

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

CIVIL MINUTES - GENERAL

Case No.	SACV 11-00189 AG (RNBx)	Date	April 22, 2015
Title	AMERANTH, INC. v. GENESIS GAMING SOLUTIONS, INC., et al.		

Present: The Honorable ANDREW J. GUILFORD

Nancy Boehme

Not Present

Deputy Clerk

Court Reporter / Recorder

Tape No.

Attorneys Present for Plaintiffs:

Attorneys Present for Defendants:

Proceedings: [IN CHAMBERS] ORDER RE ENTRY OF JUDGMENT (DKT. NO. 416)

1. INTRODUCTION

Defendant Commerce Club, Inc. (“Commerce”) filed an Amended Motion for Judgment in its favor (“Motion”). (Dkt. No. 416.) The Court finds the Motion appropriate for decision without oral argument. Fed. R. Civ. P. 78; L.R. 7-15. The hearing set for April 27, 2015 is VACATED. The Motion is GRANTED.

2. BACKGROUND

Plaintiff Ameranth, Inc. (“Ameranth”) asserted that Commerce infringed casino management patents. (Compl., Dkt. No. 1 at ¶ 33.) Those patents included “player management” claims and “dealer management” claims. During the case, Ameranth and Commerce entered into a license for the dealer management claims. (Mot. 2; *see* Dkt. No. 83.) Afterwards, Ameranth filed a Third Amended Complaint in case SACV 11-00189 asserting infringement of only the player management claims in U.S. Patent No. 7,431,650 (the “650 Patent”). (Dkt. No. 95.) And in case SACV 13-00720, Ameranth continued to assert infringement of the player management claims in U.S. Patent No. 8,393,969 (the “969 Patent”).

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

CIVIL MINUTES - GENERAL

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The Court later granted summary judgment of noninfringement in favor of Commerce on all such claims, but trial was set to proceed on Ameranth's claims against Defendant Genesis Gaming Solutions, Inc. ("Genesis"), and on Commerce's invalidity counterclaims. (See Proposed Final Pretrial Conf. Order, Dkt. No. 376-1.)

Ameranth then settled with Genesis, which supplies the systems used in Commerce's alleged infringement. (Jt. Stip. for Dismissal, Dkt. No. 392 at 2.) Ameranth and Commerce agree that the Ameranth-Genesis settlement mooted Commerce's invalidity counterclaims, but disagree on the mechanism of that mootness. Ameranth argues that Commerce is now paying for a license to those claims indirectly through its supplier, Genesis, so Ameranth can no longer have an infringement claim against Commerce. (Opp'n, Dkt. No. 424 at 2.) Commerce counters that in settling the case, Ameranth expressly waived the right to appeal the Court's non-infringement determinations, thus leaving them intact. (Mot. 4.) Thus, in Ameranth's interpretation, Ameranth won the case by extracting a license from Commerce's supplier. In Commerce's interpretation, Commerce won the case by achieving summary judgment of noninfringement, which now cannot be appealed.

Consistent with its interpretation, Commerce filed a proposed judgement in its favor. (Dkt. No. 403.) Ameranth objected to the proposed judgment, arguing that Commerce was not the prevailing party. (Dkt. No. 405.) Commerce filed a reply in support of its proposed judgment. (Dkt. No. 407.) After reviewing those submissions, the Court held that "[t]he parties' submissions do not adequately discuss the disputed issues," and directed Commerce to file a noticed motion if the parties were unable to resolve the matter. (Order Concerning Proposed Judgment, Dkt. No. 409.) In particular, the Court ordered that "the focus of that motion shall be the prevailing party question. The previous filings regarding entry of judgment veered off course into exceptional case issues, which did not assist the Court to decide the issue before it." (*Id.*)

Commerce then filed a Motion for Judgment in its favor, relying on the confidential Ameranth-Genesis settlement agreement, which it sought to file under seal. (Dkt. No. 413.) Because Commerce failed to justify the requested under seal treatment, the Court denied the application for under seal filing. (Dkt. No. 414.) Instead of then seeking to submit additional justification, Commerce withdrew the motion, and filed the present Motion, which did not attach the settlement agreement as an exhibit. (Dkt. No. 416.) But that agreement is now before the Court, because with its Opposition, Ameranth filed an application to file the Ameranth-Genesis settlement agreement

UNITED STATES DISTRICT COURT
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under seal, and adequately justified that treatment. (Dkt. Nos. 420, 421.)

In a twist, co-Defendant Genesis, which shares a lawyer with Commerce—the same lawyer who is litigating this Motion on behalf of Commerce—and which indemnified Commerce for this suit, now takes Ameranth’s side, and argues that the Ameranth-Genesis agreement was intended to settle the suit as to Commerce as well. (Knust Decl., Dkt. No. 423 at ¶ 6; Ameranth-Genesis Agr., Exh. 4, Dkt. No. 423 at 46.)

3. LEGAL STANDARD

In a patent case, “[w]hether a party is prevailing within the meaning of Rule 54 is a matter of Federal Circuit law . . .” *Power Mosfet Techs., L.L.C. v. Siemens AG*, 378 F.3d 1396, 1407 (Fed. Cir. 2004). “[A] plaintiff “prevails” when actual relief on the merits of his claim materially alters the legal relationship between the parties by modifying the defendant’s behavior in a way that directly benefits the plaintiff.” *Manildra Milling Corp. v. Ogilvie Mills, Inc.*, 76 F.3d 1178, 1182 (Fed. Cir. 1996) (quoting *Farrar v. Hobby*, 506 U.S. 103, 111-112 (1992)).

The previously-governing standard was described as follows: “[a] lawsuit sometimes produces voluntary action by the defendant that affords the plaintiff all or some of the relief he sought through a judgment- *e.g.*, a monetary settlement or a change in conduct that redresses the plaintiffs’ grievances. When that occurs, the plaintiff is deemed to have prevailed despite the absence of a formal judgment in his favor.” *Hewitt v. Helms*, 482 U.S. 755, 760-61 (1987). But the Supreme Court later clarified that “[a] defendant’s voluntary change in conduct, although perhaps accomplishing what the plaintiff sought to achieve by the lawsuit, lacks the necessary judicial *imprimatur* on the change. Our precedents thus counsel against holding that the term ‘prevailing party’ authorizes an award of attorney’s fees without a corresponding alteration in the legal relationship of the parties.” *Buckhannon Bd. & Care Home, Inc. v. W. Virginia Dep’t of Health & Human Res.*, 532 U.S. 598, 605 (2001) (emphasis omitted).

“In those cases in which one party wins completely on every claim at issue, determining which party has prevailed is a straightforward task. The inquiry becomes more difficult when each party has some claims adjudicated in its favor.” *Manildra Milling*, 76 F.3d at 1182. When a competitor removes a patentee’s ability to recover for infringement, he “necessarily alters the patentee’s subsequent behavior to his benefit.” *Id.* at 1183.

UNITED STATES DISTRICT COURT
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4. **ANALYSIS**

The parties dispute (1) the relevance of the Ameranth-Commerce settlement of the dealer management claims to the prevailing party determination, and (2) the significance of the Court’s grant of summary judgment in Commerce’s favor given the later Ameranth-Genesis settlement that mooted—through one mechanism or another—any appeal of the grant of summary judgment. The Court addresses each in turn.

4.1 Commerce Paid to License the Dealer Management Claims

Ameranth argues that Commerce’s payment for a license to the dealer management claims shows that Ameranth altered Commerce’s behavior through the litigation, and thus directly prevailed on that portion of the case. (Opp’n 1-2.) Commerce argues that its dealer management license is irrelevant, because Ameranth then filed a Third Amended Complaint limited to the player management claims, which as a matter of law supercedes the earlier Complaints and limits the relevant “case” for the prevailing party analysis to the player management claims. (Mot. 2-3 (citing *Bullen v. De Bretteville*, 239 F. 2d 824, 833 (9th Cir. 1956); *Loux v. Rhay*, 375 F.2d 55, 57 (9th Cir. 1957)(“The amended complaint supersedes the original, the latter being treated thereafter as non-existent.”); *Rhodes v. Robinson*, 621 F.3d 1002, 1005 (9th Cir. 2010) (same)).

Although these cases are central to Commerce’s theory here, Ameranth does not discuss them directly in its Opposition, and instead, only attempts to distinguish them in a footnote lacking citation to legal authority. (Opp’n 10, n.3.) As it happens, in 2012, the Ninth Circuit overruled in part *Bullen*, *Loux*, and similar cases articulating what that court in recent years has referred to as the *Forsyth* rule—after *Forsyth v. Humana, Inc.*, 114 F.3d 1467, 1474 (9th Cir. 1997). *Lacey v. Maricopa Cnty.*, 693 F.3d 896, 925 (9th Cir. 2012) (en banc). “The *Forsyth* rule is premised on the notion that the amended complaint supersedes the original, the latter being treated thereafter as non-existent.” *Id.* (internal citations and quotations omitted). Because the *Forsyth* rule was an outlier, was criticized by leading authorities, and was thought unsound, *Lacey* overruled it in part. *Id.* at 928. *Lacey* held that: “[f]or claims dismissed with prejudice and without leave to amend, we will not require that they be repled in a subsequent amended complaint to preserve them for appeal. But for any claims voluntarily dismissed, we will consider those claims to be

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

CIVIL MINUTES - GENERAL

Case No.	SACV 11-00189 AG (RNBx)	Date	April 22, 2015
Title	AMERANTH, INC. v. GENESIS GAMING SOLUTIONS, INC., et al.		

waived if not replied.” *Id.*

Of course, the claims for infringement of the dealer management patent claims were not dismissed by the Court, but were instead omitted by Ameranth from the Third Amended Complaint—necessarily so, since there was no longer any case or controversy concerning them. Yet, *Lacey* teaches that Courts are not forbidden from examining, and treating differently, the circumstances that lead to claims being omitted from an amended pleading.

But those circumstances do not here impact the prevailing party analysis, although they might be relevant to how the Court exercises its discretion to award fees, if sought. “[P]recedent from both the Supreme Court and the Federal Circuit make clear that for a party to be a prevailing party, that party must win a dispute within the case in favor of it that materially alters the legal relationship between the parties at the time of the judgment.” *Pragmatus Telecom LLC v. Newegg Inc.*, No. CV 12-1533-RGA, 2014 WL 3724138, at *2 (D. Del. July 25, 2014) (citing *Buckhannon*, 532 U.S. at 605-06) (emphasis omitted)). No such dispute was judicially resolved in Ameranth’s favor concerning the dealer management claims. Therefore, the license Commerce took to those dealer management claims cannot prevent Commerce from obtaining prevailing party status on the player management claims.

The Court next turns to whether Commerce is the prevailing party on the player management claims.

4.2 Summary Judgment to Commerce on the Player Management Claims

4.2.1 *Whether Genesis Settled the Case for Commerce*

The Court granted summary judgment of noninfringement to Commerce on the player management claims. (Dkt. No. 197.) Ameranth emphasizes that before any final judgment was entered, Genesis, which supplies Commerce, entered into a license covering the player management claims, and that Commerce is a third-party beneficiary of that license, so should be bound by Ameranth and Genesis’s stipulation that neither was a prevailing party. (Opp’n 2.) Ameranth also emphasizes that Genesis indemnified Commerce in this case. (Opp’n 3, n.1.) But, it is unclear why Ameranth believes that Commerce is less of a prevailing party because Commerce did not pay out of pocket for its defense.

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

CIVIL MINUTES - GENERAL

Case No.	SACV 11-00189 AG (RNBx)	Date	April 22, 2015
Title	AMERANTH, INC. v. GENESIS GAMING SOLUTIONS, INC., et al.		

Further, Ameranth highlights the support Genesis—Commerce’s co-defendant, supplier, and indemnitor—now gives to Ameranth’s position. (Opp’n 3, 8.) In a declaration submitted in support of Ameranth’s Opposition, Genesis’s CEO states:

It was my understanding, and Genesis’s intent, to not only resolve the lawsuit as to Genesis through the Settlement and License Agreement, but also to resolve the lawsuit as to Commerce. Based on the terms of the indemnity arrangement with Commerce, Genesis had the power to “compromise and settle” the Ameranth litigation, and that is what Genesis understood it had done.

(Knust Decl. ¶ 8.) This declaration, and Commerce’s response to it, raise certain issues outside of the scope of this Motion. This Order addresses neither (1) the potential conflict on Commerce’s counsel’s part suggested by this declaration, nor (2) Commerce’s suggestion that Ameranth’s counsel violated California Rule of Professional Conduct 2-100 by obtaining this statement without permission from Commerce/Genesis’s counsel. (Reply at 3-4, n.1.)

Turning to the substance of Genesis’s CEO’s statement, although the Genesis-Commerce Purchase Agreement indeed states that Commerce will notify Genesis of any patent claims arising from the use of Genesis’s products, and will “give [Genesis] reasonable assistance and authority to assume the defense of any such suits through its own counsel and to compromise or settle any such suits.” (Genesis-Commerce Purchase Agr., Exh. 1, Dkt. No. 423 at ¶ 13). But Genesis did not exercise this authority in the Ameranth-Genesis settlement. That could have been a simple step to take, but Genesis did not take it.

Under California law, which governs the purchase agreement (*id.* at ¶ 15(a)), Genesis’s CEO’s “intent,” untethered from the text of the settlement agreement, cannot have settled Commerce’s claims, even if Ameranth’s CEO had the same intent. “[T]he parties’ expressed objective intent, not their unexpressed subjective intent, governs.” *In re Tobacco Cases I*, 186 Cal. App. 4th 42, 47 (2010) (quoting *Vaillette v. Fireman’s Fund Ins. Co.*, 18 Cal. App. 4th 680, 686 (1993)); *see also Winet v. Price*, 4 Cal. App. 4th 1159, 1166 n.3 (1992) (citing *Brant v. Cal. Dairies, Inc.* 4 Cal.2d 128, 133 (1935) (“[E]vidence of the undisclosed subjective intent of the parties is irrelevant to determining the meaning of contractual language.”)).

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

CIVIL MINUTES - GENERAL

Case No.	SACV 11-00189 AG (RNBx)	Date	April 22, 2015
Title	AMERANTH, INC. v. GENESIS GAMING SOLUTIONS, INC., et al.		

Whether Genesis could now settle Commerce's claims is a question not before the Court. Genesis did not do so in the materials presented.

4.2.2 *Why Ameranth Will Not Appeal the Summary Judgment of Noninfringement*

After Commerce obtained summary judgment of noninfringement, it entered into a settlement with Genesis where it "waive[d] all right to appeal the summary judgment determinations with respect to the '650 and '969 Patents." (Jt. Stip. for Dismissal at ¶ 5.) Thus, Commerce argues that it is entitled to a final judgment of noninfringement because Ameranth has waived its right to appeal the summary judgment order. (Mot. 4.) Ameranth responds that (1) the reason it cannot appeal is that Commerce's use of Genesis's system is now licensed (Opp'n at 2), and (2) Commerce cannot hold Ameranth to an appeal waiver in the Ameranth-Genesis settlement while refusing to be bound by that settlement's dismissal of all claims and agreement that there would be no "prevailing party." (*Id.* at 16.)

The claims at issue here are moot both because (1) Ameranth has waived the right to appeal, and (2) the infringement allegations against Commerce arose entirely out of Commerce's use of Genesis's products, and Genesis has now obtained a license from Ameranth that covers Commerce's use of those products. The question is whether that mootness prevents the Court from holding that Commerce is the prevailing party.

It does not. Mid-case mootness does not necessarily prevent a prevailing party determination. Where patentees unilaterally dismiss cases after adverse findings, or move to dismiss them after granting a covenant not to sue, the accused infringer is the prevailing party. *See, e.g. Power Mosfet*, 378 F.3d at 1416; *Highway Equip. Co., Inc. v. FECCO, Ltd.*, 469 F.3d 1027, 1035 (Fed. Cir. 2006). It is true that Ameranth might have waived its right to appeal because it believed the case was moot, rather than having created the mootness because it believed it was going to lose. Yet, it left untouched the Court's finding that Commerce does not infringe. While the result is a dismissal with prejudice, "[t]he dismissal of a claim with prejudice . . . is a judgment on the merits under the law of the Federal Circuit." *Power Mosfet*, 378 F.3d at 1416.

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

CIVIL MINUTES - GENERAL

Case No.	SACV 11-00189 AG (RNBx)	Date	April 22, 2015
Title	AMERANTH, INC. v. GENESIS GAMING SOLUTIONS, INC., et al.		

In *Pragmatus*, the district court declined to find the defendant a prevailing party where the plaintiff moved to dismiss the case as moot after it licensed the defendant's supplier, and hence also licensed the defendant. 2014 WL 3724138, at *2-3. But *Pragmatus* specifically distinguished *Power Mosfet* and *Highway Equip. Co.*, noting that in *Pragmatus*, the court had not made any "finding regarding any substantive issue in the case," and had "not construed any terms, resolved a contested motion to dismiss, or resolved any motions for summary judgment." *Id.* at *2.

This case is similar to *Pragmatus* in that the license at issue is for real money, and not a token license, but different in that the license came after substantive rulings in the case. Thus, the statement in *Pragmatus* "that it cannot be correct that a party can benefit from a bona fide license agreement, obtained after the litigation began, and claim to be the prevailing party, without a single substantial court decision that favors that party," *id.* at *3, does not directly apply to the facts of this case. Here, Commerce obtained substantial court decisions in its favor. In such circumstances, the dismissal of a case as moot does not prevent a finding that the defendant prevailed. See *Monolithic Power Sys., Inc. v. O2 Micro Int'l Ltd.*, 726 F.3d 1359, 1369 (Fed. Cir. 2013) *cert. denied*, 134 S. Ct. 1546 (2014) (affirming award of exceptional case fees after patentee rendered case moot by granting a covenant not to sue).

Commerce is therefore the prevailing party.

5. COSTS

"Unless a federal statute, these rules, or a court order provides otherwise, costs--other than attorney's fees--should be allowed to the prevailing party." Fed. R. Civ. P. 54(d)(1). But Ameranth argues that Commerce is contractually prohibited from the recovery of costs because it is a third-party beneficiary to the Ameranth-Genesis settlement agreement, and that "[w]hen [a] plaintiff seeks to secure benefits under a contract as to which he is a third-party beneficiary, he must take that contract as he finds it [T]he third party cannot select the parts favorable to him and reject those unfavorable to him." (Opp'n 15 (quoting *Marina Tenants Ass'n v. Deauville Marina Dev. Co.*, 181 Cal. App. 3d 122, 132 (1986).)

But here, Commerce is not seeking to secure a benefit under the Ameranth-Genesis settlement agreement. It asserts no contract claim. Instead, Commerce relies on Ameranth's appeal waiver. That waiver resulted from the

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

CIVIL MINUTES - GENERAL

Case No.	SACV 11-00189 AG (RNBx)	Date	April 22, 2015
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settlement agreement, but now stands on its own. Ameranth cites no authority for the proposition that in the context of an ongoing litigation, the plaintiff can deprive a defendant of the ability to seek costs by settling with another defendant, even when that settlement moots the case as to the non-settling defendant.

Commerce is thus entitled to costs as the prevailing party.

6. DISPOSITION

Ameranth's claims against Commerce are DISMISSED WITH PREJUDICE. Commerce's counterclaims are DISMISSED WITHOUT PREJUDICE. Commerce shall recover its taxable costs. A separate Judgment will issue forthwith.

IT IS SO ORDERED.

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