

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

**ACME WORLDWIDE ENTERPRISES,
INC.,**

Plaintiff,

v.

Case No: 6:15-cv-637-Orl-41DAB

**INDUSTRIAL SMOKE & MIRRORS,
INC.,**

Defendant.

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: MOTION FOR ATTORNEY FEES (Doc. No. 37)

FILED: January 19, 2016

THEREON it is **RECOMMENDED** that the motion be **DENIED**.

In this patent infringement case, Defendant Industrial Smoke & Mirrors, Inc. (“ISM”) seeks to recover its attorney’s fees for defending claims of patent infringement made by Plaintiff Acme Worldwide Enterprises, Inc. (“Acme”) in this Court and in New Mexico. Acme asserts that ISM’s representatives observed demonstrations of a patent-pending weapons simulation system Acme had developed, then unjustly used Acme’s proprietary technology to develop its own competing weapons simulator. Because the Court finds Acme’s pursuit of its patent infringement claims against ISM was not “exceptional” as defined by relevant Supreme Court case law or in keeping

with the District Court's comments concerning Acme's response to the summary judgment motion in the case, it is respectfully **RECOMMENDED** that the Motion for Attorney's Fees be **DENIED**.

I. Procedural Background

On April 21, 2015, Acme—a manufacturer of weapons simulations systems and training equipment for military and public safety use—filed its Complaint against its competitor Defendant ISM, alleging infringement of United States Patent No. 8,690,575 B1 titled “Apparatus and Method for a Weapon Simulator” (“the ‘575 Patent”) issued by the U.S. Patent and Trademark Office on April 8, 2014. Doc. 1. Acme’s Complaint alleged two counts against ISM, count one for patent infringement and count two for contributory infringement. *Id.*

Acme alleges that, in 2008, it designed the first model of its GAR® weapons simulator, featuring an electro-mechanical operated recoil simulation device for use in training military personnel to utilize small to heavy caliber machine guns and to adjust to situations in which a weapon misfired or otherwise failed to operate correctly. *Id.* ¶¶ 9-10. Acme alleges that, beginning in 2009, it demonstrated its GAR® weapon simulator at the annual “Interservice/Industry Training, Simulation and Education Conference” (“I/ITSEC”) *Id.* ¶¶11-13. At the 2011 I/ITSEC event, according to Acme’s Complaint, “several Acme employees observed a comparable M240 demonstration weapon simulator system from ISM” which Acme alleges “had been surreptitiously copied from Acme’s weapon simulator that had been displayed at I/ITSEC in previous years.” *Id.* ¶14. Acme also alleged that “[a]t subsequent I/ITSEC shows in December 2012 and 2013, versions of ISM’s weapon simulator were on display at one or more locations.” *Id.* ¶16. On August 28, 2014, after Acme completed a review and comparison of its patented apparatus and method with ISM’s weapon simulator, it notified ISM that ISM’s weapon simulator infringed Acme’s ‘575 Patent. *Id.* ¶17.

Acme had previously filed a complaint against ISM in the United States District Court for

the District of New Mexico. *See Acme Worldwide Enterprises, Inc. v. Industrial Smoke & Mirrors, Inc.*, Case No. 1:14-cv-01041-WJ-SCY (D.N.M.). ISM filed a motion to dismiss for lack of personal jurisdiction on January 5, 2015, arguing it lacked sufficient contacts with New Mexico to satisfy that court's personal jurisdiction requirements, and it could not "reasonably anticipate being haled into court" in New Mexico, citing *World-Wide Volkswagen Corp. v. Woodson*, 444 U.S. 286, 297 (1980), thus, the exercise of personal jurisdiction would not comport with due process. *Acme Worldwide*, Case No. 1:14-cv-01041-WJ-SCY (Doc. 39) (D.N.M. March 30, 2015). On March 30, 2015, the United States District Court in New Mexico granted ISM's motion to dismiss for lack of personal jurisdiction, following Acme's concession that the New Mexico Court lacked personal jurisdiction over ISM. *Id.* ISM apparently did not file a motion seeking attorney's fees or sanctions in the New Mexico case, and none were awarded.

Acme subsequently filed its Complaint in this Court on April 21, 2015. On May 15, 2015, ISM filed its Answer (Doc. 15) asserting an affirmative defense that "28 U.S.C. § 1498(a) provides that Acme's sole and exclusive remedy for the subject patent infringement claims is a suit against the federal government in the United States Court of Federal Claims." Doc. 15 ¶¶ 4, 5, 6, 34. On July 7, 2015, ISM filed an unopposed motion to establish briefing schedule (Doc. 22) requesting that the Court allow discovery and briefing on ISM's 28 U.S.C. § 1498(a) defense prior to any other action taking place in this case, which District Judge Mendoza granted on July 15, 2015. Docs. 23, 25 (allowing a fifty-day extension), 28 (temporarily suspending other case deadlines). The parties conducted limited discovery and, on November 24, 2015, ISM filed its Motion for Summary Judgment arguing that it was immune from liability by virtue of 28 U.S.C. § 1498, which provides a limited waiver of sovereign immunity for a patent owner to bring a claim against the United States, but only in the United States Court of Claims, when the allegedly unauthorized use of an item was by or for the United States. Doc. 31. ISM provided more than one thousand pages of exhibits,

including the Declaration of Paul W. Talmadge, who is an ISM Program Director since 2013 and a former Program Manager since 2008. While the Talmadge Declaration provides extensive details of the contracts, it essentially states that the allegedly-infringing ISM trainers were (or were planned to be) manufactured for the United States Army and the United States Air Force. Accordingly, the relevant contracts provided that all designs, drawings, specifications, notes and other works developed in the performance of the contracts were or would become the property of the Government. Doc. 31-1 ¶¶ 9, 13, 19¹. Mr. Talmadge further stated that ISM had not manufactured or sold any of the allegedly-infringing weapon simulation systems to any other customers, and those that were manufactured (or in the process) were for the exclusive benefit and use of the Government.

Doc. 31-1 ¶¶ 20-25.

On December 21, 2015, Acme filed its Response to ISM's Summary Judgment Motion, stating that it did not oppose the entry of summary judgment in favor of ISM based on the contract documents attached to the Summary Judgment Motion, which included the Talmage Declaration. Doc. 32.

On January 4, 2016, District Judge Mendoza granted ISM's Motion for Summary Judgment on the § 1498(a)-affirmative defense, which read:

Having considered Defendant's motion and the supporting evidentiary materials, as well as Plaintiff's lack of opposition, the Court concludes that there are no genuine issues of material fact with regard to Defendant's 28 U.S.C. § 1498(a)-based affirmative defense. *See Celotex Corp. v. Catrett*, 477 U.S. 317, 324 (1986) ("[Federal] Rule [of Civil Procedure] 56(e) . . . requires the nonmoving party to go beyond the pleadings and by her own affidavits, or by the depositions, answers to interrogatories, and admissions on file, designate specific facts showing that there is a genuine issue for trial." (quotation omitted)); *United States v. One Piece of Real Prop. Located at 5800 SW 74th Ave., Miami, Fla.*, 363 F.3d 1099, 1101 (11th Cir. 2004) ("[T]he district court cannot base the entry of summary judgment on the mere fact that the motion was unopposed, but, rather, must consider the merits of the motion.").

¹ At least two of the contracts incorporated by reference a number of Federal Acquisition Regulations, which state in pertinent part, that: "The Government authorizes and consents to all use and manufacture, in performing this contract or any subcontract at any tier, of any invention described in and covered by a United States patent." Doc. 31-1 ¶¶ 5-6, 18.

Therefore, summary judgment in favor of Defendant is appropriate.

Accordingly, it is ORDERED and ADJUDGED that Defendant's Motion for Final Summary Judgment (Doc. 31) is GRANTED. The Clerk is directed to enter judgment in favor of Defendant and against Plaintiff. Thereafter, the Clerk shall close this case.

The Court commends the parties and counsel for the thoughtful and amicable resolution of this case.

Doc. 33 at 1-2 (emphasis added). The Clerk entered judgment the following day, on January 5, 2016. Doc. 34. On January 19, 2016, ISM filed its Motion for Attorney's Fees pursuant to 35 U.S.C. § 285². Doc. 37.

Analysis

ISM seeks attorney's fees pursuant to § 285 of the Patent Act, arguing that Acme forced ISM "to defend two related lawsuits, the first based upon knowingly false jurisdictional allegations, and the second for claims ACME knew to be barred by 28 U.S.C. § 1498." Doc. 37 at 1. ISM argues that, during the New Mexico proceeding, "Acme was given documents that conclusively demonstrated that pursuant to 28 U.S.C. 1498 Acme had no claim for patent infringement against ISM." Doc. 37 at 1. Acme responds that Acme was not required to give conclusive weight to ISM's litigation counsel's *correspondence* in the prior litigation, especially since it did not square with an informal document exchange.

Under § 285 of the Patent Act, courts may award reasonable attorney's fees to the prevailing party "in exceptional cases." 35 U.S.C. § 285. On April 29, 2014, the Supreme Court interpreted § 285 of the Patent Act, and found that the word "exceptional" should be interpreted in accordance with its ordinary meaning:

We hold, then, that an "exceptional" case is simply one that stands out from others with respect to the substantive strength of a party's litigating position (considering

² To the extent ISM seeks to recover its costs pursuant to 28 U.S.C. § 1920, the Clerk has already taxed costs against Acme for \$132 based on the Proposed Bill of Costs (Doc. 36) filed on January 19, 2016. Doc. 38.

both the governing law and the facts of the case) or the unreasonable manner in which the case was litigated.

Octane Fitness, LLC v. ICON Health & Fitness, Inc., __ U.S.__, 134 S.Ct. 1749, 188 L.Ed 2d 816 (2014); *see also Highmark Inc. v. Allcare Health Management System, Inc.*, __ U.S. __, 134 S.Ct. 1744, 188 L.Ed. 2d 829 (2014) (*Octane* holds “that the word ‘exceptional’ in § 285 should be interpreted in accordance with its ordinary meaning.”). The cases interpreting *Octane* to date note that the post-*Octane* fee inquiry is “less rigid and more holistic.” *See, e.g., CreAgri, Inc. v. Pinnaclelife, Inc.*, No. 11-CV-6635-LHK, 2014 WL 2508386, *6 (N.D. Cal. June 3, 2014) (denying motion for fees). “Under the new standard, no bright-line rules define the parameters of what is exceptional, and no single element (such as baselessness or sanctionability) is dispositive. Rather, the inquiry requires the Court to consider a totality of the circumstances and to exercise its equitable discretion.” *Id.* *See also Intellect Wireless, Inc. v. Sharp Corporation*, 45 F. Supp. 3d 839, 846 (N.D. Ill. May 30, 2014) (“The court recognizes, however, that insofar as the imposition of fees under Section 285, even after *Octane Fitness*, remains an exception to the American Rule, the standard for finding a case exceptional befits its definition—‘uncommon,’ ‘rare,’ or ‘not ordinary.’”).

Under *Octane*, a case is exceptional if it *stands out from others* 1) with respect to the substantive strength of a party’s litigating position (considering both the governing law and the facts of the case) or 2) the unreasonable manner in which the case was litigated. ISM relies on the decision in *TNS Media Research, LLC v. TiVo Research & Analytics, Inc.*, for the proposition that “[c]ourts have awarded attorneys’ fees when a patentee advanced meritless infringement positions and meritless arguments.” Doc. 37 at 13 (citing *TNS Media*, No. 11-civ-4039-SAS, 2014 WL 5639930, at *8-9 (S.D.N.Y. Nov. 4, 2014)). However, the trial court’s decision awarding fees under § 285 was *vacated* by the Federal Circuit on September 16, 2015, and no longer has persuasive

value. *TNS Media Research, LLC v. Tivo Research and Analytics, Inc.*, 616 Fed. App'x 421 (Fed. Cir. Sept. 16, 2015).

ISM also cites *Novartis Corp. v. Webvention Holdings LLC*, CCB-11-3620, 2015 WL 6669158, at *2 (D. Md. 2015) in which a patent-holder's conduct was found to be "exceptional" and fees were awarded pursuant to § 285. However, the facts of that case are distinguishable in that the court in *Novartis* imposed fees against the patent-holder who the court described as instigating a "broad enforcement campaign demanding licensing fees from companies it said were infringing" in "combination [with] Webvention's practice of offering licensing fees that were far lower than the cost to defend a patent infringement lawsuit, thus inducing companies to settle rather than litigate, its late disclosure to the PTO of prior art in its possession," and its dealings with Novartis, which "specifically create[d] inferences of improper motivation, litigation misconduct, and a need for deterrence sufficient to justify awarding Novartis attorney's fees." *Id.* No such conduct was entered into here by Acme. Particularly as in this case where ISM asserted § 1498(a) as an affirmative defense, it was not a jurisdictional bar to the case, and ISM was required to provide sufficient support that its conduct fell within the ambit of § 1498(a) for the affirmative defense to apply. See *Toxgon Corp. v. BNFL, Inc.*, 312 f.3d 1379, 1382 (Fed. Cir. 2002) (§1498 creates an affirmative defense, and not jurisdictional bar, to infringement suit in federal district court against government contractor).

ISM contends that Acme's previous lawsuit in the District of New Mexico Court was "based upon jurisdictional allegations that the [New Mexico] federal judge in that case concluded to be knowingly false" based on language in that court's order finding "Plaintiff had no reason to believe at the outset that the District of New Mexico possessed personal jurisdiction over Defendant." Doc. 37 (citing D.N.M. Case 1:14-cv-1041, Doc. 39 at 3³). However, despite this seemingly strong

³ The portion cited by ISM actually is in the context of Acme's motion to transfer venue:

language—which was in the context of denying Plaintiff’s motion seeking transfer—ISM did not move for sanctions in the New Mexico court at that time. As Acme points out, the § 1498(a)-based affirmative defense was not litigated in the New Mexico litigation, only the issue of personal jurisdiction; ISM did not answer and did not assert a § 1498(a)-based affirmative defense in the prior litigation. Doc. 39.

ISM contends that Acme’s motivation for filing its lawsuit in the Middle District of Florida “which Acme knew to lack merit, was made clear just a couple of weeks after ACME filed the lawsuit in this Court when ACME sent a letter to a company which had recently solicited bids for M240 Automatic Recoil Systems [called Flight Safety] and to which Acme and ISM had both responded. Acme was trying to use this lawsuit to convince the company to select it instead of ISM.” Doc. 37. ISM won the bid for the Flight Safety and entered into a subcontractor agreement with the company in March 2015. Doc. 31-1 ¶ 17. The “conclusive proof” to which ISM refers is a letter dated January 21, 2015 from ISM to Acme which, while it provides some particulars, is not supported by any declaration or affidavit, and notably omits any information about impending sales, including the one in the works with Flight Safety, signed in March 2015. Doc. 31-7 (dated at the lower right corner of page). A second letter from ISM’s counsel to Acme dated February 16, 2015 also does not mention the impending Flight Safety contract (or any others in the works) and is not supported by any declaration or affidavit. Doc. 37-2. Contrary to ISM “conclusively

Plaintiff has not established that “the interests of justice require transfer rather than dismissal.” Id. at 1223. There is no indication by either party that this action would be time-barred in any other court if dismissed here without prejudice. Moreover, Defendant has provided substantial and undisputed evidence that it does not conduct business in New Mexico, and none of the background facts described in Plaintiff’s complaint support its allegation, now recanted, that Defendant “regularly conducts business in New Mexico.” In other words, Plaintiff had no reason to believe at the outset that the District of New Mexico possessed personal jurisdiction over Defendant. Given the lack of jurisdiction and the factors weighing against transfer, the Court sees no need to determine whether Plaintiff’s claims are likely to have merit.

demonstrating” § 1498(a) applied⁴ based on counsel’s letter, as Acme points out, ISM issued subpoenas to third parties to obtain more than 1,000 pages of documents from the United States public records, which were only produced as part of the discovery in *this* case. Doc. 37 at 9.

Most significantly, Judge Mendoza, who was much more familiar with Acme’s conduct in the case, in granting summary judgment, “commend[ed] the parties and counsel for the *thoughtful and amicable resolution* of this case.” Doc. 33 at 1-2 (emphasis added). An award of fees at this juncture would seem to contradict Judge Mendoza’s commendation to Acme.

Acting pursuant to the Supreme Court’s direction to evaluate the totality of the circumstances on a case by case basis pursuant to *Octane*, the Court finds an award of fees to be inappropriate here, and therefore **respectfully recommends** that the motion be **DENIED**.

NOTICE TO PARTIES

A party has fourteen days from this date to file written objections to the Report and Recommendation’s factual findings and legal conclusions. A party’s failure to file written objections waives that party’s right to challenge on appeal any unobjected-to factual finding or legal conclusion the district judge adopts from the Report and Recommendation. *See* 11th Cir. R. 3-1.

Recommended in Orlando, Florida on June 6, 2016.

David A. Baker
DAVID A. BAKER
UNITED STATES MAGISTRATE JUDGE

Copies furnished to:

Presiding District Judge
Counsel of Record
Courtroom Deputy

⁴ Acme argues that “the United States regularly requires indemnification from suppliers in the event that the United States is found liable for patent infringement in a § 1498(a)-based suit against the United States. . . . While those suppliers may be shielded from a patent infringement suit via § 1498, they would nevertheless be obligated to indemnify the United States for any damages awarded in a § 1498(a)-based suit.” Doc. 39 at 17.