IN THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF FLORIDA

TRIPLE7VAPING.COM, LLC,

Plaintiff,

Case No. 16-CV-80855

vs.

SHIPPING & TRANSIT LLC,

Defendant.
_____/

AMENDED MOTION TO DISMISS PLAINTIFF'S COMPLAINT

July 21, 2016

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Defendant, Shipping and Transit ("S&T"), by and through undersigned counsel, hereby files its Amended[1] Motion to Dismiss Plaintiff's Complaint filed by Triple7Vaping.com, LLC ("Triple7") and Jason W. Cugle ("Cugle") pursuant to Fed. R. Civ. P. Rule 12(b)(1) and (6), and in support states as follows:

I. INTRODUCTION

The motion to dismiss should be granted because this Court lacks subject matter jurisdiction. Plaintiffs' Complaint, while impressive, does not raise claims that can be adjudicated by this federal court under the limited jurisdiction granted by Congress. There is no case or controversy to support a declaratory judgment under Counts I through VIII of the Complaint because S&T has covenanted not to sue Triple7 and Cugle. Without a case or controversy under the patent laws there is no federal question jurisdiction to adjudicate the first eight counts of Plaintiffs' Complaint.

This Court also lacks jurisdiction over the Complaint's ninth count brought under Maryland Commercial Law §11-1601 because the amount in controversy is insufficient to support diversity jurisdiction under 28 U.S.C. § 1332. The Complaint fails to disclose a reasonable value of the amount in controversy, providing instead an "estimate" that the Plaintiffs' "actual damages, court costs, fees, and exemplary damages" exceed the $50,000 limit

[1] This amends the original motion to dismiss filed by S&T at D.E. 16. The original motion claimed Rule 12(b)(6) as a basis for the entire motion, and Triple7 and Cugle similarly argued Rule 12(b)(6) in response. (D.E. 19 at 1) However, the original motion should have additionally relied upon Rule 12(b)(1) but all parties have actually argued lack of subject matter jurisdiction. While the issue whether the amount in controversy requirement was not raised in either side's filings, subject matter jurisdiction can always be raised by the Court at any time and therefore S&T believed it prudent to amend its motion to allow the Plaintiffs an opportunity to respond to this issue. It is fundamental that subject matter jurisdiction cannot be waived or conferred on a court by consent. *Eagerton v. Valuations, Inc.,* 698 F.2d 1115, 1118 (11th Cir. 1983) (internal citations omitted)

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of recovery provided for in §11-601. Plaintiffs' estimate is insufficient to establish an amount in controversy that meets the jurisdictional requirement of $75,000.

Finally, even if the jurisdictional amount in controversy requirement is met, Maryland Commercial Law §11-1601 is preempted by the Patent Act.

II. FACTS RELEVANT TO SUBJECT MATTER JURISDICTION

Plaintiffs make numerous and varied allegations regarding the assertion of S&T's patents in the Complaint. In order to determine whether or not this Court possesses subject matter jurisdiction, or whether Maryland Commercial Law §11-1601 is preempted, it is not necessary to consider the vast majority of Plaintiffs' allegations. Only the limited facts relevant to the following questions matter:

a. Do the comprehensive covenants not to sue issued by S&T to Triple 7 and Cugle render the declaratory judgment controversy (Counts I – VIII) in this case moot?
b. Do the Plaintiffs have claims pursuant to Maryland Commercial Law §11-1601 that exceed $75,000 each? (Count IX)
c. Is the Maryland Commercial Law §11-1601 claim (Count IX) which prohibits the making of "an assertion of patent infringement against another in bad faith" preempted by the Patent Act?

A. Facts Showing that the Covenants Not to Sue are Complete and Protect Plaintiffs from Future Lawsuits Without Exception

The facts relevant to the question whether S&T has covenanted not to sue Plaintiffs are limited to the covenants themselves, and the covenants have been filed with the Court. On June 20, 2016, S&T sent Triple7 and Cugle a covenant not to sue that has been filed with the Court at

D.E. 16-1. On July 21, 2016, S&T sent Triple7 and Cugle another covenant not to sue that has been filed with the Court at D.E. 26-1. These covenants not to sue completely eliminate any case or controversy between S&T and the Plaintiffs. S&T has covenanted never to file a lawsuit against the Plaintiffs based upon the patents identified in the Complaint. S&T has not only bound itself to the covenant, but also any and all successors and assigns of S&T, guaranteeing Plaintiffs complete freedom from actual or potential injury and uncertainty as a result of the patents at issue. The second Covenant Not To Sue (D.E. 26-1) addresses the purported defects conjured up by Plaintiffs' counsel in response to the first Covenant Not To Sue.

B. Facts Showing that the Amount in Controversy Cannot Plausibly Exceed $75,000.

The facts relevant to the value of Plaintiffs' Maryland claims are set forth in paragraphs 18 to 20 of the Complaint which alleges:

> 18. This Court has subject matter jurisdiction over Plaintiffs' claims for violation of Maryland Commercial Law § 11-1601 et seq. pursuant to 28 U.S.C. § 1332(a) because the parties are diverse and the amount in controversy exceeds $75,000, exclusive of interest and costs.
>
> 19. Specifically, Maryland Commercial Law. § 11-1605 provides for the recovery of actual damages, costs, attorneys' fees, and exemplary damages up to the greater of $50,000 or three times the total of damages, costs, and fees.
>
> 20. It is **estimated** that actual damages, court costs, fees, and exemplary damages awardable under Maryland Commercial Law § 11-1605 here exceed $75,000.

(D.E. 1 at pp. 3-4) (emphasis added) Also relevant to the value of Plaintiffs' "estimated" claims are the allegations that "Triple7 was terminated as a Maryland limited liability company on January 6, 2016," and that "pursuant to Maryland law, Triple7 continues to exist as a legal entity

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capable of bringing suit in order to do all acts required to wind up its business and affairs." (D.E. 1, ¶¶ 12-13). Another relevant fact is provided in paragraph 14 of the Complaint:

> 14. Although Triple7 was intended to operate "www.Triple7Vaping.com" ("the Website"), it does not operate the Website, and Cugle has operated the Website as a sole proprietorship before, during, and after the legal existence of Triple7.

(D.E. 1, ¶ 14) Finally, the Complaint alleges Plaintiffs' damages claim is based upon the following:

> 243. Shipping & Transit's violations of the Act have damaged Plaintiffs by, among other things, forcing Cugle to spend time and energy addressing Shipping & Transit's unfounded claims, and diverting him from running his business.
>
> 244. Plaintiffs were also required to incur the costs and attorneys' fees necessary to defend against the frivolous threats of patent infringement. As provided by the statute, Plaintiffs are entitled to equitable relief, damages, costs, attorneys' fees, and punitive damages in an amount equal to $50,000 or three times the total damages, costs, and fees, whichever is greater.

(D.E. 1 at pp. 43-44)

These facts fail to demonstrate either Plaintiff has a *bona fide* claim that exceeds the $75,000 threshold for jurisdiction. Even assuming that Cugle's "time and energy" was compensable as actual damages under Maryland Commercial Law §11-1601, it is difficult to comprehend the possibility that Cugle's "time and energy" plus attorneys' fees, costs, and exemplary damages exceeds $75,000. In fact, it is not plausible, and therefore the amount in controversy requirement has not been met.

C. Facts Showing that the Maryland Law is Preempted.

No facts are required for the Court to make this determination, other than a review of Maryland Commercial Law § 11-1601 and 28 U.S.C. § 1338(a) which provides that "[t]he

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district courts shall have original jurisdiction of any civil action arising under any Act of Congress relating to patents.... Such jurisdiction shall be exclusive of the courts of the states in patent ... cases."

III. ARGUMENT

A. The Court lacks Subject Matter Jurisdiction to Issue a Declaratory Judgment

A case or controversy only exists in a declaratory judgment action where there is a substantial controversy, between the parties having adverse legal interests, of sufficient immediacy and reality to warrant the issuance of a declaratory judgment. *MedImmune, Inc. v. Genetech, Inc.,* 549 U.S. 118, 127 (2007) The Federal Circuit has held that "a patentee defending against an action for declaratory judgment of invalidity can divest the trial court of jurisdiction over the case by filing a covenant not to assert the patent at issue against the putative infringer with respect to any of its past, present, or future acts." *Super Sack Mfg. Corp. v. Chase Packaging Corp*., 57 F.3d at 1054, 1058 (Fed. Cir.1995). See also *Benitec Australia, Ltd. v. Nucleonics, Inc.,* 495 F.3d 1340-1347-48 (Fed. Cir. 2007) (No case or controversy where patentee withdrew its infringement claims and covenanted not to sue the defendant for future acts); *Microchip Technology, Inc. v. Chamberlain Group, Inc*., 441 F.3d 936, 943 (Fed. Cir. 2006) (district court's summary judgment of patent invalidity that was entered after the patentee covenanted not to sue the declaratory judgment plaintiff was vacated on appeal). "The actual controversy must be extant at all stages of review, not merely at the time the complaint is filed" and it is the Plaintiff's burden to "establish that jurisdiction over its declaratory judgment action existed at, and has continued since, the time the Complaint was filed." *Super Sack*, 57 F.3d at 1058.

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S&T has filed covenants not to sue Plaintiffs. The covenants are all encompassing. The covenants eliminate any case or controversy. S&T has not filed litigation against Plaintiffs nor is there any pending litigation claiming infringement against Plaintiffs. Therefore, as a matter of law, there is no basis for subject matter jurisdiction over Counts I through VIII of the Complaint.

B. The Court Lacks Diversity over Count IX under the Maryland Act

Maryland Commercial Law § 11-1603(a) provides that "[a] person may not make an assertion of patent infringement against another in bad faith." Section 11-1605 provides that a "target" may receive an award in cases of a violation.

> (a) In addition to any action by the Division or Attorney General authorized by Title 13 of this article, a target may bring an action in an appropriate court to recover for injury or loss sustained as a result of a violation of this subtitle.
>
> (b) If a target prevails in an action brought under this subtitle and is awarded damages, the court also may award:
>
> (1) Court costs and fees, including reasonable attorney's fees;
>
> (2) Exemplary damages in an amount not to exceed the greater of:
>
> (i) $50,000; or
>
> (ii) Three times the total of damages, costs, and fees; and
>
> (3) Any equitable relief that the court considers appropriate.

Maryland Commercial Law § 11-1605. The law defines "target" as:

> (e) "Target" means a person:
>
> (1) Who has received a demand letter or against whom an assertion of patent infringement has been made;
>
> (2) Who has been threatened with litigation or against whom a lawsuit has been filed alleging patent infringement; or

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> (3) Who has at least one customer who has received a demand letter asserting that the person's product, service, or technology has infringed a patent.

Maryland Commercial Law § 11-1601(e).

Triple7 is a dissolved entity and can only bring suit only to "wind up its business and affairs." Triple7 is no longer an entity with standing to seek relief. The corporate plaintiff no longer exists. The Maryland Code provides that a dissolved limited liability company continues to exist only "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." Maryland Code §4A-908(b). A suit seeking an affirmative recovery by Triple7 exceeds the scope of Triple7's rights. The corporate plaintiff alleges no factual harm or injury attributable to any action of S&T. Conclusory allegations are not sufficient. *Bell Atl. Corp. v. Twombly,* 550 U.S. 544, 555 (2007). Therefore, Triple7 cannot be a "target" who can recover under the Maryland Act.

That leaves Cugle as a "target". The Maryland Act says a target is entitled to recover "for injury or loss sustained as a result of a violation of this subtitle." Cugle says he suffered because he was forced "to spend time and energy addressing Shipping & Transit's unfounded claims, and diverting him from running his business." Cugle makes no effort to quantify this amount, and no other basis for actual damages is set forth in the Complaint. Cugle also seeks "court costs and fees, including reasonable attorney's fees," and "exemplary damages." However, the Maryland Act limits exemplary damages to "an amount not to exceed the **greater** of: (i) $50,000 or (ii) Three times the total of damages, costs, and fees." Maryland Commercial Law § 11-1605(b).

In *Federated Mutual Ins. Co. v. McKinnon Motors,* 329 F.3d 805, 807-08 (11th Cir. 2003) (internal citations omitted) involving an insurance policy with a $50,000 limit, the damages

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attributable to an indeterminate and speculative "bad faith failure to pay" claim were held insufficient to meet the jurisdictional requirement. Here, with no pleading supporting a computation of actual damages, but rather an admitted "estimate" based on spending some time responding to an infringement allegation cannot plausibly support a $75,000 jurisdictional requirement for either plaintiff.

The burden to demonstrate subject matter jurisdiction is on the Plaintiff. Where, as here, jurisdiction is based on a claim for indeterminate damages, the party seeking to invoke federal jurisdiction bears the burden of proving by a preponderance of the evidence that the claim on which it is basing jurisdiction meets the jurisdictional minimum. *Federated Mut. Ins. Co. v. McKinnon Motors*, 329 F.3d 805, 806 (11th Cir. 2003). Conclusory allegations that do not give rise to a credible assertion that a claim is valued in excess of $75,000 are insufficient. *See Leonard v. Enter. Rent a Car*, 279 F.3d 967, 974 (11th Cir. 2002).

In order to meet the jurisdictional amount in controversy for damages under the Maryland Act, Cugle must show he stands to recover more than $75,000. And while Cugle's punitive damages recovery can be considered, "claims for punitive damages proffered for the purpose of achieving the jurisdictional amount should be carefully examined." *Saval v. BL Ltd.*, 710 F.2d 1027, 1033 (4th Cir. 1983).

Under Maryland law, "no matter what the theory of recovery, punitive damages cannot be recovered absent malice." *Saval,* 710 F.2d at 1033. In *Saval*, the Fourth Circuit relied upon the law of Maryland, which then permitted an award of punitive damages only upon a showing of either actual malice or implied malice. *Saval*, 710 F.2d at 1033. Since Saval, the Maryland Court of Appeals has restricted the availability of punitive damages still further, and punitive damages now can be awarded under Maryland law only in cases of "actual malice," which means "ill will,

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fraud, intent to injure, or other *mens rea* exhibiting an evil motive or purpose." *Betskoff v. Enter. Rent A Car Co*., Civil Action No. ELH-11-2333, 2012 U.S. Dist. LEXIS 1260, at *35-38 (D. Md. Jan. 4, 2012).

Plaintiff's Complaint does not allege any evil motive or ill will on the part of S&T. Furthermore, even where punitive damages are available, a plaintiff must "support its claim [for punitive damages] with 'competent proof,' lest fanciful claims for punitive damages end up defeating the [diversity] statute's requirement of a particular amount in controversy." *Del Vecchio v. Conseco, Inc*., 230 F.3d 974, 979-80 (7th Cir. 2000)(describing a plaintiff's claim to potential entitlement to $75,000 in punitive damages as "sheer speculation . . . bordering on the farcical" where claimed compensatory damages were only $600, "a ratio of 125 to 1."). Cugle cannot do so here. Cugle could not even quantify the number of hours he spent responding to the original assertion letter nor how much he makes per hour. Cugle's Maryland Act claim fails to satisfy the amount in controversy requirement. There is no plausible claim for $75,000.

C. The Maryland Act is Preempted

"A patentee shall have remedy by civil action for infringement of his patent." 35 U.S.C. §281. Upholding this right, Courts have consistently protected the ability of a patentee 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." *Virginia Panel Corp. v MAC Panel Co.,* 133 F.3d 860, 870 (Fed. Cir. 1997); *Globetrotter Software, Inc. v. Elan Computer Group, Inc*., 362 F.3d 1367, 1374 (Fed. Cir. 2004) ("A patentee that has a good faith belief that its patents are being infringed violates no protected right when it so notifies infringers").

A patent owner is not only entitled to send patent assertion letters but in some instances such a letter is required. Specifically, a patent owner is required to send a warning letter in order to be entitled to recover damages absent circumstances not applicable here. 35 U.S.C. §287(a) (penultimate sentence) To the extent that the Maryland Statute attempts to punish a patent owner for complying with the notice provisions of the Patent Act, there must be federal preemption. *Hunter Douglas, Inc. v. Harmonic Designs, Inc.,* 153 F.3d 1318 (Fed. Cir. 1998); *Virginia Panel Corp. v. MAC Panel Co.,* 133 F.3d 860, 870 (Fed. Cir. 1997).

D. The Complaint Fails to State a Non-Preempted Bad Faith Claim

Preemption can be overcome only by a showing of bad faith. *Hunter Douglas, Inc. v. Harmonic Designs, Inc.,* 153 F.3d 1328, 1336 (Fed. Cir. 1998). In order to show bad faith, a "lawsuit must be objectively baseless in the sense that no reasonable litigant could realistically expect success on the merits. If an objective litigant could conclude that the suit is reasonably calculated to elicit a favorable outcome, the suit is immunized under [the] *Noerr[-Pennington Doctrine]* and an antitrust claim premised on the sham exception must fail." *Id.* at 1376. Thus, in order to avoid preemption, the movant, in this matter Plaintiffs, must show by clear and convincing evidence that Defendant acted in an "objectively and subjectively baseless" manner. See *Golan v. Pingel Enter., Inc*., 310 F.3d 1360, 1371 (Fed. Cir. 2002)(Requiring clear and convincing evidence to show bad faith).

But Plaintiffs Complaint alleges “bad faith” in a conclusory fashion. A Complaint must plead more than labels and conclusions and more than a formulaic recitation of the elements of a cause of action to withstand a Fed. R. Civ. P. 12(b)(6) motion to dismiss; factual allegations must be enough to raise a right of relief above the speculative level and courts are not bound to accept as true a legal conclusion couched as a factual allegation. *Twombly,* 550 U.S. at 555.

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Here, the documents attached to the Complaint belie any "bad faith" and therefore, Plaintiffs cannot meet the bad faith pleading standard to exempt this case from federal preemption. For example, Plaintiffs Complaint includes Defendant's 15 page patent infringement analysis which is an assertion that Plaintiffs admittedly received. [D.E. 1-6, Exhibit F] Plaintiffs Complaint includes documents confirming Defendant's willingness to drop the patent assertion at no cost if Plaintiffs acknowledged in writing the non-infringement explanation that they conveyed orally to Defendant in response to the infringement assertion, a written acknowledgement that Plaintiffs admittedly **refused to provide**. [D.E. 1-8, Exhibit 8, pages 3-4; D.E. 1-17] Defendant also asked, long before this suit was filed, if Plaintiffs needed any additional information under the Maryland Patent Abuse Prevention Act. [D.E. 1-6, Exhibit F, page 2, footnote 3] There is no plausible basis for a bad faith conclusion.

The Electronic Frontier Federation (EFF), acting through Plaintiffs, is attempting to "piggy-back" a bad faith allegation by relying on Defendant's patent assertions against others. Any reliance on these assertions demonstrates only EFF's disapproval of the enforcement of Shipping & Transit's patents, not a bad faith allegation against these Plaintiffs. EFF's disapproval of the enforcement of Shipping & Transit's patents is not a sufficient basis for this case to proceed. The patents are based on technology developed to track the movement of school buses so that parents would know if school buses were being delayed because of, *inter alia,* traffic, weather, and mechanical breakdowns. This technology minimized the waiting time of children at bus stops as well as the waiting times for parents. The technology, initially known as "BusCall," was implement across four states during a two year period, and was featured on CNN and in The Wall Street Journal. All of this appears in the patent assertion letters that Plaintiffs themselves attach to the complaint. [D.E. 1-6, Exhibit F, at page 2; D.E. 1-21, Exhibit

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U, page 2] Plaintiffs' or EFF's disapproval does not meet the pleading requirement that Shipping & Transit acted in bad faith.

Plaintiffs' Complaint fails to support a claim that S&T acted in bad faith. The Complaint is based entirely upon their *opinion* that S&T failed to conduct a pre-suit investigation. Nowhere do Plaintiffs allege that S&T acted in "bad faith." In the absence of bad faith, Plaintiffs have is no viable claim for violation of the Maryland Act.

IV. CONCLUSION

For the foregoing reasons, the Complaint should be dismissed.

DATED: July 22, 2016

Respectfully submitted,

/s/ Joel B. Rothman

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on July 22, 2016, a true and correct copy of the foregoing has been electronically filed with the Clerk of the Court using the CM/ECF system, which will provide electronic service to the parties on the Service List below.

/s/ Jerold I. Schneider
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