

Case Nos. 2019-1283, -1284

**UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT**

DRAGON INTELLECTUAL PROPERTY, LLC,
Plaintiff-Appellee

v.

DISH NETWORK LLC,
Defendant-Appellant

v.

**ROBERT E. FREITAS, FREITAS & WEINBERG
LLP, JASON S. ANGELL**
Respondents-Appellees.

2019-1283

Appeal from the United States District Court for the
District of Delaware in No. 1:13-cv-02066-RGA, Judge
Richard G. Andrews.

DRAGON INTELLECTUAL PROPERTY, LLC
Plaintiff-Appellee

v.

SIRIUS XM RADIO INC.,
Defendant-Appellant

v.

**JASON S. ANGELL, ROBERT E. FREITAS,
FREITAS & WEINBERG LLP**

Respondents-Appellees.

2019-1284

Appeal from the United States District Court for the
District of Delaware in No. 1:13-cv-02067-RGA, Judge
Richard G. Andrews.

**CORRECTED BRIEF OF AMICUS CURIAE ELECTRONIC FRONTIER
FOUNDATION IN SUPPORT OF APPELLANT**

Alexandra H. Moss
ELECTRONIC FRONTIER FOUNDATION
815 Eddy Street
San Francisco, CA 94109-7701
Tel: (415) 436-9333
Fax: (415) 436-9993
alex@eff.org

*Attorneys for Amicus Curiae
Electronic Frontier Foundation*

February 19, 2019

CERTIFICATE OF INTEREST

Pursuant to Federal Circuit Rules 29(a) and 47.4, counsel for *amicus curiae* certifies that:

1. The full name of the amicus I represent is:

Electronic Frontier Foundation
2. The name of the real party in interest (if the party named in the caption is not the real party in interest) I represent is: N/A
3. All parent corporations and any publicly held companies that own 10 percent or more of the stock of the amicus curiae I represent are: None.
4. The names of all law firms and the partners or associates that appeared for the amicus I represent or are expected to appear in this Court are:

Alexandra Moss, Electronic Frontier Foundation, San Francisco, California.
5. The title and number of any case known to counsel to be pending in this or any other court or agency that will directly affect or be directly affected by this court's decision in the pending appeal: None.

February 14, 2019

 /s/ Alexandra H. Moss
Alexandra H. Moss
Attorney for Amicus Curiae
Electronic Frontier Foundation

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STATEMENT OF IDENTITY AND INTEREST OF AMICUS CURIAE

The Electronic Frontier Foundation (“EFF”) is a non-profit civil liberties organization that has worked for 28 years to protect consumer interests, innovation, and free expression in the digital world. EFF and its more than 39,000 active members have a strong interest in helping the courts and policymakers ensure intellectual property law serves the public interest. As part of its mission, EFF has often served as amicus in key patent cases, including: *Alice Corp. Pty. Ltd. v. CLS Bank*, 573 U.S. 208 (2014); 717 F.3d 1269 (Fed. Cir. 2013); *Ultramercial, LLC v. Wildtangent, Inc.*, 566 U.S. 1007 (2012); 772 F.3d 709 (Fed. Cir.); *Nautilus, Inc. v. Biosig Instruments, Inc.*, 572 U.S. 898 (2014); *ClearCorrect Operating, LLC v. ITC*, 810 F.3d 1283 (Fed. Cir. 2015); *Williamson v. Citrix Online, LLC*, 792 F.3d 1339 (Fed. Cir. 2017).

This brief is respectfully submitted pursuant to Rule 29(a) of the Federal Rules of Appellate Procedure and Rule 29 of the Federal Circuit Rules of Practice. Pursuant to Federal Rule of Appellate Procedure 29(a), *amicus* certifies that no counsel for a party authored this brief in whole or in part; that no person or entity, other than *amicus*, its members, or its counsel, made a monetary contribution to the preparation or submission of this brief; and that all parties have consented to the filing of this brief.

INTRODUCTION AND SUMMARY OF ARGUMENT

The District Court’s decision is as contrary to law as it is to common sense. When one party successfully proves non-infringement in district court and invalidity at the Patent Office, it is the prevailing party under 35 U.S.C. § 285 as long as its adversary wins no relief from either judgment on appeal. If the appellant here litigated invalidity and non-infringement in district court, this Court’s affirmance of the invalidity judgment would not vitiate its status as the prevailing party with respect to infringement. The same should be true when a party decides to litigate validity before the Patent Trial Appeal Board (“PTAB”) instead of a district court.

That conclusion follows from this Court’s precedent and that of the Supreme Court, which make a material alteration in the legal relationship of the parties—not the form of judgment—the touchstone of the prevailing party inquiry. Although the District Court paid lip service to the applicable standard, nothing in its decision indicates its actual application to the facts of this case. Instead of considering the effect of its summary judgment on the parties’ legal relationship, the District Court focused exclusively on the effect of this Court’s ruling on its prior judgment. The District Court was wrong to ignore the relief appellants actually obtained at summary judgment and maintained at the conclusion of both appeals.

The Supreme Court and this Court have both held that a party prevails for purposes of a fee award by obtaining judicially-sanctioned action that materially alters the legal relationship of the parties, thus providing some relief. Consistent with that rule, the overwhelming majority of regional circuit courts have held that a party is still the prevailing party when intervening events moot their victory and require vacatur on appeal. That is so even when the event is *not* the party's own success in a parallel and closely-related proceeding, as it was here. Adopting the District Court's contrary approach will therefore create a circuit split based on a *sui generis* rule for patent cases. Once adopted, restoring inter-circuit uniformity will require this Court's *en banc* consideration or Supreme Court review.

The approach that ensures consistency is also the one that aligns with and effectuates the goals underlying the post-grant review provisions of the America Invents Act ("AIA"). Congress's reasons for creating PTAB proceedings confirm that a challenger's success before the PTAB must not negate its success proving non-infringement in district court. Congress included these provisions in the AIA as part of its response to overwhelming public concern about meritless patent cases clogging district court dockets and draining resources that could go to technological and economic growth instead of litigation. Reexamination proceedings were available before the AIA, but they had failed to provide a

meaningful alternative to district court litigation on validity issues. For that reason, Congress created new post-grant review proceedings before the PTAB in the hope that they would be used as the appellant here did: to get validity issues decided more cheaply and quickly than district court litigation allows.

If approved, the approach taken here will erode the AIA's structural mechanisms for encouraging PTAB challenges and discouraging unnecessary district court litigation. Those wrongly-accused of infringement will have to decide whether to seek PTAB review at the expense of potential fee awards in pending infringement litigation, however successful their claims and egregious their adversary's conduct. Defendants with the strongest invalidity positions will feel the most pressure to litigate in district court to retain the possibility of fee awards and extra leverage that possibility provides. At the same time, the owners of dubious patents—those the PTAB decides to review—will have the least reason to fear fees under section 285 in pending cases even if they would qualify as exceptional.

EFF and its community know firsthand how important fee-shifting in patent cases can be. Without that possibility, many individuals and small businesses with invalidity or non-infringement defenses, but without the means to cover the staggering cost of litigating a patent case from discovery through trial, will find it even harder to retain qualified counsel. Fee awards must remain

available in cases mooted due to invalidity to ensure adequate incentives for defensive litigation remain. Otherwise, even those defendants who choose not to initiate post-grant review will face greater risk because of the possibility that another party's appeal will vitiate the significance of relief already won.

I. THE DISTRICT COURT'S PREVAILING PARTY ANALYSIS CONTRAVENES SUPREME COURT AND FEDERAL CIRCUIT PRECEDENT.

A. Supreme Court Precedent Requires a Material Alteration of the Parties' Legal Relationship for Prevailing Party Status—Not a Final Judgment Ordering Relief.

According to the Supreme Court, “[t]he touchstone of the prevailing party inquiry must be the *material alteration* of the legal relationship of the parties in a manner which Congress sought to promote in the fee statute.” *Texas State Teachers Ass’n v. Garland Indep. Sch. Dist.*, 489 U.S. 782, 792–93 (1989) (emphasis added). This alteration does not require a final judgment or formal relief: “enforceable judgments on the merits and court-ordered consent decrees create the ‘material alteration of the legal relationship of the parties’ necessary to permit an award of attorney’s fees.” *Buckhannon Bd. & Care Home, Inc. v. W. Virginia Dep’t of Health & Human Res.*, 532 U.S. 598, 604 (2001) (citations omitted).

The District Court invoked this standard, but nothing in its opinion indicates it actually considered the material circumstances of the parties. Instead, it assumed appellants needed the District Court to issue a formal judgment

ordering relief to prevail. Not so.

That is the type of overly formalistic approach the Court rejected in *CRST Van Expedited, Inc. v. E.E.O.C.*, 136 S. Ct. 1642 (2016), holding “that a defendant need not obtain a favorable judgment on the merits in order to be a ‘prevailing party.’” *Id.* at 1651. What the Court made explicit in *CRST* follows directly from its consistent recognition in earlier cases that a party may “prevail” by obtaining relief other than a merits judgment. *See, e.g., Hanrahan v. Hampton*, 446 U.S. 754, 756–57 (1980) (“[P]arties may be considered to have prevailed when they vindicate rights through a consent judgment or without formally obtaining relief.”); *Hewitt v. Helms*, 482 U.S. 755, 759–60 (1987) (recognizing the possibility of qualifying “relief without benefit of a formal judgment—for example, through a consent decree or settlement”) (citing *Maher v. Gagne*, 448 U.S. 122, 129 (1980) (holding that party prevailed on the basis of settlement and consent decree). According to *Hanrahan*, a party need only “establish[] his entitlement to some relief on the merits of his claims, *either in the trial court or on appeal*” to prevail. *Id.* at 757 (emphasis added).

The District Court’s misplaced focus on the form of its judgment led it to ignore the relief appellants actually obtained: termination of the infringement suit against them and freedom from such liability in the future.

B. Under this Court’s Precedent, a Defendant Who Wins Dismissal of an Infringement Suit by Proving Invalidity at the Patent Office Is the Prevailing Party.

Consistent with the Supreme Court, this Court has repeatedly held that parties can qualify as prevailing parties without obtaining a final judgment on the merits or formal relief from a court. For example, in *Highway Equip. Co. v. FECO, Ltd.*, this Court held that a dismissal with prejudice based on a stipulation between the parties, accompanied by a covenant not to sue, “constitute[s] a judicially sanctioned change in the legal relationship of the parties, such that the district court properly could entertain [the defendant’s] fee claim under 35 U.S.C. § 285.” 469 F.3d 1027, 1035 (Fed. Cir. 2006) (citing *Power Mosfet Techs., L.L.C. v. Siemens AG*, 378 F.3d 1396, 1416 (Fed. Cir. 2004)).

Of particular relevance, this Court has held that a defendant can qualify as a prevailing party under section 285 even though it has “prevailed on the issue of invalidity in a different forum.” See *Inland Steel Co. v. LTV Steel Co.*, 364 F.3d 1318, 1320 (Fed. Cir. 2004), *abrogated on other grounds by Raniere v. Microsoft Corp.*, 887 F.3d 1298 (Fed. Cir. 2018).¹ In *Inland Steel*, this Court

¹ To the extent this Court’s decision in *Raniere* abrogated *Inland Steel*, it only did so by making crystal clear that “defendants need not prevail on the merits to be classified as a ‘prevailing party.’” *Raniere*, 887 F.3d at 1306 (holding that winning dismissal for lack of standing qualifies party as prevailing under § 285).

held that a party prevails in district court litigation when it obtains dismissal based on its successful invalidation of the underlying patent in Patent Office proceedings. As it explained, a dismissal of the case under these circumstances “would have res judicata effect . . . in the future with respect to the patent claims that were at issue in the district court case.” *Id.*

The same is true here: the dismissal of the infringement suit due to invalidity precludes future litigation between the parties with respect to that patent. This Court should confirm that *Inland Steel* remains good law and classify appellants as prevailing parties by applying the same rationale here.

II. ADOPTING THE DISTRICT COURT’S APPROACH WILL CREATE A CIRCUIT SPLIT BECAUSE MOST REGIONAL CIRCUIT COURTS CLASSIFY PARTIES AS “PREVAILING” DESPITE MOOTNESS AND VACATUR ON APPEAL.

To the extent this Court has not decided whether mootness on appeal precludes fee awards, the overwhelming majority of regional circuit courts have decided it does not. *See, e.g., Diffenderfer v. Gomez-Colon*, 587 F.3d 445, 454 (1st Cir. 2009) (Plaintiff was prevailing party even when the enactment of new ballot requirements mooted the action on appeal); *Kirk v. New York State Dep’t of Educ.*, 644 F.3d 134, 138-139 (2d Cir. 2011) (Mootness and vacatur did not preclude a party from prevailing where “no court overturned [the] favorable judgment on the merits or rejected the legal premise of the district court’s decision,” and it retained the relief “obtained as a consequence of the

judgment.”); *Bagby v. Beal*, 606 F.2d 411, 415 (3rd Cir. 1979) (Party prevailed where “[t]he district court found in her favor and ordered that she be afforded a hearing” such that “[s]he already has received this hearing and no action taken by this court can change the fact that she has ‘accomplished the objectives of (her) litigation.’”) (citation omitted); *Doe v. Marshall*, 622 F.2d 118, 120 (5th Cir. 1980) (Party was entitled to fee award as the prevailing party despite mootness and vacatur because he “obtain[ed] the primary relief sought.”); *Palmetto Properties, Inc. v. Cty. of DuPage*, 375 F.3d 542, 549-550 (7th Cir. 2004) (Party that won partial summary judgment entitled to fee award even though case became moot before entry of final judgment.); *Kimbrough v. Arkansas Activities Ass’n*, 574 F.2d 423, 426 (8th Cir. 1978) (Party prevailed even though case was dismissed without prejudice because it had obtained relief prior to dismissal during the relevant time period.); *Williams v. Alioto*, 625 F.2d 845, 847–48 (9th Cir. 1980); *Dahlem by Dahlem v. Bd. of Educ. of Denver Pub. Sch.*, 901 F.2d 1508, 1512 (10th Cir. 1990) (“We are in accord with the courts which have held that a party which achieves the objective of its suit by means of an injunction issued by the district court is a prevailing party in that court, notwithstanding the fact that the case becomes moot, through no acquiescence by the defendant, while the order is on appeal.”); *Grano v. Barry*, 783 F.2d 1104, 1109 (D.C. Cir. 1986) (“The parties cross-motined for summary

judgment and the District Court's ruling in favor of the plaintiffs was based on its recognition of a constitutional right to vote in a pending initiative. The mootness of the subsequent appeal of that holding following the actual election and the passage of the initiative, emphasizes, rather than detracts from, the practical substance of their victory.”).

In *Williams v. Alioto*, 625 F.2d 845 (9th Cir. 1980), the plaintiff sought declarative and injunctive relief against unconstitutional police investigative practices. While the injunction was pending on appeal by the defendants, the challenged practices stopped because the police apprehended the criminals that they were targeting. Consequently, the Ninth Circuit dismissed the appeal as moot and vacated the district court's order. *See id.* at 847. On remand, the district court awarded fees, and the defendants appealed, arguing that “because th[e] court dismissed as moot the appeal from the grant of the preliminary injunction, the [plaintiffs] were not “prevailing parties.”” *Id.* The Ninth Circuit rejected that argument, explaining: “Our previous dismissal of the appeal as moot and vacation of the district court judgment does not affect the fact that for the pertinent time period appellees obtained the desired relief, upon findings by the district court that the original guidelines were unconstitutional.” *Id.* at 847-48.

Litigants in most circuits qualify as prevailing parties based on the practical relief they obtain in the course of a litigation, not the form of the district court's judgment at the end. As the Third Circuit has explained, “[t]he test focuses on the relief actually obtained,” not the form of judgment. *Institutionalized Juveniles v. Sec’y of Pub. Welfare*, 758 F.2d 897, 911–12 (3d Cir. 1985). That means “a plaintiff may be a prevailing party even though judgment was actually awarded in favor of the defendant.” *Id.* (citing *Ross v. Horn*, 598 F.2d at 1322 (3d Cir. 1979) (“In assessing who is a prevailing party, we look to the substance of the litigation's outcome,” and “refuse to given conclusive weight to the form of the judgment.”)).

Because appellants obtained the relief they sought—termination of the infringement suit against them—they should qualify as prevailing parties here too. In every practical sense, appellants prevailed. In the district court, they obtained the relief they sought: freedom from liability in connection with the patent-in-suit. This Court's affirmance of the PTAB's invalidity decision mooted the infringement suit, but left intact the freedom from liability appellants had already won. A party's own success should not prevent them from prevailing. Nor should the form of final judgment obscure the practical outcome of an entire litigation. To hold otherwise would produce absurd results, as in this case, and an unnecessary circuit split.

III. A RULE AGAINST FEES IN MOOT CASES WOULD UNDERMINE THE PUBLIC'S INTEREST IN ENCOURAGING MERITORIOUS PTAB CHALLENGES AND DISCOURAGING MERITLESS PATENT LITIGATION.

A rule against fees in cases that become moot due to parallel PTAB proceedings does violence to Congress's reasons for creating those proceedings as part of the AIA.

The AIA was a response to “concerns heard in Congress that questionable patents are too easily obtained and too difficult to challenge.” 157 Cong. Rec. S.128-02, S131 (daily ed. Jan. 25, 2011) (statement of Sen. Leahy). To address these concerns, Congress created post-grant review proceedings as a mechanism for “improving patent quality and providing a more efficient system for challenging patents that should not have issued.” H.R. Rep. No. 112-98, pt. 1, at 39-40 (2011). These new proceedings were specifically intended to be “quick and cost effective alternatives to litigation,” and thus to improve upon pre-existing inter partes reexamination proceedings. *Id.* at 48. Despite repeated attempts at amendment, reexamination had remained “a much less favored avenue to challenge questionable patents than litigation.” *Id.* at 45. To ensure PTAB proceedings did not suffer the same fate, Congress explicitly “intended to remove current disincentives to current administrative processes” with the enactment of the AIA. *Id.* at 48.

To date, PTAB proceedings have been an overwhelming success at

achieving the AIA's goals. The number of patent infringement complaints filed in district court has dropped by about 45% since 2013. Dennis Crouch, *District Court Patent Litigation Way Down*, Patently-O (Dec. 3, 2018), <https://patentlyo.com/patent/2018/12/district-patent-litigation.html>. Meanwhile, the median costs of litigating patent cases has decreased—for example, the cost of litigating a patent infringement case with \$1 million to \$10 million at stake declined 47 percent from 2015 to \$1.7 million in 2017. Malathi Nayak, *Cost of Patent Infringement Falling Sharply*, Bloomberg BNA, (Aug. 10, 2017) <https://www.bna.com/cost-patent-infringement-n73014463011/> (citing the American Intellectual Property Law Association's "2017 Report of the Economic Survey.")

These results are encouraging, but they do not capture in full the potential benefits the AIA is structured to achieve. Because AIA proceedings “can be used to challenge only a patent’s validity, they focus litigation resources on the issues that are most likely to confer a public benefit for competition.” Stephen Yelderman, *Do Patent Challenges Increase Competition?*, 83 U. Chi. L. Rev. 1943, 2004 (2016). Over time, the expectation of post-grant review can encourage improvements in the quality and clarity of patent applications. Because “revoking an undeserved patent through a postgrant process can reduce future prospective inventors’ expectations that they will someday receive a

patent undeservedly,” the result is a “reduction in the perceived false-positive rate,” which “can in turn increase marginal rewards for inventing and disclosing in the future.” Stephen Yelderman, *The Value of Accuracy in the Patent System*, 84 U. Chi. L. Rev. 1217, 1283 (2017).

In other words, while we are seeing the AIA’s effects on district court litigation already, its mechanisms for improving patent quality have only begun to take root. They should be able to achieve their full effect without the introduction of disincentives that Congress did not create and could not have intended.

If success at the PTAB precludes fees for parties that have already prevailed in district court, the incentive structure for patent litigants on both sides will change drastically. Potential defendants will have reason to litigate validity issues in district court: preserving the possibility of a fee award as well as the additional negotiating leverage that possibility brings. Perversely, that incentive will be strongest for those with the strongest invalidity positions. Defendants without deep pockets will become even more vulnerable because the likelihood of obtaining a fee award, even in an exceptional case, will decrease if mootness on appeal can erase all traces of victory in district court, however egregious or baseless their adversary’s conduct and position. Yet defendants in pending cases will not be able to invoke the AIA’s stay provisions based on

post-grant proceedings they did not initiate.

At the same time, patent owners will be safe from fee awards under section 285 once the PTAB institutes post-grant review. If the PTAB invalidates a patent, any adverse judgment pending on appeal will be vacated, and fees precluded on that basis. On the other hand, if the PTAB sustains a patent, the owner will only have enhanced its leverage in any pending cases. The institution of post-grant review will thus diminish section 285's ability to deter those who own patents of dubious quality from initiating or prolonging even exceptionally meritless litigation. It is hard to imagine a result more inimical to the purpose of the AIA and the public concerns that spurred its enactment.

CONCLUSION

For the foregoing reasons, *amicus* respectfully urges the Court to hold that appellants are prevailing parties, vacate the District Court's contrary decision, and remand accordingly.

February 19, 2019

Respectfully submitted,

ELECTRONIC FRONTIER FOUNDATION

By: /s/ Alexandra H. Moss
Alexandra H. Moss

ELECTRONIC FRONTIER FOUNDATION
815 Eddy Street
San Francisco, CA 94109-7701

Tel: (415) 436-9333
Fax: (415) 436-9993
alex@eff.org

*Attorneys for Amicus Curiae Electronic Frontier
Foundation*

CERTIFICATE OF SERVICE

I hereby certify that on February 19, 2019, I caused the foregoing CORRECTED BRIEF OF AMICUS CURIAE ELECTRONIC FRONTIER FOUNDATION IN SUPPORT APPELLANT to be served by electronic means via the Court's CM/ECF system on all counsel registered to receive electronic notices.

/s/ Alexandra H. Moss

Alexandra H. Moss

ELECTRONIC FRONTIER FOUNDATION
815 Eddy Street
San Francisco, CA 94109-7701
Tel: (415) 436-9333
Fax: (415) 436-9993
alex@eff.org

**CERTIFICATE OF COMPLIANCE WITH TYPE-VOLUME
LIMITATION, TYPEFACE REQUIREMENTS, AND TYPE STYLE
REQUIREMENTS PURSUANT TO FED. R. APP. P. 32(A)(7)(C)**

I hereby certify as follows:

1. The foregoing Corrected Brief of Amicus Curiae Electronic Frontier Foundation in Support of Appellant complies with the type-volume limitation of Fed. R. App. P. 32(a)(7)(B) and Fed. Cir. R. 35(g), as in effect of this case's docketing date. The brief is printed in proportionally spaced 14-point type, and the brief has 3,383 words according to the word count of the word-processing system used to prepare the brief (excluding the parts of the brief exempted by Fed. R. App. P. 32(a)(7)(B)(iii) and by Fed. Cir. R. 32(b)).

2. The brief complies with the typeface requirements of Federal Rule of Appellate Procedure 32(a)(5), and with the type style requirements of Federal Rule of Appellate Procedure 32(a)(6). The brief has been prepared in a proportionally spaced typeface using Microsoft® Word for Mac 2016 in 14-point Times New Roman font.

February 19, 2019

/s/ Alexandra H. Moss
Alexandra H. Moss

*Attorneys for Amicus Curiae
Electronic Frontier Foundation*