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When Winning Isn't Prevailing—the Federal Circuit Explains

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When is the winning party not the prevailing party? Well, it depends. In the last two weeks, the U.S. Court of Appeals for the Federal Circuit decided two cases with very similar facts that presented that very question. In both cases, a party successfully invalidated an accuser's patent through proceedings in the U.S. Patent and Trademark Office ("PTO"). In both cases, that PTO proceeding meant the accused party had avoided liability and, by any common-sense measure, prevailed over the accuser who no longer had a valid patent to enforce. Both winning parties asked for attorneys' fees available to a "prevailing party" under the relevant section of the Patent Act, 35 U.S.C. § 285. Due to a procedural distinction in the cases (and perhaps a savvy preemptive maneuver by one of the losing patent holders), only one of those winning parties was a "prevailing party."

The two cases are *O.F. Mossberg & Sons, Inc. v. Timney Triggers, LLC,* __ F.3d __, Case No. 2019-1134, 2020 WL 1845302 (Fed. Cir. Apr. 13, 2020) ("*Mossberg*") and *Dragon Intellectual Prop., LLC v. DISH Network LLC*, __ F.3d __, Case Nos. 2019-1283, 1284, 2020 WL 1921540 (Fed. Cir. Apr. 21, 2020) ("*Dragon*"). In *Mossberg*, patent holder, O.F. Mossberg & Sons, Inc. sued the accused party, Timney Triggers, LLC for patent infringement. Timney responded by filing a series of proceedings in the PTO seeking to invalidate the Mossberg patent, during which time the district court stayed the proceedings. *Mossberg*, 2020 WL 1845302, at *1. Ultimately, the PTO invalidated all of the active claims of Mossberg's patent. *Id*. With no patent claims left with which to pursue its infringement case against Timney, and without the stay being lifted, Mossberg filed a notice of voluntary dismissal under Federal Rule of Civil Procedure 41(a)(1)(A)(i). *Id*. The next day, the court dismissed the case without prejudice under the Rule. *Id.* Having won the case—at least in the sense that Timney was now and forever free of liability under the now-invalid patent—Timney sought attorneys' fees as the prevailing party. *Id.* The district court denied fees, and Timney appealed.

In *Dragon*, Dragon Intellectual Property, LLC sued DISH Network LLC and several other defendants for patent infringement. Similarly to *Mossberg*, DISH (and one other defendant) instituted a proceeding in the PTO to review Dragon's patent. *Dragon*, 2020 WL 1921540, at *1. The district court stayed the proceedings as to DISH and the other defendant that had filed the PTO proceeding, but proceeded to conduct claim construction[1] as to the remaining defendants. *Id*. The district court issued its claim construction, and based on that claim construction, it became clear that the defendants did not infringe the patents. As a result, Dragon and all defendants (including DISH) stipulated to noninfringement, and the district court lifted the stay and entered a judgment of noninfringement. *Id*. Within a couple of months, the PTO issued its decision that all the claims of the patent were invalid. *Id*. Dragon appealed both the district court's claim construction order (which, had it prevailed, would have led to vacating the stipulation of noninfringement and revived the infringement case) and the PTO's decision. *Id*. The Federal Circuit affirmed the PTO's invalidation of all claims and dismissed the parallel appeal of the district court's decision as moot. *Id*. (citing *Dragon Intellectual Prop., LLC v. DISH Network LLC, 711* F. App'x 993, 998 (Fed. Cir. 2017) and *Dragon Intellectual Prop., LLC v. DISH Network LLC, 700 F.* App'x 1005, 1006 (Fed. Cir. 2017)). On remand, the district court vacated the noninfringement judgment as moot. *Id*. DISH then moved for attorneys' fees as the prevailing party under 35 U.S.C. § 285. The district court denied fees, stating that because it had prevailed in a different forum, *i.e.*, the PTO, it was not a "prevailing party." *Id.* DISH appealed.

1 "Claim construction" is a typical, often intermediate step in patent litigation in which the court determines what disputed language in the patent means as a matter of law. Once the claims are construed, that construction is used by the fact-finder (e.g., the jury) to determine the question of infringement by comparing the claims (as defined by the court) to the accused product.

The cases presented similar circumstances: a patent held invalid by the PTO while a district court case was stayed, and no actual judgment of noninfringement or invalidity by the district court (because in *Dragon* that judgment had been vacated as moot). In both cases, the winning party, *i.e*., the party that had successfully defended against the patent infringement claim, sought attorneys' fees as the prevailing party. From a practical standpoint, both cases presented the identical justification for awarding fees—there was, after all, a clear winner—or not, as neither party had actually prevailed in the district court proceeding.

The Federal Circuit, however, did not see the two cases as the same. It denied attorneys' fees to Timney in *Mossberg*, but allowed them to DISH in *Dragon*. Why?

It makes sense to begin with *Dragon*, because in that case the Federal Circuit applied a straightforward line of reasoning to reach the seemingly obvious conclusion: as the winning party, DISH was also the "prevailing party." The Court began by noting that a defendant can be a prevailing party even when a case is dismissed on procedural grounds. The Court reasoned:

> Appellants succeeded in invalidating the asserted claims before the [PTO]. After we affirmed the [PTO]'s decision, the district court vacated the judgment of noninfringement as moot. Therefore … Appellants successfully rebuffed Dragon's attempt to alter the parties' legal relationship in an infringement suit.

Id. at *2 (citations omitted). Dragon attempted to argue that because the noninfringement decision was vacated as moot, there was no actual judgment on which it prevailed. The Court disagreed, saying that argument "elevates form over substance" and was inconsistent with precedent finding procedural wins may also give rise to "prevailing party" status. *Id.* at *3. The Court concluded, "If anything, Appellants' success in obtaining a judgment of noninfringement, although later vacated in view of Appellants' success in invalidating the asserted claims, further supports holding that they are prevailing parties." *Id.* The Court vacated the judgment and remanded the case to the district court to consider an award of attorneys' fees under 35 U.S.C. § 285. *Id.*

One would have thought the same reasoning would apply in *Mossberg*, but there the Federal Circuit found a significant procedural impediment to Timney's request to be the prevailing party. The problem was this: because the stay had never been lifted and Mossberg had voluntarily dismissed the case, there was no final decision. While Timney argued that, by all accounts, it was the prevailing party, the Court found that argument put the cart before the horse. *Mossberg*, 2020 WL 1845302, at *2-3. Instead, the Court held that a voluntary dismissal entered during a stay is fundamentally different from, for example, a dismissal for mootness. *Id.* The Court explained, "the issue here is not whether there was a final decision on the merits. It is whether there was a final decision at all." *Id.* *3. Instead, because a "voluntary dismissal becomes effective immediately upon plaintiff's filing of the notice of dismissal," there was no final decision in the case. *Id.* Meanwhile, the stay "remained in place while the parties determined the patent's validity in a separate venue…[a]nd the stay did not change the legal relationship between the parties," even if it was extended over and over again during the PTO proceedings. *Id.* "A stay, standing alone, is simply not a final court decision capable of establishing the judicial *imprimatur* required for a litigant to emerge as the prevailing party under § 285." *Id.* Thus, although the end result was identical to that in *Dragon*, and the relationship between the parties at the conclusion of the proceedings were identical, Timney ended up out of luck.

The two cases tell a cautionary tale. Whether knowingly or not, Mossberg avoided exposure to attorneys' fees by filing a voluntary dismissal before the district court could lift the stay. That tactic could carry enormous weight as precedent. By statute, once the most common types of post-grant proceedings are begun in the PTO, the district court is *required* to issue a stay. 35 U.S.C. § 315(a)(2) (requiring a stay in *inter partes* review proceedings). A party that loses in the PTO is counseled to immediately file a voluntary dismissal under Rule 41 *before* the stay is lifted. Patent holders whose patents are under review in the PTO should avoid stipulating to any entry of judgment or lifting of the stay.

Parties challenging those patents in the PTO may be left without recourse, at least under 35 U.S.C. § 285.[2] While a party that prevails in the PTO may rush to the district court with a request to lift the stay, as the Federal Circuit noted in *Mossberg*, "[a] properly filed Rule 41(a)(1)(A)(i) voluntary dismissal becomes effective *immediately upon plaintiff's filing* of the notice of dismissal." *Mossberg*, 2020 WL 1845302, at *3. Thus, unless the district court is quite literally waiting by the phone to lift the stay, the defendant will almost always lose the race.

Patent litigation is complicated, and mastery of civil procedure is necessary to maximize a party's rights. For advice and counsel about how best to leverage patent assets, or to defend patent infringement claims, contact Vedder Price

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2 A party can recover fees for litigation misconduct under 28 U.S.C. § 1927, but those kinds of recoveries are rare and may not be comparable to an attorneys' fee award under 35 U.S.C. § 285.