to a patent, file a lawsuit alleging infringement of a patent, or threaten to do so to the New York Person for conduct related to the subject matter of the license agreement, disclosing to the New York Person the Identity of each parent, subsidiary, or affiliate that the Company believes may subsequently do so; and

c. If the Company has entered into a licensing agreement or covenant not to sue with the originator or manufacturer of the allegedly infringing product or service sold or used by the New York Person or, to the Company's knowledge or belief, the originator or manufacturer of the allegedly infringing product or service sold or used by the New York Person has agreed to indemnify Persons that sell or use its product or service, disclosing to the New York Person such information.

Miscellaneous

16. The Company shall not Assign any patent without:

a. Requiring that the Assignee agree to the terms of this Assurance, other than the obligations described in Paragraph 1, as though the Assignee were the Company; and

b. Providing the Assignee with a copy of this Assurance.

17. Upon request by the OAG, the Company shall, for any patent that it has Assigned to a third party, provide the Identity of the Assignee of the patent.

18. The OAG has agreed to the terms of this Assurance based on, among other things, the representations made to the OAG by the Company and its counsel during this investigation. To the extent that any material representations by the Company are later found to be inaccurate or misleading, this Assurance is voidable by the OAG in its sole discretion.

19. No representation, inducement, promise, understanding, condition, or warranty not set forth in this Assurance has been made to or relied upon by the Company in agreeing to this Assurance.

20. MPHJ has provided OAG with sample letters that it may use in Asserting the Patents in New York in the future, annexed hereto at Exhibit A. OAG agrees that the attached letters substantially comply with Paragraphs 12, 13(a), 13(c), and 14(a) of the guidelines above if sent by the Company or by counsel on its behalf.

21. The Company represents and warrants, through the signatures below, that the terms and conditions of this Assurance are duly approved, and execution of this Assurance is duly authorized. The Company shall not take any action or make any statement denying, directly or indirectly, the propriety of this Assurance or expressing the view that this Assurance is without factual basis. Nothing in this Paragraph affects the Company's (i) testimonial obligations or (ii) right to take legal or factual positions in defense of litigation or other legal proceedings to which the OAG is not a party, including any position taken by the Company in such litigation or other legal proceeding as to whether state law is applicable and/or whether jurisdiction is lacking.

22. This Assurance may not be amended except by an instrument in writing signed on behalf of all the parties to this Assurance.

23. This Assurance shall be binding on and inure to the benefit of the parties to this Assurance and their respective successors and assigns, provided that no party, other than the OAG, may assign, delegate, or otherwise transfer any of its rights or obligations under this Assurance without the prior written consent of the OAG.

24. In the event that any one or more of the provisions contained in this Assurance shall for any reason be held to be invalid, illegal, or unenforceable in any respect, in the sole discretion of the OAG such invalidity, illegality, or unenforceability shall not affect any other provision of this Assurance.

25. To the extent not already provided under this Assurance, the Company shall, upon request by the OAG, provide all documentation and information necessary for the OAG to verify compliance with this Assurance.

26. All notices, reports, requests, and other communications to any party pursuant to this Assurance shall be in writing and shall be directed as follows:

If to the Company to:

Bryan Farney, Esq.
Farney Daniels, P.C.
Counsel for the Company
800 S. Austin, Suite 200
Georgetown, Texas 78626

If to the OAG, to:

Zachary W. Biesanz, Esq.
Antitrust Bureau
New York State Office of the Attorney General
120 Broadway
New York, NY 10271

27. Acceptance of this Assurance by the OAG shall not be deemed approval by the OAG of any of the practices or procedures referenced herein, and the Company shall make no representation to the contrary.

28. Pursuant to Section 63(15) of the Executive Law, evidence of a violation of this Assurance shall constitute prima facie proof of violation of the applicable law in any action or proceeding thereafter commenced by the OAG.

29. Upon a finding by a court that the Company has violated provisions of this Assurance, the Company shall pay up to $5,000 for each violation, at the OAG's discretion, as well as the OAG's costs for investigation and litigation.

30. If a court of competent jurisdiction determines that the Company has breached this Assurance, the Company shall pay to the OAG the cost, if any, of such determination and of enforcing this Assurance, including without limitation legal fees, expenses, and court costs.

31. The OAG finds the relief and agreements contained in this Assurance appropriate and in the public interest. The OAG is willing to accept this Assurance pursuant to Section 63(15) of the Executive Law, in lieu of commencing a statutory proceeding against the Company and/or its agents or counsel in connection with MPHJ's licensing program. This Assurance shall be governed by the laws of the State of New York without regard to any conflict of laws principles.

32. Nothing contained herein shall be construed as to deprive any person of any private right under the law nor to deprive the Company of any defense, claim, or counterclaim in any action involving the assertion of any private right by any person, where OAG is not a party to such action.

IN WITNESS WHEREOF, this Assurance is executed by the parties hereto on January 13, 2014.

ERIC T. SCHNEIDERMAN
Attorney General of the State of New York
120 Broadway
New York, NY 10271

By: Eric J. Stock
Eric J. Stock, Chief, Antitrust Bureau
Zachary W. Biesanz, Assistant Attorney General

By: ______________________
Bryan Farney
Farney Daniels, P.C.
Counsel for the Company
800 S. Austin, Suite 200
Georgetown, Texas 78626

By: ______________________
J. Mac Rust
On behalf of himself and the Company

IN WITNESS WHEREOF, this Assurance is executed by the parties hereto on January __, 2014.

ERIC T. SCHNEIDERMAN
Attorney General of the State of New York
120 Broadway
New York, NY 10271

By: ______________________________
Eric J. Stock, Chief, Antitrust Bureau
Zachary W. Biesanz, Assistant Attorney General

By: Bryan Farney
Bryan Farney
Farney Daniels, P.C.
Counsel for the Company
800 S. Austin, Suite 200
Georgetown, Texas 78626

By: ______________________________
J. Mac Rust
On behalf of himself and the Company

EXHIBIT A

To Assurance of Discontinuance Regarding
MPHJ Technology Investments, LLC

[ATTACHMENT A-1]

MPHJ TECHNOLOGY INVESTMENTS, LLC

1220 N. Market Street, Ste. 806
Wilmington, Delaware 19801
(817) 454-6365

January 9, 2014

{Target Contact}
{Target Company} {Target Company Type}
{Target Street Address}
{Target City}, {Target ST} {Target Zip}

Re: Patent Inquiry

Dear {Target Contact}:

We are writing to you because we are the owner of certain U.S. patents. Our understanding of the nature and size of your business leads us to believe that it is possible your company may be using a system which would be covered by the patents. Because we do not believe such use can be determined from publicly available information, we are sending you this letter to ask whether you would be willing to provide us with information sufficient to confirm whether your company is making use of the patents.[1]

Please note that if you are not the appropriate person to contact on this matter with respect to the company, we ask that you forward this correspondence to the proper person. Also, if you can let us know the proper contact person, we can know to direct any future correspondence to them rather than to you.

Also, please note that our understanding, based upon commonly used commercially available sources, is that your business has at least approximately [Fill In Number] employees, and that the nature of your business is [Fill In Identified Type of Business – i.e., insurance services]. We have concluded that it is appropriate to send this inquiry letter to companies having this number of employees, and being in this type of business. If our understanding of

[1] Please note that we have reviewed your Company's website and were unable to find information from it sufficient to answer the inquiry posed by this letter. In addition, we researched whether your Company's name appeared in publicly available sources as being a customer of the major manufacturers of components of systems that would typically infringe and did not find any relevant information from that search. Should you be aware of publicly available information that might answer the inquiry posed by this letter, and it would be more convenient for you to simply refer us to that information, please let us know and we will consider that information first.

either the size of your business, or the nature of your business, is in error, please let us know so that we may consider that information.

The patents we own are listed in the footnote below.[2] In summary, the patents generally relate to systems that include a Local Area Network ("LAN"), where there is a scanner and computers connected to the LAN, and the system permits directly scanning a document from the scanner to software operating on the computers. A common example would be a system that permits directly scanning a document from a scanner via the LAN to a PC running email software (such as Microsoft Outlook).[3] Our inquiry regarding your company's potential use of the patents is limited to two of the patents: U.S. Pat. No. 7,477,410; and U.S. Pat. No. 8,488,173.[4]

As an initial matter, we wish to let you know that two companies – Canon, Inc. and Sharp Electronics Corporation – have reached agreements with us to obtain covenants not to sue on behalf of their customers. Thus, if your company's scanners or MFPs come solely from Canon and/or Sharp, you should let us know so that we may know to not contact you further. Also, if at least some of the scanners or MFPs used by your company come from Canon or Sharp, our inquiry does not relate to your use of those products.

As you may know, a patent's scope is defined by its claims, and you will see that each of the above-listed patents have different claims. While those differences matter, and mean each patent is distinct, the patents listed above both generally relate to the same technology field, and generally cover a particular distributed computer architecture and process for digital document management. An illustrative embodiment of the architecture of the patents is provided in Figure 28, which is reproduced here for your reference.

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[2] U.S. Pat. No. 7,986,426; U.S. Pat. No. 7,477,410; U.S. Pat. No. 6,771,381; U.S. Pat. No. 6,185,590; and U.S. Pat. No. 8,488,173. You can find and review each of the issued patents listed above at www.google.com/patents.

[3] To be clear and complete, the scope of what each patent covers is defined by the claims at the end of each patent. To determine whether any patent is infringed or not infringed requires reference to each properly construed claim, and the details required by each claim. The general description provided above does not include all of that detail, and is provided merely to provide a convenient general description of the technology area related to the patents.

[4] U.S. Pat. No. 7,986,426 and U.S. Pat. No. 6,771,381 are currently being reviewed by the U.S. Patent Office for validity in Inter Partes Review proceedings initiated by Xerox, Ricoh and HP. Our inquiry does not include those patents for the time being. However, any license that might be agreed upon with respect to any of the company's patents would also include a license to these patents if desired. U.S. Pat. No. 6,185,590 is also not part of this inquiry, but would be included in any license if desired.

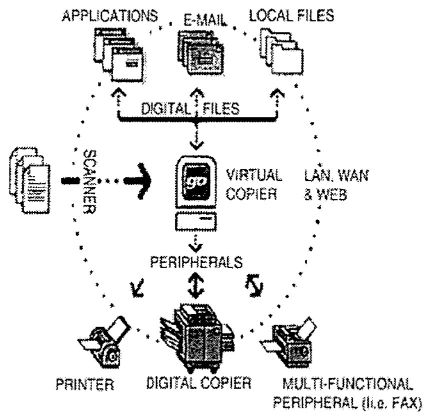

Fig. 28

To assist your review, you may find it useful to consider Claims 1, 8 and 15 of the '410 Patent, and Claims 1 and 4 of the '173 Patent. Reviewing those you can see that the patent claims are directed to a system having a digital copier/scanner/multifunction device with an interface to office equipment (or to the web) and related software, where the system permits for scanning or copying and transmitting images electronically to one or more destinations such as email, applications or other local files. The claims of the '173 Patent require certain additional details. For example, Claim 1 includes the presence of an additional printer, that there be at least three PCs connected to the Network, and other related requirements. Obviously each claim is separately drafted and you should consider the scope of each claim separately.

As noted, your system would only infringe any claim of these patents if it satisfied every requirement of any single claim. However, there are certain simple items that may be considered to easily rule out possible infringement. For example, if your company does not have a scanner or MFP with scanning capability, it would not infringe. Similarly, if your company did not have computers operating software to which a document image could be sent from a scanner via the Network, it would not infringe. If any of these points are relevant to you, you may simply let us know so that we would know to discontinue our inquiry. If you identify other reasons why you believe you do not have a system that would satisfy the patent claims, you may also let us know that information.

If you do conclude that you have a system that infringes, we are prepared to offer a license. You may contact us in that instance to discuss that possibility.

One common question we have been asked is why we are not contacting the manufacturers of the scanning equipment or application software directly. The answer is the claims of the patents cover systems which include a number of components, such as scanners, computers, and other features. The manufacturers of each of these components do not, we believe, independently have liability under the patents. As noted, at least two manufacturers of scanners and MFPs, Canon and Sharp, have chosen to reach agreements with us to secure covenants not to sue on behalf of their customers. However, we do not believe that their sale of those devices alone would have satisfied any claims of the patents.

If you believe you do not have a system that would infringe the patent claims, please let us know so that we can know to discontinue further contact with you. If you believe your system does infringe the patents, you may contact us and we are willing to grant a license.

Sincerely yours,

Mac Rust
Manager, MPHJ Technology Investments, LLC

[ATTACHMENT A-2]

MPHJ TECHNOLOGY INVESTMENTS, LLC

1220 N. Market Street, Ste. 806
Wilmington, Delaware 19801
(817) 454-6365

January 9, 2014

{Target Contact}
{Target Company} {Target Company Type}
{Target Street Address}
{Target City}, {Target ST} {Target Zip}

Re: Patent Inquiry

Dear {Target Contact}:

We are writing to you because we are the owner of certain U.S. patents, [1] which include U.S. Pat. Nos. 7,477,410; and U.S. Pat. No. 8,488,173. [2] Our understanding of the nature and size of your business leads us to believe that it is possible your company may be using a system which would be covered by the '410 and '173 Patents. However, whether this is the case cannot be determined from publicly available information. [3] Thus, we are sending you this letter to ask whether you would be willing to provide us with information sufficient to confirm whether your company is making use of the patents. In general, the patents relate to systems that include a Local Area Network ("LAN"), where there is a scanner and computers connected to the LAN,

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[1] U.S. Pat. No. 7,986,426; U.S. Pat. No. 7,477,410; U.S. Pat. No. 6,771,381; U.S. Pat. No. 6,185,590; and U.S. Pat. No. 8,488,173. You can find and review each of the issued patents listed above at www.google.com/patents.

[2] U.S. Pat. No. 7,986,426 and U.S. Pat. No. 6,771,381 are currently being reviewed by the U.S. Patent Office for validity in Inter Partes Review proceedings initiated by Xerox, Ricoh and HP. Our inquiry does not include those patents for the time being. However, any license that might be agreed upon with respect to any of the company's patents would also include a license to these patents if desired. U.S. Pat. No. 6,185,590 is also not part of this inquiry, but would be included in any license if desired.

[3] Please note that we have reviewed your Company's website and were unable to find information from it sufficient to answer the inquiry posed by this letter. In addition, we researched whether your Company's name appeared in publicly available sources as being a customer of the major manufacturers of components of systems that would typically infringe and did not find any relevant information from that search. Should you be aware of publicly available information that might answer the inquiry posed by this letter, and it would be more convenient for you to simply refer us to that information, please let us know and we will consider that information first.

and the system permits directly scanning a document from the scanner to software operating on the computers. [4]

Please note that if you are not the appropriate person to contact on this matter with respect to the company, please forward this correspondence to that person instead. Also, if you can let us know the proper contact person, we can know to direct any future correspondence to them rather than to you.

Also, please note that our understanding, based upon commonly used commercially available sources, is that your business has at least approximately [Fill In Number] employees, and that the nature of your business is [Fill In Identified Type of Business – i.e., insurance services]. We have concluded that it is appropriate to send this inquiry letter to companies having this number of employees, and being in this type of business. If our understanding of either the size of your business, or the nature of your business, is in error, please let us know so that we may consider that information.

As an initial matter, we wish to let you know that two companies – Canon, Inc. and Sharp Electronics Corporation – have reached agreements with us to obtain covenants not to sue on behalf of their customers. Thus, if your company's scanners or MFPs come solely from Canon and/or Sharp, you should let us know so that we may know to not contact you further. Also, if at least some of the scanners or MFPs used by your company come from Canon or Sharp, our inquiry does not relate to those products.

Any IT system your company may have would only infringe any claim of these patents if it satisfied every requirement of any single claim. If you conclude that you do not have a system that would satisfy at least one claim of these patents, please let us know so that we may know to discontinue our inquiry. If you do have a system that would infringe any claim of these patents, we are willing to agree to a license. Finally, if you conclude that you will decline to respond to our inquiry, we would appreciate at least being so informed so that we know not to forward you follow up correspondence. Please note that in this event, the company believes it would have certain rights under the patent laws, and it reserves those rights.

If you have any questions, please contact me. Your courtesy of a prompt response is appreciated.

Sincerely yours,

Mac Rust
Manager, MPHJ Technology Investments, LLC

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[4] To be clear and complete, the scope of what each patent covers is defined by the claims at the end of each patent. To determine whether any patent is infringed or not infringed requires reference to each properly construed claim, and the details required by each claim. The general description provided above does not include all of that detail, and is provided merely to provide a convenient general description of the technology area related to the patents.

[ATTACHMENT B-1]

MPHJ TECHNOLOGY INVESTMENTS, LLC

1220 N. Market Street, Ste. 806
Wilmington, Delaware 19801
(817) 454-6365

January 9, 2014

{Target Contact}
{Target Company} {Target Company Type}
{Target Street Address}
{Target City}, {Target ST} {Target Zip}

Re: Patent Inquiry

Dear {Target Contact}:

We previously wrote a letter to you inquiring whether your company may be using an IT system which would infringe certain patents we own. For your convenience, a copy of that letter is included herein. We have not heard a response from you to that letter, and are writing now to learn whether you intend to provide at least some response.

We would appreciate the courtesy of a response to that first letter. Even if you have concluded that you do not intend to provide any substantive response to that letter, we would at least appreciate being so informed so we know not to expect any response. If we do not hear from you in a reasonable period of time from the date of this letter, we will assume that you do not intend to respond. Please note that in that event, the company reserves its rights under the U.S. patent laws.

Sincerely yours,

Mac Rust
Manager, MPHJ Technology Investments, LLC

STATE OF NEW YORK
OFFICE OF THE ATTORNEY GENERAL

ERIC T. SCHNEIDERMAN
ATTORNEY GENERAL

DIVISION OF ECONOMIC JUSTICE
ANTITRUST BUREAU

ERIC J. STOCK
CHIEF, ANTITRUST BUREAU
Tel: (212) 416-8282
Email: Eric.Stock@ag.ny.gov

January 13, 2014

Bryan Farney
Farney Daniels, P.C.
800 South Austin Ave., Suite 200
Georgetown, TX 78626

Dear Mr. Farney:

Your client, MPHJ Technology Investments, LLC, has entered into an Assurance of Discontinuance ("AOD") today in connection with our office's investigation of MPHJ's patent licensing program, as operated in New York State. The AOD requires MPHJ to follow certain guidelines when pursuing future patent licensing activities in New York (the "Guidelines").

MPHJ has provided draft letters (Exhibit A to the AOD) (the "Sample Letters") that it seeks to use in future communications with New York businesses and asks for guidance as to whether these Sample Letters comply with the Guidelines. In the AOD, our office acknowledged that these Sample Letters do not violate several provisions of the Guidelines because the Sample Letters do not include language that would invoke the requirements of those provisions. MPHJ now seeks guidance with respect to other provisions of the Guidelines, compliance with which is based on factors beyond the content of the letters.

As you know, we are a law enforcement agency and do not provide advisory opinions to private parties, and we are not doing so now. We do disclose our enforcement intent in some circumstances. In that light, I write to confirm that we do not currently have information indicating that MPHJ's communications with New York businesses using the Sample Letters would violate any of the provisions the Guidelines. Based solely on the representations that you have made to us regarding MPHJ's future conduct, including its description of its intent to conduct an individualized review of public information about each New York business prior to contacting that business, and based on MPHJ's commitment to follow all of the Guidelines, I confirm that our office has no present intention to challenge MPHJ's planned use of the Sample Letters in New York.

Very truly yours,

Eric J. Stock

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January 4, 2014

Eric Stock
Zach Biesanz
Attorney General of the State of New York
120 Broadway
New York, NY 10271

Re: MPHJ's Basis For Correspondence Pursuant To The Guidelines Set Forth in the Assurance of Discontinuance

Gentlemen:

I am writing in connection with the Assurance of Discontinuance related to MPHJ Technology Investments, LLC ("MPHJ"), and specifically related to MPHJ's request for confirmation that its patent enforcement plans with respect to sending the letters included as Attachments A-1, A-2, and B to that Assurance, satisfy the guidelines set forth in that Assurance. In connection with seeking that confirmation, I write to provide you certain information set forth below.

First, I can provide you the following confirmations:

1. Counsel for MPHJ has reviewed MPHJ's patents, the material relevant to construing the claims of those patents, applied the proper principles of claim construction, and concluded that a belief in the validity of the patents is neither objectively baseless nor subjectively baseless.

2. At present, the two pending Petitions for Review have been granted to the extent that the U.S. Patent Office has initiated the Inter Partes Review process, but no substantive decision regarding the validity of the two patents subject to the process has been issued at this time. Should there be a decision related to invalidity relevant to the guidelines, MPHJ confirms that it would amend the letters of Attachments A-1 and A-2 accordingly.

3. As noted above, MPHJ can confirm that counsel for MPHJ have properly construed the claims of the MPHJ patents, and can further confirm that counsel has concluded that it would be neither objectively nor subjectively baseless to contend that at least one claim of each patent (of the two patents identified as being relevant in

Attachments A-1 and A-2) covers at least some, if not all, commonly used networked scanning systems of the types that would be expected to be used by intended recipients as further described below.

Second, I write to describe to you MPHJ's plans for conducting its patent enforcement efforts in a manner it would consider consistent with the guidelines under the circumstances presented by MPHJ's patents.

1. For suspected infringers subject to the guidelines (companies with less than 1000 employees), MPHJ does not expect based upon its experience to find publicly available information relevant to the networked scanning systems that they use. However, MPHJ can confirm that prior to sending any New York Person subject to the guidelines a letter in the form of Attachment A-1 or A-2, that it will make reasonable investigation of that company's website to see if information regarding its networked scanning system is available, that it will make reasonable searches to determine whether that recipient's name appears on any publicly available customer lists of the manufacturers of components of a networked scanning system, and then if it is reasonable to conclude from any of that search that infringement is not likely, that inquiry correspondence will not be sent to that intended recipient.

2. Following its compliance with the research identified in the above paragraph, MPHJ expects its patent enforcement efforts to involve sending the correspondence identified in Attachments A-1 or A-2 (and the follow-up correspondence of Attachment B if appropriate in the absence of a response to the first letter) to the following entities:

a. For those companies for which publicly available information identifies their size as being between 250-499 employees, sending such letters only to such companies who also are identified from publicly available sources as being in a business category consistent with any of the 54 SIC Codes identified in Exhibit 1. The company does not presently intend to send correspondence to companies having between 50-249 employees, but should it choose to do so, would also limit the intended recipients to the entities that fell within the same 54 SIC Codes.

b. For those companies for which publicly available information identifies their size as being 500-999 employees (larger companies being not subject to the guidelines), sending such letters to such companies without regard to their particular business type.

Given the representations made above, and the description of MPHJ's expected patent enforcement activity involving the sending of patent inquiry letters as set forth in Attachments

A-1, A-2 and B of the Assurance, by this letter MPHJ seeks confirmation that its sending of such letters in these circumstances would be considered in conformance with the guidelines contained in the Assurance of Discontinuance.

Sincerely,

Bryan Farney

Bryan Farney

EXHIBIT F

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STATE OF VERMONT
OFFICE OF THE ATTORNEY GENERAL
109 STATE STREET
MONTPELIER, VT
05609-1001

February 6, 2014

VIA EMAIL & MAIL

Andrew D. Manitsky, Esq.
Gravel & Shea
76 St. Paul Street
P.O. Box 369
Burlington, VT 05402-0369

RE: *State of Vermont v. MPHJ Technologies, Inc.*, No. 2:13-cv-170
Defendant's Motion for Sanctions Served January 16, 2014

Dear Andrew:

You have asked, in our January 23 telephone call, and again in your February 4 letter, for the State to advise whether you "have misunderstood something, or are incorrect about a position taken" in the sanctions motion served on January 16. It is not our role to advise your client about the legal positions taken in the motion. Regardless, because debatable legal questions may not serve as the basis for a sanctions motion, your client's lack of certainty about its position confirms that the motion should be withdrawn.

Your letter describes the Rule 11 motion prepared and served by your client as "the most efficient and direct way of achieving" your client's goal of ending this litigation. A party may not, however, employ a Rule 11 motion to "test the legal sufficiency" of the complaint, "to emphasize the merits of a party's position," or to "intimidate an adversary into withdrawing contentions that are fairly debatable." Fed. R. Civ. P. 11, Advisory Committee Notes, 1993 Amendments.

Your suggestion that we should provide a response in part to allow MPHJ to make "adjustments to the Motion" is perplexing. We have no obligation to provide our legal analysis in advance to aid your client's preparation of a filing. In any event, given Rule 11's mandatory 21-day 'safe-harbor' provision, MPHJ may not file a motion with the Court that sets forth different grounds than those already asserted.

The State will not dismiss this action. You have not cited any controlling precedent that supports your assertion that the State's claim is frivolous.

The Attorney General has asked me to convey to you and your client that he authorized this litigation, is aware of the Rule 11 motion, and fully supports the State's position.

Sincerely,

Bridget C. Asay
Assistant Attorney General

UNITED STATES DISTRICT COURT

FOR THE

DISTRICT OF VERMONT

STATE OF VERMONT, Plaintiff v. MPHJ TECHNOLOGY INVESTMENTS, LLC, Defendant	))))))))	Docket No. 2:13-cv-170

CERTIFICATE OF SERVICE

I, Andrew D. Manitsky, Esq., attorney for Defendant, certify that on February 7, 2014, I served MPHJ Technology Investments, LLC's Motion For Sanctions Under Rule 11, 28 U.S.C. § 1927, And The Court's Inherent Authority, and accompanying Memorandum of Law by hand delivery to Bridget C. Asay, Esq., and Ryan Kriger, Esq., at the Vermont Attorney General's Office, 109 State Street, Montpelier, Vermont 05609.

Dated: Burlington, Vermont
February 7, 2014

/s/ Andrew D. Manitsky

Andrew D. Manitsky, Esq.
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For Defendant