

**IN THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF FLORIDA
Case No. 16-CV-80855-DMM**

TRIPLE7VAPING.COM, LLC,
and JASON W. CUGLE

Plaintiffs,

vs.

SHIPPING & TRANSIT LLC,

Defendant.

_____ /

**PLAINTIFFS' MEMORANDUM IN OPPOSITION TO DEFENDANT'S
AMENDED MOTION TO DISMISS**

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I. INTRODUCTION

Defendant Shipping & Transit, LLC (“Defendant” or “S&T”) has filed an “amended” motion to dismiss should be rejected for multiple reasons.

First, Defendant merely repeats its flawed argument that Maryland’s Bad Faith Demand Letter Law is preempted because Plaintiffs purportedly failed to allege bad faith. Yet Defendant ignores Plaintiffs’ detailed allegations, that if true, under binding Federal Circuit law prove S&T’s bad faith in alleging infringement.

Second, Defendant’s new argument concerning diversity jurisdiction ignores the relevant damages provisions. Where a statute specifically provides attorneys’ fees as damages, such fees may be included in the \$75,001 amount-in-controversy requirement. *See Morrison v. Allstate Indem. Co.*, 228 F.3d 1255, 1265 (11th Cir. 2000). The relevant Maryland statute provides for *trebled* attorneys’ fees as damages. At the time of filing the complaint, Plaintiffs were already entitled to recover more than \$75,000 if successful on their claim. Further, because the Court had federal subject matter jurisdiction over Plaintiffs’ declaratory judgment claims when the Complaint was filed, it has and continues to have supplemental jurisdiction over the state law claims.

Finally, Defendant has served a new covenant not to sue. Defendant’s new covenant not to sue resolves defects present in Defendant’s original covenant and Plaintiffs accept that it divests the Court of jurisdiction over the declaratory judgment claims. Nevertheless, Plaintiffs’ request for attorneys’ fees and costs under Title 35 of the U.S. Code remains, and is justiciable by this court.

II. PROCEDURAL AND FACTUAL BACKGROUND

A. Plaintiffs File a Complaint that Alleges, in Significant Detail, S&T's Violations of Maryland Law.

On May 31, 2016 Plaintiffs Triple7Vaping.com, LLC (“Triple7”) and Jason Cugle (“Cugle”, collectively with Triple7, “Plaintiffs”) filed the instant action, asserting claims for declaratory judgment of non-infringement and invalidity of four patents purportedly owned by S&T. *See* Compl. [D.E. 1] at Counts I-VIII.

Plaintiffs also alleged that S&T violated Maryland's Bad Faith Demand Letter Law when it accused Plaintiffs of infringing the four patents. *Id.* at Count IX (the “Maryland Claim”). Plaintiffs' complaint included highly detailed factual allegations buttressed by over 25 exhibits in support of the Maryland Claim regarding S&T's bad faith in asserting its patents. *See id.* at ¶¶ 44-174. Plaintiffs' Maryland Claim also incorporated its allegations regarding the non-infringement and invalidity of the patents-in-suit as part of the basis for the claim. *Id.* at ¶ 221. All of these facts, individually or collectively, are sufficient to allege bad faith.

1. Plaintiffs' Basic Online Store

Since May 2015, Cugle has run an online business selling goods related to electronic cigarettes from the Internet storefront www.triple7vaping.com (the “Website”). Complaint ¶¶ 24-26. Cugle uses the United States Postal Service to deliver products to his customers. *Id.* ¶¶ 27-30. When an order is placed on the Website, Cugle prepares and sends a plain text email that includes a USPS tracking number. *Id.* ¶¶ 31-33. Cugle does not provide his customers with any way to track a package, or a vehicle, other than sending the USPS tracking number in a plain text email. *Id.* ¶¶ 36-37. Had S&T ordered a product from the Website, it would have discovered that the only emails sent were plain text emails with a USPS tracking number. *See id.* ¶¶ 73-75, 81.

2. S&T Sent a Demand Letter Regarding a Service It Knew Did Not Infringe Any of Its Patents

On January 6, 2016, S&T sent a demand letter to Plaintiffs. *See* Complaint, Exhibit F (hereafter “Demand Letter”). In its letter, S&T alleged that Plaintiffs infringed claims from four patents. These patents are (1) U.S. Patent No. 7,400,970 (“the ’970 patent”); (2) reexamined U.S. Patent No. 6,904,359 (“the ’359 patent”); (3) U.S. Patent No. 6,763,299 (“the ’299 patent”); and (4) U.S. Patent No. 6,415,207 (“the ’207 patent”). In its Demand Letter, S&T alleged that, by sending emails that purportedly included links for package tracking, Plaintiffs infringed claims from all four patents. *See* Demand Letter at 4-11. All of the asserted patent claims, by their clear language, relate to systems for tracking a “vehicle.” *See* Demand Letter, *see also* Compl. ¶¶ 85, 96, 104, 113.

S&T’s infringement allegations were made in bad faith for at least three reasons. First, had S&T performed a reasonable investigation, it would have known that Plaintiffs did not send links in its customer emails. Compl. ¶¶ 73-75, 81. S&T was either aware of, or willfully ignored, evidence that its infringement allegations were baseless. *Id.* ¶¶ 124, 145. Second, even if Plaintiffs’ emails had included links, the service would still not have infringed because it is plainly not a system for tracking vehicles. The patents themselves make very clear that the purported inventions relate to vehicle tracking. Three of the asserted patents—the ’970 patent, the ’359 patent, and the ’299 patent—expressly distinguish systems that use tracking numbers associated with packages rather than vehicles. *Id.* ¶¶ 57-58. Similarly, the ’207 patent expressly describes the patented invention as relating to the precise tracking and updating of the location of a particular vehicle. *Id.* ¶¶ 60-62.

To take one example, S&T’s demand letter alleged that Plaintiff infringed claim 5 of the ’207 patent. *See* Demand Letter at 6-8. This claim requires that the system maintains “status

information indicative of a current proximity of [an] identified vehicle.” Compl. ¶ 113 (emphasis added). Only by intentionally misrepresenting the scope this claim, could S&T allege that a single email with a package tracking number satisfied this element. *Id.* ¶¶ 114-122. S&T made similar willful misrepresentations about the infringement of the other three patents it asserted in its demand letter. *See id.* ¶¶ 82-88 (the ’970 patent); ¶¶ 89-98 (the ’359 patent); ¶¶ 99-108 (the ’299 patent).

Plaintiff’s Complaint includes numerous additional facts showing S&T’s bad faith regarding infringement. For example, S&T’s demand letter asserted claim 41 of the ’359 patent *without* including the amendments to that patent claim that were added during reexamination. *Id.* ¶¶ 89-91, 234. Moreover, the omitted claim language was highly relevant as it included additional limitations—such as “the vehicle whose travel is being monitored”—that make Plaintiffs’ noninfringement evident. *Id.* ¶¶ 92-94. In sum, S&T willfully misread and intentionally misrepresented the scope of its patents to claim infringement by a service it knew, or should have known, did not infringe. *Id.* ¶¶ 86, 97, 105, 114, 232.

3. S&T Asserted Three Patents Against a Business That Did Not Even Exist When Those Patents Expired

Three of the asserted patents expired more than a year before the accused service even existed. Compl. ¶¶ 45, 49, 52. S&T is fully aware that these three patents have expired. *Id.* ¶¶ 46, 50, 53. The accused Website, www.triple7vaping.com, did not exist prior to May 5, 2015. *Id.* ¶ 76. Triple7 did not exist prior to August 26, 2015. *Id.* ¶¶ 11. These facts are easily discovered at no cost, using methods known to S&T. *See id.* ¶¶ 26, 76-77. Either S&T, in bad faith, knew that the accused service did not exist and Plaintiff did not ship products ordered through it until well after these three patents had expired or willfully ignored its duty to investigate. *Id.* ¶¶ 80, 228, 230.

4. S&T Asserted Patent Claims Against a Service That it Knew to Be Shielded By License or Exhaustion

When S&T sent its Demand Letter, S&T noted the use of USPS for deliveries. *See* Demand Letter at 4 (noting that Plaintiffs provided customers with “a tracking number from USPS”). S&T (through its predecessors) previously sued the United States for infringement based on the activities of USPS. Compl. ¶ 78. That litigation ended when ArrivalStar covenanted not sue the United States for any claims relating to United States Patent Nos. 6,278,936, 6,714,859, 6,904,359, 7,089,107, 7,400,970, or any other patents that may issue claiming priority from those patents. *Id.*; *see also* Compl., Exhibit M. S&T asserted patent infringement despite knowing that its claims were barred by patent exhaustion, implied license, and legal estoppel in light of its covenant not to sue USPS. Compl. ¶ 230; *see also* Part III.A.2 *infra*.

5. S&T’s Bad Faith in this Case is Part of a Wide Pattern of Misconduct

S&T’s bad faith demand against Plaintiff is merely one of hundreds of bad faith demands and nuisance lawsuits. *See id.* ¶¶ 42, 66, 148-149, 155. S&T sends cookie-cutter demand letters without regard to whether the targets infringe its patents. *Id.* ¶¶ 146-147. Other examples of bad faith conduct by S&T or ArrivalStar include:

- Knowingly misrepresenting the priority dates of claims of the ’359 patent. *Id.* ¶¶ 160-163.
- Knowingly misrepresenting the expiration date of the ’970 patent. *Id.* ¶ 165.
- Knowingly making demands of patent infringement regarding conduct it knew was covered by a license from FedEx. *Id.* ¶¶ 153-154.

S&T’s entire business model is based on bringing meritless claims and using the cost of litigation to leverage unwarranted settlements. *See id.* ¶¶ 150-151.

B. Defendant Files Its Original Motion to Dismiss

Rather than answer the complaint, S&T filed a motion to dismiss, alleging that: (1) the

Court lacked subject matter jurisdiction to hear Plaintiffs' declaratory judgment claims based on a covenant not to sue that Plaintiffs never agreed to¹; and (2) that the Maryland Claim was preempted by federal law. *See* [D.E. 16] (the "Original Motion to Dismiss").

With respect to preemption of the Maryland Claim, S&T first argued, without any authority, that Triple7 lacked the ability to sue because it had been voluntarily dissolved. *See id.* at 11-12.² Second, S&T argued that the Maryland Claim was preempted unless Plaintiffs could *prove* bad faith by clear and convincing evidence, despite it being a motion to dismiss where Plaintiffs' allegations must be accepted as true. *See id.* at 12-19. In support of this argument, S&T relied on two affidavits external to the pleadings filed by representatives of S&T. *See id.*

C. Defendant Ignores Plaintiffs' Detailed Opposition to the Original Motion, and Instead Files an "Amended" Motion to Dismiss

In response to S&T's Original Motion to Dismiss, Plaintiffs filed an opposition, pointing out the myriad deficiencies in the motion. [D.E. 19]. Now, S&T has filed an "Amended" Motion to Dismiss that includes grounds it already raised but raises new arguments to support them. *See* [D.E. 27] ("Amended Motion to Dismiss").

In its Amended Motion to Dismiss, S&T once again argues, without *any* authority, that Triple7 cannot bring a lawsuit. *Id.* at 7. S&T also argues, once again, that that the Maryland Claim is preempted, and once again ignores the myriad factual allegations in Plaintiffs' complaint, dismissing over forty pages of allegations as being made in a "conclusory fashion" and only "opinion." *Id.* at 10, 12. Finally, S&T's Amended Motion to Dismiss moves to dismiss

¹ As discussed in more detail in Plaintiffs' opposition to Defendant's Original Motion to Dismiss, [D.E. 19] at 6-8, S&T's original covenant not to sue was insufficient to deny jurisdiction because, among other reasons, it was bilateral and required performance by Plaintiffs. Plaintiffs incorporate by reference its previous arguments regarding this defective covenant to the extent necessary to resolve this motion. *Id.*

² Note that S&T has never argued that Mr. Cugle lacks the ability to sue.

Plaintiffs' declaratory judgment claim based on a new covenant not to sue, and moves to dismiss based on a newly raised argument that Plaintiffs now cannot show that this Court has diversity jurisdiction to hear Plaintiffs' Maryland Claim.

III. ARGUMENT

A. Plaintiffs Have Sufficiently Alleged Violations of Maryland law

Count IX of Plaintiffs' Complaint alleges a violation of Maryland Commercial Law § 11-1601 *et seq.* ("the Maryland Act"). This law prohibits "mak[ing] an assertion of patent infringement against another in bad faith." Md. Comm. Law § 11-1603(a). S&T argues that the Maryland Act is "preempted" by federal law. *See* Am. Mot. at 9-12. But the authority it cites does not support that conclusion. To the contrary, federal law allows state claims based on bad faith and Plaintiffs' Complaint easily satisfies the relevant standard.

1. Federal Law Does Not Preempt the Maryland Act

Federal law does not wholly preempt state unfair competition laws, such as the Maryland Act. *See Zenith Elecs. Corp. v. Exzec, Inc.*, 182 F.3d 1340, 1343 (Fed. Cir. 1999). Indeed, S&T itself cites *Hunter Douglas, Inc. v. Harmonic Design, Inc.*, where the Federal Circuit wrote that "there is no reason to believe that the clear and manifest purpose of Congress was for federal patent law to occupy exclusively the field pertaining to state unfair competition law." 153 F.3d 1318, 1333 (Fed. Cir. 1998), *overruled on other grounds, Midwest Indus., Inc. v. Karavan Trailers, Inc.*, 175 F.3d 1356, 1359 (Fed. Cir. 1999). The court held that "there is no field preemption of state unfair competition claims that rely on a substantial question of federal patent law." *Hunter Douglas*, 153 F.3d at 1333.

Rather than wholly preempt state law, federal law requires that claims founded on state laws such as the Maryland Act are supported by evidence bad faith. *See, e.g., Globetrotter Software, Inc. v. Elan Computer Grp., Inc.*, 362 F.3d 1367, 1375-77 (Fed. Cir. 2004) (citing

Prof'l Real Estate Investors, Inc. v. Columbia Pictures Indus., Inc., 508 U.S. 49 (1993)). Thus, Plaintiffs agree with S&T that a claim under the Maryland Act succeeds on the merits only if Plaintiffs can establish bad faith by the patent owner. See *Zenith*, 182 F.3d at 1343 (“the protection otherwise afforded by the patent laws to a patentee’s conduct in enforcing its patent may be lost if the patentee acts in bad faith”).

This is a motion to dismiss, and the allegations of the Complaint must be accepted as true. Plaintiffs have alleged, under binding Federal Circuit law and the cases that flow from it, that S&T alleged infringement in bad faith. Plaintiffs are entitled to prove their allegations at trial.

2. Plaintiffs’ Complaint Includes Numerous Allegations of Bad Faith That Must Be Accepted As True

First, S&T made bad faith allegations of infringement. See generally Part II.A.2 *supra*. At the time it sent its Demand Letter, it either knew that Plaintiffs did not infringe or willfully ignored evidence showing that Plaintiffs did not infringe. See Complaint ¶¶ 86, 97, 105, 114, 232. Even a cursory investigation—such as placing a single order—would have revealed Plaintiffs do not infringe, even if S&T were correct in how it construes its claims. See *id.* ¶¶ 73-75, 81, 124, 145.³ In addition, S&T willfully ignored claim elements relating to tracking and updating vehicle location. See *id.* ¶¶ 82-122. If proven, these allegations would support a finding of bad faith. See *Teva Pharm. USA, Inc. v. Abbott Labs.*, 580 F. Supp. 2d 345, 364 (D. Del. 2008) (objectively unreasonable infringement allegations created triable issue of whether litigation was a sham); see also *Eon-Net LP v. Flagstar Bancorp*, 653 F. 3d 1314, 1329 (Fed. Cir. 2011); *View Eng’g, Inc. v. Robotic Vision Sys., Inc.*, 208 F.3d 981, 986 (Fed. Cir. 2000); S.

³ A reasonable investigation includes inspecting the accused product or service. See *Vehicle Operation Techs. LLC v. Am. Honda Motor Co. Inc.*, 67 F. Supp. 3d 637, 651-52 (D. Del. 2014) (imposing Rule 11 sanctions for failure to adequately inspect accused devices).

Bravo Sys, Inc. v. Containment Techs. Corp., 96 F.3d 1372, 1375 (Fed. Cir. 1996).

Second, S&T asserted patent claims against a service it knew or should have known did not exist when the claims expired. *See generally* Part II.A.3 *supra*. Plaintiffs have alleged S&T knows three of its four patents are expired, that the accused services did not exist when the patents expired, and had S&T met its duties to investigate, it would have quickly discovered that it could not assert its expired patents against Plaintiffs. *See* Complaint ¶¶ 26, 77. Thus S&T knowingly asserted expired claims (without any statement that they were expired) despite being aware of, or willfully ignoring, evidence that it could not assert those claims against Plaintiffs. *Id.* ¶¶ 80, 230. This shows bad faith. *See Golan v. Pingel Enterprise, Inc.*, 310 F. 3d 1360, 1372 (Fed. Cir. 2002) (“A party that knowingly asserts an expired, and therefore unenforceable, patent results in a clear case of bad faith.”) (citing *Zenith*, 182 F.3d at 1354).

Third, S&T knowingly asserted patent claims against conduct it knew to be protected by license or exhaustion. *See generally* Part II.A.4 *supra*. When S&T sent its demand letter, it knew that Plaintiff used USPS for customer deliveries and it knew that USPS was immune to suit under at least the '970 patent and the '359 patent and any patent that would restrict the ability to practice acts claimed by those patents. *See* Compl. ¶¶ 78, 229-30; *Transcore, LP v. Electronic Transaction Consultants Corp.*, 563 F.3d 1271, 1278-79 (Fed. Cir. 2009); *see also In re TR Labs. Pat. Litig.*, 2014 WL 3501050, at *1, 4 (D.N.J. July 14, 2014) (patent owner's claims against customer exhausted by covenant not to sue provided to supplier). Thus, it made bad faith demands it knew to be barred by exhaustion, estoppel, and license.

Each of these misrepresentations, standing alone, would be sufficient to defeat S&T's motion to dismiss on the basis of Federal preemption. The Complaint provides many other examples of bad faith by S&T. For example, Plaintiffs have alleged that S&T's patent assertion

is part of a repeated pattern of filing frivolous, cookie-cutter lawsuits and immediately seeking settlements well below the cost of litigation. *See generally* Part II.A.5 *supra*. If proven, these allegations show bad faith. *See Eon-Net*, 653 F. 3d at 1326-27 (patent owner’s “history of filing nearly identical patent infringement complaints against a plethora of diverse defendants, [] followed each filing with a demand for a quick settlement at a price far lower than the cost to defend the litigation” has “indicia of extortion” showing bad faith).

3. S&T’s Motion Merely Repeats an Argument That Has Already Been Rejected by A Judge of This Court

S&T’s arguments regarding the scope of state law preemption have already been rejected. In January 2015, S&T’s predecessor-in-interest, ArrivalStar, sued a company called Demandware, Inc., for patent infringement. *See ArrivalStar, S.A. v. Demandware, Inc.*, Case No. 15-cv-80098, Order on Mot. to Dismiss, Dkt. 40, at 1 (S.D. Fla. July 6, 2015) (hereafter “Demandware Order”). Demandware brought a counterclaim alleging unfair and deceptive practices in violation of Massachusetts state law. *See id.* at 3. ArrivalStar, represented by the same counsel that now represents S&T, filed a motion to dismiss citing the same authority S&T cites in this motion. *See ArrivalStar, S.A. v. Demandware, Inc.*, Case No. 15-cv-80098, Mot. to Dismiss, Dkt. 29, at 6 (S.D. Fla. filed May 15, 2015) (citing *Globetrotter Software, Inc. v. Elan Computer Grp., Inc.*, 362 F.3d 1367 (Fed. Cir. 2004) and *Va. Panel Corp. v. MAC Panel Co.*, 133 F.3d 860 (Fed. Cir. 1997)).

Judge Marra denied ArrivalStar’s motion to dismiss the counterclaim brought under Massachusetts state law. *See Demandware Order* at 10-11. Judge Marra ruled that the counterclaim could proceed since it was founded on allegations of bad faith. *Id.* at 10 (noting that the “Counterclaim states that Plaintiffs’ infringement claims were made in bad faith and were ‘nothing more than an attempt to leverage the high cost of defending against such claims in hope

of obtaining a payment.”). Judge Marra held that allegations of “[b]ad faith pre-litigation conduct” could support a state law claim. *Id.* (citing *SCVNGR, Inc. v. eCharge Licensing, LLC*, No. 13–12418–DJC, 2014 WL 4804738, at * 5 (D. Mass. Sept. 25, 2014)).

S&T makes no effort to distinguish this case from the Demandware proceeding. Indeed, it did not even inform the Court that it has previously lost an almost identical motion to dismiss.

4. The Dollard and Turnbull Affidavits Confirm that S&T’s Motion Must Be Denied

For the reasons given above, Plaintiffs have met their burden in pleading bad faith violations of Maryland Law. However, S&T’s two affidavits submitted in connection with its Original Motion to Dismiss (collectively, the “Affidavits”), confirm that Plaintiffs’ claim is not preempted. *See* Dkts. 17 & 18-1. The Affidavits show that S&T failed to conduct even the most basic and fundamental investigation that would be required to show good faith in asserting infringement. Where, as here, the accused products and services are easily and inexpensively available, a pre-filing investigation that does not include an examination of the accused products and services is *per se* unreasonable. *Eon-Net LP*, 653 F.3d at 1329; *View Eng’g*, 208 F.3d at 986; *S. Bravo*, 96 F.3d at 1375.

The Affidavits implicitly admit S&T did not order any products or investigate when Plaintiffs first began operation. Thus S&T has admitted it has failed to conduct a reasonable investigation it knew it was required to do under the law. *See Judin v. U.S.*, 110 F.3d 780, 784-85 (Fed. Cir. 1997) (failure to obtain or attempting to obtain a sample of accused devices fails to meet reasonable inquiry standard of Rule 11); *see also Eltech Sys. Corp. v. PPG Indust., Inc.*, 710 F. Supp. 622, 638 (W.D. La. 1988) *aff’d* 903 F.2d 805 (Fed. Cir. 1990) (holding that a conclusory account of pre-suit investigation is insufficient to sustain an “advice of counsel” defense to bad faith litigation claim).

B. S&T's Covenant Not to Sue Has Stripped this Court of Its Declaratory Judgment Jurisdiction, But Not of Its Jurisdiction Over Plaintiffs' Request for Attorneys' Fees and Costs

S&T, in serving its latest covenant not to sue in order to prevent this Court from determining the merits of Plaintiffs' claims, has stripped this court of jurisdiction to declare the patents not infringed or invalid in the context of a declaratory judgment claim. *See Already, LLC v. Nike, Inc.*, 568 U.S. ___, 133 S. Ct. 721, 728 (2013); [D.E. 26-1].

However, in situations such as this it is appropriate for this Court declare Plaintiffs the prevailing party with respect to Counts I-VIII of Plaintiffs' complaint, such that Plaintiffs can seek an "exceptional case" finding under 35 U.S.C. § 285. *See Highway Equip. Co. v. FECO, Ltd.*, 469 F.3d 1027, 1032-36 (Fed. Cir. 2006). In *Highway Equipment*, the court first found that "the question of the effect of a dismissal with prejudice on 35 U.S.C. § 285 is a matter of Federal Circuit law." 469 F.3d at 1032. It then considered how the Supreme Court's decision in *Buckhannon Bd. & Care Home, Inc. v. W. Virginia Dep't of Health & Human Res.*, 532 U.S. 598 (2001) should apply. The Federal Circuit noted that, under *Buckhannon*, there must be a "judicially sanctioned change in the legal relationship of the parties." 469 F.3d at 1033. The court reasoned that a dismissal with prejudice, accompanied by a covenant not to sue, satisfied this standard because it "extinguished" the patent owner's ability to sue again on its patent claims. *Id.* at 1035. The court wrote:

[W]e conclude that as a matter of patent law, the dismissal with prejudice, based on the covenant . . . has the necessary judicial imprimatur to constitute a judicially sanctioned change in the legal relationship of the parties, such that the district court properly could entertain [the alleged infringer's] fee claim under 35 U.S.C. § 285.

Id. at 1035.

Here, there has been a change in relationship between the parties. S&T previously alleged infringement and could have continued to allege infringement. Due to its newest covenant not to

sue, it no longer can. *See* [D.E. 1] at ¶¶ 67-144, and Exhibit F; [D.E. 26-1]. Plaintiffs were previously under such apprehension that S&T would sue them for infringement that they could bring declaratory judgment claims. Due to the change in the parties' relationship brought on by the new covenant not to sue, they no longer can. Significantly, S&T covenanted not to sue only *after* Plaintiffs challenged S&T's allegations of infringement and did not even tell Plaintiffs that it had withdrawn its demand for licensing fees until *after* Plaintiffs' complaint was filed. S&T admits that the last communication Plaintiffs received from it before filing the complaint was a demand from S&T for \$10,000. *See* [D.E. 18-1] at ¶ 12. Consequently, Plaintiffs are the prevailing parties as to Counts I-VIII, and this Court retains jurisdiction in order to decide Plaintiffs' request for attorneys' fees and costs pursuant to 35 U.S.C. § 285.⁴ *See* Compl. [D.E. 1] at Request for Relief ¶¶ I & L.

C. This Court Has Jurisdiction to Hear Plaintiffs' Maryland Claim

1. This Court Has Diversity Jurisdiction over Plaintiffs' Maryland Claim

This Court has jurisdiction to hear Plaintiffs' claim under 35 U.S.C. § 1332(a) because the parties are diverse and the amount in controversy exceeds \$75,000, and did so at the time the complaint was filed. *See* Compl. [D.E. 1] at ¶¶ 18-20, 243-44.

The parties are diverse⁵ and the amount at issue is greater than \$75,000. Supreme Court case law has long held that where a statute specifically provides for the recovery of attorneys' fees, reasonable attorneys' fees may be considered in evaluating whether the jurisdictional amount is met. *See Missouri State Life Ins. Co. v. Jones*, 290 U.S. 199, 202 (1933) (holding that a state statute providing for the recovery of attorneys' fees entitled the party to "collect

⁴ In the interests of efficiency, Plaintiffs propose that this Court defer briefing of any motion for costs and attorneys' fees until the entirety of this case is resolved.

⁵ Plaintiffs are Maryland residents and S&T is a Florida company. S&T does not challenge jurisdiction on this ground.

something to which the law gave him a right” that could be considered for purposes of meeting the jurisdictional requirement); *Morrison v. Allstate Indem. Co.*, 228 F.3d 1255, 1265 (11th Cir. 2000) (“When a statute authorizes the recovery of attorney’s fees, a reasonable amount of those fees is included in the amount in controversy”); *Premier Industrial Corp. v. Texas Industrial Fastener Co.*, 450 F.2d 444, 447 (5th Cir. 1971) (“the value of the attorney’s fees [the plaintiff] was entitled to recover . . . is properly includable in determining the amount in controversy”).

The amount of *prospective* fees that will reasonably be incurred in the course of the lawsuit forms part of the amount in controversy. *Manguno v. Prudential Prop. & Cas. Ins. Co.*, 276 F.3d 720, 724 (5th Cir. 2002) (affidavits stating that the amount of attorneys’ fees that would be incurred in litigating the case was greater than \$75,000 sufficient to meet amount-in-controversy requirement for diversity jurisdiction). In *Raymond v. Lane Construction Corp.*, the Court discussed why it was appropriate to consider future fees. 527 F. Supp. 2d 156, 163 (D. Maine 2007). It stated:

[t]o meet the jurisdictional threshold, courts routinely consider future damages, such as pain and suffering, medical bills, and lost wages. A rule that treats attorney’s fees differently from any other category of damage for purposes of ascertaining the amount of the “matter in controversy” draws no support from the language of the statute. A transparent attempt to puff up future attorney’s fees to cross the jurisdictional threshold should bear special scrutiny.... Nevertheless, the Court declines to eliminate any consideration of a patently reasonable estimate of future attorney’s fees simply because they are attorney’s fees and not another component of monetary relief, such as future special damages or pain and suffering.

*Id.*⁶ See also *Waltemyer v. Northwestern Mutual Life Ins. Co.*, 2007 WL 419663 *1 (M.D. Fla.

⁶ The Seventh Circuit has held that prospective attorneys’ fees may not be considered. See *Gardynski-Leschuck v. Ford Motor Co.*, 142 F.3d 955, 958 (7th Cir. 1998). Respectfully, Plaintiffs disagree with the reasoning of the Seventh Circuit and believe the District of Maine was correct to reject it for the reasons stated in the Maine court’s opinion. Moreover, unlike in *Gardynski-Leschuck*, as discussed in Section III.C.1, *supra*, it is clear that until very recently, and not until after Plaintiffs incurred fees of over \$75,000, that this Court properly heard the Maryland Claim under its supplemental jurisdiction authority.

Feb. 2, 2007) (construing *Morrison v. Allstate Indem. Co.*, 228 F.3d 1255 as holding that “attorney fees through the conclusion of the litigation are included when the action is filed initially in federal court” for purposes of meeting the amount-in-controversy requirement for diversity jurisdiction).

It is more than reasonable that a claim for bad faith assertion of four patents would incur attorneys’ fees greater than \$75,000. Plaintiffs’ alleged as such in their complaint. *See* Compl. [D.E. 1] at ¶ 20. In fact, Plaintiffs have *already* incurred attorneys’ fees of over \$75,000, the vast majority of which are attributable to litigating Plaintiffs’ Maryland Claim, given that Plaintiffs’ declaratory judgment claims are subsumed within the bad faith claim. *See* Compl. at ¶ 221 (incorporating Plaintiffs’ claims for declaratory judgment into Plaintiffs’ claim for violation of Maryland law). Plaintiffs have attached declarations to this opposition testifying to that effect. Exhibits A-D (declarations from attorneys for Plaintiffs); *see DO Restaurants, Inc. v. Aspen Specialty Ins. Co.*, 984 F. Supp. 2d 1342, 1345 (S.D. Fla. 2013) (court may consider “affidavits, declarations or other documentation” in order to show a party meets the jurisdictional amount). Moreover, the allegation in the complaint regarding the expected cost of litigation is completely reasonable. In 2013, the American Intellectual Property Law Institute estimated that legal fees and costs for patent cases involving less than \$1 million in controversy amount to \$600,000 on average. *See* AIPLA, Report of the Economic Survey at 35 (2013)⁷ Contrary to S&T’s assertions, Plaintiffs do not need to rely on an award of exemplary damages in order to meet the jurisdictional requirement.

However, even under S&T’s own case law, the jurisdictional requirement was met on the

⁷ S&T recently told this court that Plaintiffs’ claims would take 20 days of a jury trial to resolve. *See* [D.E. 24] at 1. It defies reality to argue, as S&T now argues, that Plaintiffs will incur less than \$75,001 in attorneys’ fees and costs for a 20 day trial.

date this lawsuit was filed and every day since. Maryland law allows Plaintiffs to recover actual damages, attorneys' fees and costs, *as well as* exemplary damages in an amount that is the *greater of*: (i) \$50,000 or (ii) three times the total damages, costs. Md. Comm. Law. § 11-1605(b). Stated differently, Plaintiffs are entitled to recover, by statute, four times the amount of Plaintiffs' damages, costs, and fees. S&T does not dispute this. *See* Amended Motion [D.E. 27] at 7. Thus, if Plaintiffs damages, costs, and attorneys' fees amount to more than \$18,750.25, Plaintiffs can recover \$75,001, and thereby meet the amount-in-controversy requirement. On the date the complaint was filed, Plaintiffs' fees incurred by the work of attorney Vera Ranieri alone totaled over \$25,000. Ranieri Declaration, at ¶ 12.

S&T errs in asserting that exemplary damages are not available to Plaintiffs. Plaintiffs' complaint alleges "ill will, fraud . . . or other *mens rea* exhibiting an evil motive or purpose." *Betskovff v. Enter. Rent-A-Car Co.*, 2012 WL 32575, at *11 (D. Md. Jan. 4, 2012). Plaintiffs' complaint states a claim for *bad faith* violations of the law. "Bad faith" claims are exactly the type of claims that Maryland law finds sufficient to recover exemplary damages. *See, e.g., Owens-Illinois, Inc. v. Zenobia*, 325 Md. 420, 463 (Md. Ct. App. 1992) ("bad faith" decision in making a product is what is necessary to recover punitive damages in strict liability action). As discussed in detail and in Section II.A, *supra*, Plaintiffs have alleged bad faith that—if proven—entitles Plaintiffs to recover exemplary damages—including attorneys' fees—that total well over \$75,000.

Finally, Plaintiffs' request for exemplary damages of greater than \$75,000 is "plausible," contrary to the argument made by S&T. As noted above, Plaintiffs have already incurred more than \$75,000 in attorneys' fees, *even before trebling*. There is no basis to argue that Plaintiffs' request for more than \$75,000 is not "plausible."

2. This Court Has Supplementary Jurisdiction over Plaintiffs' State Law Claims

There can be no doubt that when the Complaint was filed, this Court had jurisdiction to hear Plaintiffs' claim under its supplemental jurisdiction authority. *See* 28 U.S.C. § 1367 (courts have jurisdiction over all claims so related to claims brought under a court's original jurisdiction where they form part of "the same case or controversy"); *Hunter Douglas, Inc. v. Harmonic Design, Inc.*, 153 F.3d 1318, 1326 (Fed. Cir. 1998) (holding that it is proper for a district court to exercise supplemental jurisdiction over related state law claims where original jurisdiction was based on patent claims under 28 U.S.C. § 1338(a)); *overruled on other grounds by Midwest Indust., Inc. v Karavan Trailers, Inc.*, 175 F.3d 1356, 1358-59 (Fed. Cir. 1999).

Indeed, Plaintiffs made this allegation in their complaint and S&T has not challenged it. *See* Compl. [D.E. 1] at ¶ 21. Nor could it. The facts underlying the Maryland Claim are highly related to the declaratory judgment claims. The central issue of whether S&T could have had a good faith belief in infringement or validity will likely require the resolution of many of the issues underlying Plaintiffs' declaratory judgment claims, and most importantly, Plaintiffs' non-infringement claims. For example, whether Plaintiffs' emails actually had "links"—as alleged by S&T in making its claim that Plaintiffs infringed the patents—also informs whether S&T had a good faith basis to allege Plaintiffs could have possibly infringed the patents-in-suit. As another example, the scope of S&T's patents, including whether the claims are even valid under 35 U.S.C. § 112(2) and (6), *see* [D.E. 23-1], also informs whether S&T had a good faith basis to read the claims the way it had to in order to be able to allege infringement against Plaintiffs. *See Hunter Douglas, Inc.*, 153 F.3d at 1334 (holding that patent claims may be held invalid or unenforceable in the adjudication of a state law cause of action).

As discussed above in Section III.B, this Court still retains jurisdiction for deciding

Plaintiffs' forthcoming request for attorneys' fees and costs. *See* 35 U.S.C. § 285 (courts may award attorneys' fees in "exceptional cases"); *Imagineering, Inc. v. Van Klassens, Inc.*, 53 F.3d 1260, 1263 (Fed. Cir. 1995) (claims for attorneys' fees under 35 U.S.C. § 285 arise under the patent laws giving the Court of Appeals for the Federal Circuit jurisdiction over related non-patent claims). Plaintiffs intend to argue, among other things, that this case is exceptional in light of S&T's frivolous assertion of its patents, forcing Plaintiffs' to file their declaratory judgment action. Specifically, among other things Plaintiffs will point to S&T's own admissions that it did nothing other than review Plaintiffs' website before making its allegations, and never ordered a product from Plaintiffs despite a legal duty to do so. *See* [D.E. 17], [D.E. 18-1], [D.E. 19] at 15-18. These facts and arguments are directly related to Plaintiffs' claims regarding S&T's bad faith assertion of patent infringement and form part of the same case or controversy.

3. Plaintiff Triple7 Has Alleged Injury and Can Seek the Relief Sought

A Maryland LLC continues its existence after dissolution in order to wind up its affairs. *See* Md. Corp. & Ass'ns Code § 4A-908(b) ("the limited liability company continues to exist for the purpose of paying, satisfying, and discharging any existing debts or obligations, collecting and distributing its assets, and doing all other acts required to liquidate and wind up its business and affairs.") ("Section 908(b)"). Counsel for Triple7 has been unable to locate any reported Maryland case construing Section 908(b). However, courts in other jurisdictions have construed similar, indeed nearly identical, statutes and determined that a company does not lose the ability to sue once dissolved, as such ability can be part of the "winding up" process.

For example, a Florida statute using language remarkably similar to Maryland's statute allows for a dissolved corporation to carry on business "appropriate to wind up and liquidate its business and affairs" and specifically, "every other act necessary to wind up and liquidate its business and affairs." Fla. Stat. § 607.1405(1). This statute has been interpreted by Florida courts

to allow a dissolved corporation “to commence proceedings in its own name as long as it is necessary to wind up and liquidate its business” where the plaintiff “contends this claim is an attempt to collect assets.” *Cygnat Homes, Inc. v. Kaleny Ltd. of Fla., Inc.*, 681 So. 2d 826, 826 (Fla. 4th Dist. Ct. App. 1996). The Court of Appeals for the Federal Circuit relied on this law when it determined that a dissolved Florida company could maintain a patent infringement lawsuit brought after the company had dissolved. *See Paradise Creations, Inc. v. UV Sales, Inc.*, 315 F.3d 1304, 1307-08 (Fed. Cir. 2003) .

It is not at all uncommon or surprising that a state would provide for this ability. Many states allow a dissolved company to sue and be sued. *See e.g.*, Va. Code Ann. § 13.1-1048(B) (trustees of dissolved LLC have authority to “prosecute and defend suits” on behalf of the limited liability company); Cal. Corp. Code § 17707.06 (dissolved LLC continues to exist for purpose of winding up its affairs, including “prosecuting and defending actions by or against it in order to collect and discharge obligations”); *Tremond Co. v. Schering Corp.*, 122 F.2d 702, 706 (3d Cir. 1941) (noting that New York law allows a dissolved corporation to seek declaratory judgment of non-infringement and invalidity of a patent, and sue and be sued in its corporate name); *see also* 16A Fletcher Cyc. Corp. § 8142 (noting that “[i]n most states, dissolution of a corporation no longer has the effect of foreclosing lawsuits by or against the corporation”).

S&T is wrong when it argues without authority that seeking affirmative relief in the form of a lawsuit is not “winding up” and therefore Triple7 does not have standing to bring a lawsuit. Am. Mot. at 7. As the case law above makes clear, there is no reason to believe that “winding up” cannot include bringing this lawsuit. Here, S&T made a claim of patent infringement against Plaintiffs. *See* Compl. ¶¶ 66-144. From at least the moment S&T made its claim, Triple7 had a need to resolve the dispute in order to wind up its affairs. Triple7 needed to ensure any “debts or

obligations” it allegedly owed were resolved (e.g., if it did in fact infringe) and, more importantly, it became entitled to “collect[] and distribut[e] its assets” in the form of damages incurred through S&T’s violation of the Maryland Bad Faith Demand Letter law. *See* Md. Comm. L. §§ 11-1601 *et seq.*

IV. CONCLUSION

This Court should promptly deny the Amended Motion to Dismiss and order S&T to respond to the Complaint.

Dated: August 5, 2016

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing along with all attachments was served via CM/ECF on August 5, 2016 on all counsel or parties of record on the service list below.

By: /s/ Matthew Sarelson
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