

**UNITED STATES DISTRICT COURT
MIDDLE DISTRICT OF FLORIDA
ORLANDO DIVISION**

**SWEEPSTAKES PATENT COMPANY,
LLC and INGENIO, FILIALE DE LOTO-
QUEBEC INC.,**

Plaintiffs,

v.

Case No: 6:14-cv-151-Orl-22KRS

**CHASE BURNS, INTERNATIONAL
INTERNET TECHNOLOGIES, LLC.,
ALLIED VETERANS OF THE WORLD,
INC. AND AFFILIATES, ALLIED
VETERANS MANAGEMENT GROUP,
INC., JOHNNY DUNCAN, JERRY BASS,
JOHN M. HESSONG and MICHAEL
DAVIS,**

Defendants.

REPORT AND RECOMMENDATION

TO THE UNITED STATES DISTRICT COURT:

This cause came on for consideration without oral argument on the following motion filed herein:

MOTION: DEFENDANTS' RENEWED MOTION FOR ATTORNEYS' FEES (Doc. No. 117)
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FILED: June 16, 2015

I. PROCEDURAL HISTORY.

On January 29, 2014, Plaintiff Sweepstakes Patent Company, LLC (“SPC”) filed a complaint against Chase Burns, International Internet Technologies, LLC, Allied Veterans of the World, Inc. & Affiliates, Allied Veterans Management Group, Inc., Johnny Duncan, Jerry Bass, John M. Hessong, Michael Davis (collectively, “Defendants”), and twelve other parties. Doc.

No. 1. The complaint also named Ingenio, Filiale de Loto-Quebec Inc. (“Ingenio”) as a Nominal Plaintiff. *Id.* SPC raised claims for literal, equivalent, induced, and contributory infringement of U.S. Patent No. 5,569,082 (the “’082 Patent”) and U.S. Patent No. 5,709,603 (the “’603 Patent”). *Id.*

Defendants filed a motion to dismiss the complaint on April 2, 2014, arguing that SPC lacked standing to pursue the action because SPC failed to obtain consent from Ingenio, as required under SPC’s licensing agreement, prior to initiating suit. Doc. No. 56. On April 8, 2014, Ingenio also filed a motion for Rule 11 sanctions against SPC’s counsel, based on the filing of the complaint without the required prior consent. Doc. No. 58. On April 29, 2014, SPC filed a crossclaim against Ingenio, seeking a declaratory judgment as to SPC’s rights (1) “to prosecute the principal defendants for infringement of the Patents,” Doc. No. 69 ¶ 64; and (2) “to prosecute owners, operators and providers of technology and software for the operation of Internet Sweepstakes Cafes for infringement of the Patents other than the principal defendants,” *id.* ¶ 74. Ingenio subsequently filed a motion to dismiss the crossclaim. Doc. No. 86. The Court held a hearing on the pending motions on July 22, 2014. Doc. No. 104.

On July 30, 2014, the Court dismissed SPC’s claims without prejudice. Doc. No. 105. The Court determined that, under the license agreement, “SPC needs Ingenio’s prior written consent to institute any claim or legal proceedings relating to the Patents.” *Id.* at 8. Because Ingenio had not provided such consent, the Court determined that SPC did not have standing to bring the underlying claims. *Id.* The Court, however, also denied Ingenio’s motion for Rule 11 sanctions, noting that “SPC’s counsel made colorable arguments on the issues presented.” *Id.* at 8 n.4.

SPC appealed the grant of Defendants’ and Ingenio’s motions to dismiss to the United States Court of Appeals for the Eleventh Circuit. Doc. No. 106. During the pendency of the appeal,

Defendants filed a motion for attorneys' fees, Doc. No. 109, which I denied without prejudice, Doc. No. 110. The appeal was then transferred to the United States Court of Appeals for the Federal Circuit, Doc. No. 111, which affirmed the District Court's determination, Doc. No. 115.

On June 16, 2015, Defendants filed a renewed motion for attorneys' fees. Doc. No. 117. SPC filed a response brief, Doc. No. 120, and Defendants subsequently filed a reply, Doc. No. 122. The presiding District Judge referred the motion for attorneys' fees to me for issuance of a Report and Recommendation, and the matter is now ripe for review.

II. DISCUSSION.

Attorneys' fees are not automatically recoverable in a patent case. Instead, under 35 U.S.C. § 285, a court may award reasonable attorneys' fees to a "prevailing party" in "exceptional cases." When faced with a motion for attorneys' fees, therefore, a court's inquiry is twofold. First, the court must find that the party seeking fees is a prevailing party. *Gentry Gallery, Inc. v. Berkline Corp.*, 134 F.3d 1473, 1480 (Fed. Cir. 1998); *see also DH Tech., Inc. v. Synergystex Int'l, Inc.*, 154 F.3d 1333, 1344 (Fed. Cir. 1998) (vacating an exceptional-case determination, in part, because "the prevailing party ha[d] not yet been determined"). The determination of whether a party is a prevailing party is governed by Federal Circuit law. *SSL Servs., LLC v. Citrix Sys., Inc.*, 769 F.3d 1073, 1086 (Fed. Cir. 2014). If that criterion is met, the court may then evaluate whether the case is "exceptional" within the meaning of § 285. In this case, the Court need not reach the issue of exceptionality, because the record makes clear that Defendants are not prevailing parties.¹

¹ In their reply brief, Defendants argue that the issue of whether they are prevailing parties "should be found to be conceded" because SPC did not respond to the argument in its response brief. Doc. No. 122, at 7 n.1. While SPC did not explicitly set forth a discussion of the prevailing-party issue, it did argue that fees should not be awarded because "Defendants have received no substantive rulings on the merits of this case in their favor at all." Doc. No. 118, at 9. Regardless, that a party failed to oppose a motion, or any portion thereof, does not mean that the moving party automatically prevails; rather, the Court is still required to consider the merits of the motion. *Pedraza v. Hall Cty.*, No. 2:14-cv-00311-RWS, 2015 U.S. Dist. LEXIS 41249, at *3 (N.D. Ga. Mar. 31, 2015) (citing *Dunlap v. Transamerica Occidental Life Ins. Co.*, 858 F.2d

In *Buckhannon Board. & Care Home, Inc. v. West Virginia Department of Health & Human Resources*, 532 U.S. 598, 600 (2001), the United States Supreme Court considered whether the term prevailing party “includes a party that has failed to secure a judgment on the merits or a court-ordered consent decree, but has nonetheless achieved the desired result because the lawsuit brought about a voluntary change in the defendant’s conduct.” In that case, the petitioners filed a complaint for declaratory relief under the Fair Housing Amendments Act of 1988 (“FHAA”) and the Americans with Disabilities Act (“ADA”), seeking a ruling that certain provisions of West Virginia law violated these federal statutes. *Id.* at 600-01. After the complaint was filed, the West Virginia legislature enacted two bills eliminating the challenged West Virginia law. *Id.* at 601. Thereafter, the respondents moved to dismiss the case as moot, which motion was granted. The petitioners then sought an award of attorney’s fees under the FHAA and the ADA, arguing that they were prevailing parties because the lawsuit brought about a voluntary change in the respondents’ conduct (the “catalyst theory”). *Id.* The district court, following the law of the United States Court of Appeals for the Fourth Circuit, denied the motion, finding that the petitioners were not prevailing parties because they did not obtain an enforceable judgment, consent decree, or settlement giving them some of the legal relief sought. *Id.* at 602. The Supreme Court accepted certiorari because of disagreement among Courts of Appeals on the application of the catalyst theory in a prevailing party analyses. *Id.*

The Supreme Court rejected use of the catalyst theory in a prevailing party analysis. *Id.* at 605. It reasoned that a party’s voluntary change in conduct lacked “the necessary judicial imprimatur on the change” to establish a prevailing party. *Id.* While the Supreme Court held that

629, 632 (11th Cir. 1988)). Accordingly, I will measure each of Defendants’ contentions against the relevant law.

the catalyst theory was not a permissible basis for an award of attorney's fees under the FHAA and ADA, *id.* at 609, the *Buckhannon* rejection of the catalyst theory has since been applied to many prevailing party fee statutes. *See, e.g., Loggerhead Turtle v. Cnty. Council of Volusia Cnty.*, 307 F.3d 1318, 1324-25 & n.8 (11th Cir. 2002) (distinguishing prevailing party fee statutes from fee statutes authorizing a court to award fees whenever appropriate). The Federal Circuit has applied *Buckhannon* to the prevailing party fee provision of the Patent Act, 35 U.S.C. § 285. *Highway Equip. Co. v. FECO, Ltd.*, 469 F.3d 1027 (Fed. Cir. 2006).

Defendants argue that they are prevailing parties because they “have obtained everything they sought in this litigation — a dismissal of SPC’s Complaint and a legal determination that SPC cannot reinitiate its infringement claims against Defendants without Ingenio’s prior consent.” Doc. No. 117, at 5. Accordingly, Defendants reason, they “have been awarded substantive relief” in the form of a dismissal of SPC’s complaint without prejudice, materially altering the legal relationship of the parties. *Id.*

The Federal Circuit has made clear that a dismissal without prejudice is insufficient to constitute a change in the legal relationship of the parties so as to satisfy the *Buckhannon* test because “the plaintiff is free to refile its action.” *RFR Indus. v. Century Steps, Inc.*, 477 F.3d 1348, 1353 (Fed. Cir. 2007); *accord Hughes v. Lott*, 350 F.3d 1157, 1161 (11th Cir. 2003). Indeed, ample authority directly contradicts Defendants’ contention that a dismissal without prejudice for lack of standing is an adjudication on the merits. *See H.R. Techs., Inc. v. Astechnologies, Inc.*, 275 F.3d 1378, 1384 (Fed. Cir. 2002) (“[L]ack of standing is not an issue that goes to the merits of the underlying patent issues”); *Mars, Inc. v. JCM Am. Corp.*, No. 05-3165 (RBK/JS), 2009 U.S. Dist. LEXIS 67957, at *14–15 (D.N.J. July 30, 2009) (determining that the defendants were not prevailing parties because the case was dismissed without prejudice based on the plaintiff’s lack of

standing and, therefore, defendants “did not receive any relief on the merits”); *see generally Semtek Int’l Inc. v. Lockheed Martin Corp.*, 531 U.S. 497, 505 (2001) (“[A]n ‘adjudication upon the merits’ is the opposite of a ‘dismissal without prejudice’ . . .”).

Defendants rely primarily on *Kernel Records Oy v. Mosley*, No. 09-21597-CIV-TORRES, 2013 U.S. Dist. LEXIS 99094 (S.D. Fla. July 16, 2013), in arguing that they are prevailing parties.² *Mosley*, however, is readily distinguishable. In that case, the court granted summary judgment on the ground that the plaintiff had failed to register the copyright at issue before bringing the claim. *Id.* at *4. While the court did afford “leave to re-file” once the plaintiff had registered the copyright, it “made clear [that] pre-registration claims were finally adjudicated and that ‘determination [wa]s final[,] and close[d] the case.’” *Id.* at *4–5.

The *Mosley* court observed that, because its summary judgment order did not say otherwise, it was an adjudication on the merits within the meaning of Federal Rule of Civil Procedure 41(b). *Id.* at *8–9. Due to the plaintiff’s failure to register the copyright in conjunction with the operation of the applicable statute of limitations, the “[d]efendants ha[d] successfully and finally avoided ‘approximately two years’ worth of damages.” *Id.* at *9. Indeed, on this basis, the court expressly distinguished its facts from those of cases holding that there is no change in the legal relationship of the parties when a plaintiff is free to refile its action. *Id.* at *17, 18 n.4. While the court’s summary judgment order did not preclude the plaintiff from pursuing post-registration claims in a separate action, *id.* at *18–19, the statute of limitations effectively precluded refiling in any future litigation

² Defendants also cite to *Samsung Electronics Co. v. Rambus Inc.*, 440 F. Supp. 2d 495, 508–11 (E.D. Va. 2006), and contend that the court there concluded that a dismissal without prejudice materially altered the legal relationship of the parties. Doc. No. 117, at 6. *Samsung*, however, involved a dismissal *with prejudice* under Federal Rule of Civil Procedure 41(a), not a dismissal without prejudice. 440 F. Supp. 2d at 508. Indeed, the *Samsung* court expressly noted that it was not faced with the question of whether a dismissal without prejudice was sufficient to confer prevailing party status. *Id.* at 511 n.15. Accordingly, Defendants’ reliance on *Samsung* is misplaced.

all pre-registration claims. *Id.* at *18 n.4. This preclusion encompassed “all ownership claims and most infringement claims.” *Id.* at *17. Accordingly, the “dismissal [was] ‘tantamount to a dismissal with prejudice’ as to the barred claims.” *Id.* at *9 (quoting *Perry v. Zinn Petroleum Cos.*, 495 F. App’x 981, 984 (11th Cir. 2012) (per curiam)).

Defendants have not presented circumstances analogous to those present in *Mosley*. They do not argue that that, by operation of a statute of limitations, SPC is barred from refileing its claims. The Court’s dismissal was expressly without prejudice, and Defendants acknowledge that SPC may reinitiate the action if they attain standing to do so.³ Doc. No. 117, at 3, 6. Defendants, however, cannot be considered prevailing parties on claims that have not been adjudicated and may still be decided against them. *See Victus, Ltd. v. Collezione Europa U.S.A., Inc.*, No. 2:96cv00724, 1998 U.S. Dist. LEXIS 13985, at *4 (M.D.N.C. Aug. 3, 1998). Consequently, Defendants are not entitled to an award of attorneys’ fees under 35 U.S.C. § 285.

III. RECOMMENDATION.

In light of the foregoing, I respectfully **RECOMMEND** that the Court **DENY** Defendants’ Renewed Motion for Attorneys’ Fees (Doc. No. 117).

Failure to file written objections to the proposed findings and recommendations contained in this Report and Recommendation within fourteen (14) days from the date of its filing shall bar an aggrieved party from challenging on appeal the district court’s order based on unobjected-to factual findings and legal conclusions.

Recommended in Orlando, Florida on August 4, 2015.

Karla R. Spaulding
KARLA R. SPAULDING
UNITED STATES MAGISTRATE JUDGE

³ Defendants also acknowledge that SPC has already repurchased the patents-in-suit to obtain such standing. Doc. No. 117, at 6 n.6.

Copies furnished to:

Presiding District Judge
Counsel of Record
Unrepresented Party
Courtroom Deputy