

2019-1283, 2019-1284

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

DRAGON INTELLECTUAL PROPERTY, LLC,
Plaintiff-Appellee,

v.

DISH NETWORK L.L.C.,
Defendant-Appellant,

v.

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

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.

Appeals from the United States District Court for the District of Delaware
C.A. Nos. 1:13-cv-02066-RGA, 1:13-cv-02067-RGA

**APPELLANTS DISH NETWORK L.L.C. AND SIRIUS XM RADIO INC.'S
JOINT REPLY BRIEF**

MAY 22, 2019

JAMIE R. LYNN
LAUREN J. DREYER
BAKER BOTTS L.L.P.
1299 Pennsylvania Ave NW
Washington, DC 20004
(202) 639-7700 (telephone)
(202) 639-7890 (facsimile)
jamie.lynn@bakerbotts.com
lauren.dreyer@bakerbotts.com

MICHAEL HAWES
ALI DHANANI
BAKER BOTTS L.L.P.
910 Louisiana St
Houston, TX 77002
(713) 229-1234 (telephone)
(713) 229-1522 (facsimile)
ali.dhanani@bakerbotts.com
michael.hawes@bakerbotts.com

G. HOPKINS GUY III
BAKER BOTTS L.L.P.
1001 Page Mill Road
Building One, Suite 200
Palo Alto, CA 94304
(650) 739-7500 (telephone)
(650) 739-7699 (facsimile)
hopkins.guy@bakerbotts.com

*Attorneys for Appellant, DISH Network
L.L.C.*

MARK A. BAGHDASSARIAN
SHANNON H. HEDVAT
KRAMER LEVIN NAFTALIS & FRANKEL
LLP
1177 Avenue of the Americas
New York, NY 10036
(212) 715-9193 (telephone)
(212) 715-8362 (facsimile)
mbaghdassarian@kramerlevin.com
shedvat@kramerlevin.com

*Attorneys for Appellant, Sirius XM
Radio Inc.*

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

Dragon Intellectual Property v. DISH Network, L.L.C.

Case No. 2019-1283, 1284

CERTIFICATE OF INTEREST

Counsel for the:

(petitioner) (appellant) (respondent) (appellee) (amicus) (name of party)

DISH Network L.L.C.

certifies the following (use "None" if applicable; use extra sheets if necessary):

1. Full Name of Party Represented by me	2. Name of Real Party in interest (Please only include any real party in interest NOT identified in Question 3) represented by me is:	3. Parent corporations and publicly held companies that own 10% or more of stock in the party
DISH Network L.L.C.	DISH Network L.L.C.	DISH DBS Corporation
		Telluray Holdings, LLC
		Dodge & Cox
		The Vanguard Group Inc.
		DISH Network Corporation

4. The names of all law firms and the partners or associates that appeared for the party or amicus now represented by me in the trial court or agency or are expected to appear in this court (**and who have not or will not enter an appearance in this case**) are:

Bradley Bowling, Baker Botts L.L.P.
Rodger D. Smith of Morris Nichols, Arsht & Gunnell LLP.

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Dragon Intellectual Property v. Sirius XM, CAFC 2019-1284

3/21/2019

Date

/s/ Jamie R. Lynn

Signature of counsel

Jamie R. Lynn

Printed name of counsel

Please Note: All questions must be answered

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UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

Dragon Intellectual Property, LLC v. DISH Network, LLC, Sirius XM Radio Inc.

Case No. 19-1283, -1284

CERTIFICATE OF INTEREST

Counsel for the:

(petitioner) (appellant) (respondent) (appellee) (amicus) (name of party)

Sirius XM Radio Inc.

certifies the following (use "None" if applicable; use extra sheets if necessary):

1. Full Name of Party Represented by me	2. Name of Real Party in interest (Please only include any real party in interest NOT identified in Question 3) represented by me is:	3. Parent corporations and publicly held companies that own 10% or more of stock in the party
Sirius XM Radio Inc.	Sirius XM Radio Inc.	Sirius XM Holdings, Inc.
		Liberty Media Corporation

4. The names of all law firms and the partners or associates that appeared for the party or amicus now represented by me in the trial court or agency or are expected to appear in this court (**and who have not or will not enter an appearance in this case**) are:

Mark A. Baghdassarian
 Aaron Frankel
 Shannon H. Hedvat
 Anna Schoenfelder
 Kramer Levin Naftalis & Frankel LLP, 1177 Avenue of the Americas, New York, NY 10036
 Paul Andre
 Lisa Kobialka
 Kramer Levin Naftalis & Frankel LLP, 990 Marsh Road, Menlo Park, CA 94025

Philip A. Rovner
 Potter Anderson & Corroon, LLP, 1313 N. Market Street, Hercules Plaza, 6th Floor, P.O. Box 951, Wilmington, DE 19899-0951

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Dragon Intellectual Property LLC v. DISH Network LLC, Fed. Cir. No. 19-1283

12/20/2018

Date

/s/ Mark A. Baghdassarian

Signature of counsel

Mark A. Baghdassarian

Printed name of counsel

Please Note: All questions must be answered

cc: All Counsel of Record

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I. INTRODUCTION

Dragon's argument to avoid fees under 35 U.S.C. § 285 rests entirely on its theory that the noninfringement judgment became moot and was vacated, and, as a result, Appellants did not prevail.¹ Dragon ignores that Appellants were prevailing parties for two reasons: (1) this Court upheld the PTAB's determination that all asserted claims were invalid; and (2) the district court adjudged the patent not infringed. Although Dragon attacks the second basis for Appellants' prevailing-party status under § 285, neither mootness of the district court case, nor the discretionary remedy of vacatur, negates Appellants' prevailing-party status under the circumstances here.

Dragon sidesteps the fact that its patent has been found invalid by this Court. Because an invalid patent materially changes the legal relationship of the parties, Dragon is precluded from pursuing infringement of an invalid patent; therefore, Appellants became prevailing parties when this Court affirmed the invalidity of the asserted claims. The law is also replete with examples where courts have found that parties facing mootness or vacatur still prevailed, and where neither mootness nor vacatur deprived district courts of jurisdiction to resolve ancillary issues, such as granting attorneys' fees under § 285.

¹ Dragon joined in Freitas & Weinberg's ("FAW") brief. For ease of reference, Appellants will refer to FAW's brief (D.I. 65) using the term "Dragon."

Dragon's only retort is arguing that the judicial imprimatur that changes the parties' legal relationship under § 285 must stem only from the district court's ceremonial form of judgment. Dragon cites no relevant authority for that proposition. Because it ignores this Court's own judicial imprimatur, it would elevate form over substance, imposing a requirement that contravenes the Supreme Court's recognition of prevailing parties in all manner of contexts that do not arise to a formal judgment on the merits entered by the court awarding fees.

II. ARGUMENT

Appellants prevailed against Dragon’s patent-infringement claim on invalidity and noninfringement. Instead of grappling with Appellants’ invalidity victory, Dragon creates a sideshow in arguing that the district court had no jurisdiction under Article III to resolve Appellants’ motions for fees following its decision to vacate the noninfringement judgment. What transpired at the district court following the parallel appeals of noninfringement and invalidity is immaterial—Appellants obtained a material alteration of the parties’ legal relationship by invalidating the patent. That should end the matter. Nevertheless, neither vacatur nor mootness of the noninfringement judgment vitiates the district court’s jurisdiction to resolve administrative issues, like fees, nor undoes the change in the parties’ legal relationship.

A. Appellants Are Prevailing Parties Because Invalidating the Patent Materially Altered the Parties’ Legal Relationship

The parties do not dispute that the touchstone of the “prevailing party” inquiry is “the material alteration of the legal relationship of the parties.” *CRST Van Expedited Inc. v. EEOC*, 136 S. Ct. 1642, 1646 (2016) (citation omitted); see Dragon Br. 24. However, Dragon asserts that “[w]hen a pre-mootness judgment is vacated, there is no judicial act altering the legal relationship of the parties.” Dragon Br. 44.

To reach this conclusion, Dragon ignores the simple truth that this Court’s final decision constitutes a judicial act that materially altered the parties’ legal relationship. In fact, Appellants need not even obtain relief on the merits to qualify as prevailing parties, *CRST*, 136 S. Ct. at 1646, 1651—rebuffing Dragon’s infringement claim is sufficient. *See Winters v. Wilkie*, 898 F.3d 1377, 1381 (Fed. Cir. 2018) (holding that defendant “prevails ‘whenever the plaintiff’s challenge is rebuffed’”). Appellants rebuffed Dragon’s infringement claim when they invalidated the patent. “[A]s a matter of law, a party who has a competitor’s patent declared invalid meets the definition of ‘prevailing party.’” *Manildra Milling Corp. v. Ogilvie Mills, Inc.*, 76 F.3d 1178, 1183 (Fed. Cir. 1996). Dragon makes no attempt to address *Manildra*. And Dragon does not dispute that it can “no longer can enforce [its] patent against the would-be infringer litigant, or any other would-be infringer.” *Id.*; *XY*, 890 F.3d at 1294. The patent is dead, made so by this Court’s final decision, and Appellants were entirely responsible for killing it. Removing this threat of infringement liability constituted a judicial decision that changed the legal relationship of the parties. *Manildra*, 76 F.3d at 1183.

Dragon has no response to Appellants’ argument (Opening Br. 29-35) that they obtained this freedom from infringement liability by invalidating Dragon’s patent. Instead, Dragon asserts without support that there should be no issue or claim preclusion here whatsoever because of mootness of the noninfringement

judgment. Dragon Br. 35, 37, 48. Overwhelming authority establishes that invalidity does result in preclusion. Opening Br. 29, 33-35 (citing, among others, *XY LLC v. Trans Ova*, 890 F.3d 1282, 1294 (Fed. Cir. 2018) (holding that Federal Circuit affirmance of an IPR decision invalidating claims “renders final a judgment on the invalidity of [such patent], and has an immediate issue-preclusive effect on any pending or co-pending actions involving the patent”), and *Inland Steel Co. v. LTV Steel Co.*, 364 F.3d 1318, 1320 (Fed. Cir. 2004)). Dragon’s argument that the outcome here does not result in preclusion is neither credible nor correct.

To avoid the significance of this Court’s final invalidity decision, Dragon repeatedly alludes to some authority requiring Appellants to have found success solely in the district-court forum (and not before this Court) to become prevailing parties. See Dragon Br. 4, 34 n.5, 52-53. There is none. Instead, Dragon relies on only two cases, neither of which interprets the meaning of “prevailing party” under Federal Circuit law or § 285 of the Patent Act. See Dragon Br. 52-53 (citing *Lui v. Comm’n on Adult Entm’t Establishments*, 369 F.3d 319 (3d Cir. 2004), and *Quinn v. State of Mo.*, 891 F.2d 190 (8th Cir. 1989)). Each turned on the federal abstention doctrine when parallel proceedings are brought in both state and federal court. See *Lui*, 369 F.3d at 325; *Quinn*, 891 F.2d at 192. As *Lui* noted, “abstention transfers the entire proceeding to the State court for adjudication, including all of its collateral aspects—in this case, fees and costs.” *Lui*, 369 F.3d at 325. The same

was true in *Quinn*. 891 F.2d at 191-92, 194. Accordingly, neither case stands for Dragon’s bright-line rule that a party cannot qualify as a “prevailing party” under § 285 unless it receives relief (that has not been vacated) by the district court itself.

Dragon’s attempt to distinguish *Inland Steel* is without merit. According to Dragon, Appellants needed to obtain dismissal *with prejudice* (as in *Inland Steel*) to seek fees. Dragon Br. 49-50. This elevates form over substance and contravenes *CRST*. Certainly, dismissal with prejudice would amount to sufficient judicial imprimatur to satisfy the prevailing-party requirement. *See Highway Equip. Co. v. FECO, Ltd.*, 469 F.3d 1027, 1034 (Fed. Cir. 2006); *Power Mosfet Techs., L.L.C v. Siemens AG*, 378 F.3d 1396, 1416 (Fed. Cir. 2004). However, that is not the *only* way that Appellants can become prevailing parties. *See Raniere v. Microsoft Corp.*, 887 F.3d 1298, 1308 (Fed. Cir. 2018); *Robinson v. O’Rourke*, 891 F.3d 976, 981 (Fed. Cir. 2018) (“In [*Raniere*], we explained that, although a judgment on the merits is *sufficient* to confer prevailing-party status, it is not necessary.”). Litigants qualify as prevailing parties based on the substantive relief they obtain—the material alteration of the parties’ legal relationship—not based on the form of the ultimate district-court judgment. *See, e.g., Buckhannon Bd. & Care Home, Inc. v. W. Va. Dep’t of Health & Human Res.*, 532 U.S. 598, 604 (2001) (“[E]nforceable 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.”); *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.”); *Institutionalized Juveniles v. Sec’y of Pub. Welfare*, 758 F.2d 897, 912 (3d Cir. 1985) (holding that “the test focuses on the relief actually obtained”); *Ross v. Horn*, 598 F.2d 1312, 1322 (3d Cir. 1979) (“In assessing who is a prevailing party, we look to the substance of the litigation’s outcome” and “refuse to give conclusive weight to the form of the judgment.”).

Demanding a successful defendant obtain dismissal with prejudice—a discretionary form of relief, *Univ. of Pittsburgh v. Varian Med. Sys., Inc.*, 569 F.3d 1328, 1331 (Fed. Cir. 2009)—would also contradict *CRST*’s prohibition against requiring meritorious relief. *See CRST*, 136 S. Ct. at 1651. Simply put, the form of the district-court judgment does not dictate whether Appellants prevailed, nor is it required by the language of § 285.²

Dragon also ignores ample authority cited in Appellants’ opening brief awarding fees to defendants who successfully stave off patent-infringement claims. *See* Opening Br. 30-33. Rather, Dragon claims that the fee award here would

² Because Dragon’s patent is invalid, dismissal with prejudice is the appropriate eventual termination of the underlying litigation, after the district court resolves Appellants’ motions for fees. It would be a tremendous waste of judicial resources to remand this case to the district court for a pro forma dismissal in order for Appellants to pursue the relief sought here on appeal.

create “an odd legal structure” requiring the district court to pass on the merits of arguments made in another forum. Dragon Br. 54. Nothing about that evaluation is odd. Districts courts often do pass on the merits of arguments made at the Patent Office and before the PTAB when considering, *e.g.*, inequitable conduct, prosecution history estoppel, and claim construction. *E.g.*, *In re Rembrandt Techs. LP Patent Litig.*, 899 F.3d 1254, 1272-75 (Fed. Cir. 2018). District courts are appropriately suited to make such fact findings under the “totality of the circumstances.”

B. Neither Vacatur Nor Mootness Obviates the Change in the Parties’ Legal Relationship or Prevents Appellants from Qualifying as Prevailing Parties

Dragon erroneously argues that the mootness of the separate noninfringement issue on appeal, or the later vacatur of that judgment, somehow undid both Appellants’ invalidity win before this Court and the separate noninfringement win and prevented them from being prevailing parties.

1. Mootness of Noninfringement Did Not Undo the Invalidity Victory

Mootness of one issue on appeal does not somehow rescind Appellants’ prevailing-party status. For example, the Supreme Court in *Crowell v. Mader*, 444 U.S. 505 (1980), held that mootness of an issue on appeal did not prevent parties from seeking attorneys’ fees before the lower court. *Id.* at 506 (“The recent legislation did not moot the entire case, but only the issues raised on appeal.

Appellees may still wish to attack the newly enacted legislation or *apply for attorney's fees.*") (emphasis added). Dragon also ignores this Court's authority finding attorneys' fees appropriate following mootness or vacatur. *See, e.g., PRC Inc. v. Widnall*, 64 F.3d 644, 646-47 (Fed. Cir. 1995). In *PRC*, this Court explicitly determined that, consistent with *Crowell*, mootness of an issue raised on appeal does not moot a party's right to recover fees. *Id.* Imposing vacatur in a manner that prejudices a prevailing party's right to pursue fees "would directly conflict with the Supreme Court's decision in *Crowell*." *Id.* Consequently, the Court warned not to interpret its vacatur order "so as to alter the historical fact of the Board's underlying protest decision for purposes of PRC's claim for costs." *Id.* at 647.

Dragon mistakenly concentrates on the type of judgment rendered below as a prerequisite for prevailing-party status, rather than the overall material alteration in the legal relationship of the parties under *CRST*. When this Court invalidated the patent, Appellants became prevailing parties. Moreover, when the district court entered judgment in favor of Appellants from the stipulation of noninfringement, Appellants also prevailed. The fact that the district court later vacated that judgment as a result of invalidity is of no moment—both this Court's invalidity decision and the noninfringement order materially and independently altered the legal relationship of the parties. By successfully defending against Dragon's infringement charge, Appellants "accomplished the objectives of [their] litigation."

Bagby v. Beal, 606 F.2d 411, 415 (3d Cir. 1979). Holding that vacatur immediately disqualifies Appellants from being prevailing parties effectively turns back time on their two victories. *See PRC*, 64 F.3d at 647. That result is impermissible. Appellants became prevailing parties before the latter acts of mootness and vacatur and remain that way for purposes of fees thereafter.

2. Vacatur and Mootness Do Not Prevent Appellants from Qualifying as Prevailing Parties from the Noninfringement Judgment

Appellants did contest vacatur below. Appx2548-2549. Consistent with Appellants' argument herein, Appellants explained below that vacatur is a discretionary remedy and not warranted here. Appx2550-2552. Appellants however contended that even if the district court exercised its discretion and vacated the noninfringement judgment, the court could properly retain jurisdiction for the limited purpose of resolving Appellants' then-pending motions for attorneys' fees. Appx2552-2560, Appx2565-2567. The district court did just that, vacating noninfringement but agreeing with Appellants that vacatur did not deprive the court of the ability to determine fees. Appx0010-0011. In doing so, it explicitly denied Dragon's motion to dismiss, rejecting the notion that mootness of an issue on appeal prevents the court from resolving any outstanding issues. Appx0011-0012.

Dragon now rehashes the same arguments it advanced below, Appx4230-4257, (and in its earlier petition for rehearing to this Court, Appx4421-4434) that vacatur is mandatory upon a finding of mootness (it is not) and that both mootness and vacatur prevent Appellants from succeeding on their claims for attorneys' fees (neither does).³

a. Vacatur Is Discretionary—Not Mandatory

Dragon repeatedly states that vacatur is mandatory under Supreme Court precedent. Dragon Br. 2 (“When a case becomes moot during the appellate process, vacatur of a judgment entered before mootness is required.”). That proposition, though ultimately irrelevant, is incorrect and already has been rejected by the Supreme Court.

As a preliminary matter, Federal Rule of Civil Procedure 60, which permits vacatur, is written with permissive language, using “may” not “shall.” Moreover, the Third Circuit has consistently held that Rule 60 “provides for extraordinary relief and may only be invoked upon a showing of exceptional circumstances.” *In re Fine Paper Antitrust Litig.*, 840 F.2d 188, 194 (3d Cir. 1988) (quotation omitted); *Lazare Kaplan Int’l, Inc. v. Photocscribe Techs., Inc.*, 714 F.3d 1289,

³ Both the district court and Federal Circuit rejected these arguments. Appx0010-0011; Appx4465-4466.

1293 (Fed. Cir. 2013) (applying law of regional circuit when considering Rule 60 motion). Rule 60 does not dictate that vacatur is mandatory.

To support this supposed mandate, Dragon points to the Supreme Court’s discussion of an “established practice” of mandating vacatur in *United States v. Munsingwear, Inc.*, 340 U.S. 36, 39 (1950). *See* Dragon Br. 32. Notwithstanding the fact that a “practice” is not a “requirement,” the Supreme Court later explained that the “established practice” language from *Munsingwear* was only dicta: “[T]he portion of Justice Douglas’ opinion in *Munsingwear* describing the ‘established practice’ for vacatur was dictum; all that was needful for the decision was (at most) the proposition that vacatur should have been sought, not that it necessarily would have been granted.” *U.S. Bancorp Mortg. Co. v. Bonner Mall P’ship*, 513 U.S. 18, 24-25 (1994). The Court in *Bancorp* favorably cited numerous cases where courts did not vacate prior rulings upon a finding of mootness. *Id.* at 23-25 (collecting cases).

Rather than an “established practice” (or even requirement) for vacating a decision rendered on a later-mooted issue, courts determine vacatur on a case-by-case basis consistent with Rule 60. *See id.* at 29. In fact, the Federal Circuit has already held that vacatur is not mandatory after a mootness finding—a holding that Dragon declined to acknowledge in its brief. *See* Appx2549; Appx2610-2611. In *Microsoft Corp. v. Int’l Trade Comm’n*, 35 ITRD 2479, 2014 WL 10209132, at *2

(Fed. Cir. Jan. 3, 2014) (nonprecedential), the Federal Circuit confirmed that “[t]he [*Bancorp*] holding and analysis effectively establish that mootness does not automatically require vacatur of a previously made decision, which, instead, is a matter of reasoned discretion.” *Id.*; see also *PartsRiver, Inc. v. Shopzilla, Inc.*, 453 F. App’x 963, 965 (Fed. Cir. 2010) (nonprecedential) (declining to vacate judgment and remanding for district court’s determination based on discretionary principles outlined in *Bancorp*). Both *Bancorp* and *Microsoft* refute Dragon’s claim that vacatur was mandatory here.

Dragon’s theory—that mootness from invalidating an asserted patent spawns obligatory vacatur—would also produce untenable results. It would set forth an unassailable rule that invalidating a patent automatically moots the patent owner’s infringement claim and, therefore, all administrative proceedings stemming therefrom. The result is paradoxical: no defendant who succeeds in invalidating a patent could *ever* prevail under § 285. That is certainly not the outcome Congress intended here in establishing a fee-shifting statute for patent cases, where invalidity is one of the primary defenses for a charge of patent infringement.

b. Overwhelming Authority Permits Fees Despite Mootness

Dragon urges mandatory vacatur as a bridge to argue that once an underlying complaint of infringement becomes moot, it must be dismissed as

lacking an Article III “case or controversy.” Dragon Br. 33. Absent a live case or controversy for patent infringement, Dragon contends that Appellants’ independent interest in attorneys’ fees is insufficient. *Id.* Contrary to Dragon’s claim, the Supreme Court, this Court, and other Circuit Courts have permitted resolution of attorneys’ fees motions despite mootness of an underlying issue.

Dragon relies the Supreme Court’s decisions in *Lewis v. Continental Bank Corp.*, 494 U.S. 472 (1990), *Camreta v. Greene*, 563 U.S. 692 (2001), and *Diamond v. Charles*, 476 U.S. 54, 57 (1986), but it selectively quotes those decisions out of context. *See, e.g.*, Dragon Br. 29-34.

For example, during the pendency of the litigation in *Lewis*, a federal change in law occurred that had the effect of eliminating the controversy as to insured banks. 494 U.S. at 476. In denying a bank’s attempt to argue that the statute was unconstitutional to the world-at-large, the Court held that the bank had no “specific live grievance” against the application of the statutes to uninsured banks. *Id.* Absent pursuing relief for an uninsured bank, the Court concluded that the bank’s challenge to the statute’s constitutionality “amounts to a request for advice as to ‘what the law would be upon a hypothetical state of facts,’ or with respect to ‘contingent future events that may not occur as anticipated, or indeed may not occur at all.’” *Id.* at 479-80 (citation omitted). Such a hypothetical request “[did] not establish a particularized, concrete stake” in the litigation. *See id.*

Only in that context did the Court hold that the “interest in attorney’s fees is, of course, insufficient to create an Article III case or controversy where none exists on the merits of the underlying claim.” *Id.* at 480. In other words, the Court noted that a party with no concrete stake in the case and only a hypothetical interest cannot qualify as a prevailing party. *Id.* Moreover, as the Ninth Circuit has recognized, the Supreme Court in *Lewis* “did not hold that a party automatically loses its prevailing party status when the appeal becomes moot before a Court of Appeals reaches final judgment.” *UFO Chuting of Haw., Inc. v. Smith*, 508 F.3d 1189, 1197 & n.8 (9th Cir. 2007) (citing *Lewis*, 494 U.S. at 483). Rather, the Supreme Court explicitly declined to resolve that issue in *Lewis*. 494 U.S. at 483 (“Whether [the plaintiff] can be deemed a ‘prevailing party’ in the district court, even though its judgment was mooted after being rendered but before the losing party could challenge its validity on appeal, is a question of some difficulty that has been addressed by neither court below. We decline to resolve that . . .”). Instead, *Lewis* only “reaffirmed established case law requiring a prevailing party to obtain a direct and substantial benefit.” *UFO Chuting*, 508 F.3d at 1197 n.8.

Lewis is readily distinguishable from the present case. Unlike *Lewis*, no change in law occurred here that obviated Appellants’ interest in the case. Rather, the cause of action was litigated—partially in federal court, partially at the PTAB, and subsequently before this Court—and *all* of which were resolved against

Dragon. Appellants succeeded in their invalidity defense, which mooted appellate resolution of their alternative, successful noninfringement defense. Appellants did not lose their “particularized, concrete stake” in the outcome of the litigation by winning. *Cf. Lewis*, 494 U.S. at 479. Appellants also obtained “a direct and substantial benefit” in successfully quashing a claim for infringement by virtue of *both* a stipulation of noninfringement and invalidation of the asserted patent. *Cf. UFO Chuting*, 508 F.3d at 1197 n.8. Therefore, nothing in *Lewis* alters the fact that Appellants are prevailing parties here.

In *Camreta*, the Supreme Court vacated the underlying decision to prevent an “unreviewable decision ‘from spawning any legal consequences,’ so that no party is harmed by . . . a ‘preliminary’ adjudication.” 563 U.S. at 713 (citation omitted). Contrary to Dragon’s assertion, the Supreme Court’s fear of “spawning any legal consequences” was not related to granting attorneys’ fees to a party that had secured prevailing-party status before the intervening act of mootness. Rather, the Court’s decision reflects its concern that, absent vacatur, it would leave in place a binding, unreviewed decision that would have prospective effect beyond the parties involved when mootness had frustrated the ability to appeal the Circuit Court decision. *See id.* at 713 & n.11.

Multiple post-*Camreta* Circuit Court decisions have confirmed this interpretation of *Camreta*—that pre-mootness judgments, later vacated for

mootness (like the noninfringement judgment here), can still qualify for “prevailing party” status. *See generally Ford v. Bender*, 768 F.3d 15, 30 (1st Cir. 2014); *Green Pty. of Tenn. v. Hargett*, 767 F.3d 533, 552 (6th Cir. 2014); *Libertarian Pty. of Ark. v. Martin*, 876 F.3d 948, 952 (8th Cir. 2017); *Kirk v. N.Y. State Dep’t of Educ.*, 644 F.3d 134, 137-39 (2d Cir. 2011). Accordingly, *Camreta* does not stand for Dragon’s broader proposition that vacatur is necessary and that an unreviewed decision categorically cannot justify attorneys’ fees.

Diamond v. Charles also involved an intervening party’s insufficient claim to the underlying case or controversy. 476 U.S. at 63-66. Although not injured by the invalidation of a statute, the intervenor in *Diamond* argued he stood to lose the attorneys’ fees levied against him unless the invalidated laws were reinstated. *Id.* at 69-70. The Supreme Court disagreed—not because attorneys’ fees are unavailable following mootness, as Dragon argues—but because the purported monetary injury lacked “a nexus to the substantive character of the statute or regulation at issue.” *Id.* at 70. The Court concluded that the intervenor’s injury could not be fairly traced to the state’s invalidated abortion law because “[t]he fee award is wholly unrelated to the subject matter of the litigation, and bears no relation to the statute whose constitutionality is at issue here.” *Id.* By contrast, Congress expressly permitted a party to recover fees for exceptional cases in patent-infringement suits under § 285. Section 285 itself creates the nexus between attorneys’ fees and the

underlying patent litigation, especially for accused infringers.⁴ Therefore, none of *Lewis*, *Camreta*, and *Diamond* demand the outcome that Dragon seeks.⁵

Contrary to Dragon's claim, the parties have continuing adverse legal interests when they dispute attorneys' fees, as has been affirmed by the Supreme Court, this Court, and other Circuit Courts. For example, the Supreme Court affirmed the "well established" practice "that a federal court may consider collateral issues after an action is no longer pending." *See also Cooter & Gell v. Hartmax Corp.*, 496 U.S. 384, 395 (1990). One such collateral issue: "award[ing] costs [or fees] after an action is dismissed for want of jurisdiction." *Id.* The Court explained that "motions for costs *or attorney's fees* are independent proceedings supplemental to the original proceeding and not a request for a modification of the original decree." *Id.* (emphasis added) (quotation omitted).

⁴ Dragon string cites to *Tunik v. MSPB*, 407 F.3d 1326, 1331 (Fed. Cir. 2005), but that should similarly be disregarded. The Federal Circuit did not have the opportunity to address a claim for attorneys' fees, as it explicitly noted that no claim for fees had been presented to either the agency or on appeal. *Id.* Thus, the Federal Circuit's statements regarding the appellant's nonexistent claim for attorneys' fees is merely dicta and certainly does not interpret § 285 for successful defendants.

⁵ Dragon likewise cites to *Genesis Healthcare Corp. v. Symczyk*, 569 U.S. 66, 72 (2013). Dragon Br. 26, 31. That case turned on the plaintiff being accorded complete relief on her claim by virtue of an offer of judgment under Federal Rule of Civil Procedure 68—not on ancillary issues like attorneys' fees after a defendant has achieved a final judgment in its favor. *See Genesis*, 569 U.S. at 72. Nevertheless, the Supreme Court explicitly declined to reach the question of "whether an unaccepted offer that fully satisfies a plaintiff's claim is sufficient to render the claim moot." *Id.*

Following *Cooter*, the Supreme Court again made it clear that mootness of one issue does not hamstring a federal court from deciding ancillary issues like costs and fees:

But reason and authority refute the quite different notion that a federal appellate court may not take any action with regard to a piece of litigation once it has been determined that the requirements of Article III no longer are (or indeed never were) met. That proposition is contradicted whenever an appellate court holds that a district court lacked Article III jurisdiction in the first instance, vacates the decision, and remands with directions to dismiss. In cases that become moot while awaiting review, respondent’s logic would hold the Court powerless to award costs or even to enter an order of dismissal. Article III does not prescribe such paralysis. “If a judgment has become moot [while awaiting review], this Court may not consider its merits, but may make such disposition of the whole case as justice may require.”

Bancorp, 513 U.S. at 21 (emphases added) (citations omitted) (quoting *Walling v. James V. Reuter, Inc.*, 321 U.S. 671, 677 (1944)). Thus, the Supreme Court has repeatedly acknowledged that mootness of a merits issue does not prevent a federal court from deciding attorneys’ fees, even in the absence of Article III jurisdiction.

Dragon’s logic—that mootness instantaneously deprives the district court of jurisdiction to decide fees—would paralyze district courts from entertaining *any* issue, including Dragon’s own request for vacatur. That outcome is untenable and inconsistent with Supreme Court authority: “disposition of the whole case” includes resolution of Appellants’ fees motions, which are “matters of judicial

administration and practice ‘reasonably ancillary to the primary, dispute-deciding function’ of the federal courts.” *Bancorp*, 513 U.S. at 22.

Both this Court and the majority of Circuit Courts have followed this logic, allowing attorneys’ fees claims to survive despite mootness. *See, e.g., Monsanto Co. v. Bayer Bioscience N.V.*, 514 F.3d 1229, 1242 (Fed. Cir. 2008) (“[D]istrict court retained independent jurisdiction over Monsanto’s request for attorney fees” even after Bayer entered a “covenant[] not to sue Monsanto for past, present, or future infringement” on dismissed patents.); *Highway Equip.*, 469 F.3d at 1032-33 (holding court did not lose power to determine attorneys’ fees after entrance of covenant not to sue); *cf. Advanced Magnetic Closures, Inc. v. Rome Fastener Corp.*, 607 F.3d 817, 826-27 (Fed. Cir. 2010) (“This court has held that a district court retains jurisdiction to consider a motion for attorney’s fees under [§ 285] and to make findings of inequitable conduct—even after a party has dismissed its counterclaims as to that patent. The district court, therefore, properly retained jurisdiction to consider Romag’s motion for attorney’s fees based on inequitable conduct.”) (citing *Monsanto*, 514 F.3d at 1242-43); *see also Associated Gen. Contractors v. City of New Haven*, 41 F.3d 62, 68 (2d Cir. 1994) (rejecting argument that “it would be unfair to permit an award of attorney’s fees when a case is declared moot on appeal”); *Bagby*, 606 F.2d at 415 (holding a case moot while also upholding a finding of attorneys’ fees); *Doe v. Marshall*, 622 F.2d 118, 120

(5th Cir. 1980) (“Moreover, a determination of mootness does not prevent an award of attorneys’ fees on remand.”); *Constangy, Brooks & Smith v. N.L.R.B.*, 851 F.2d 839, 842 (6th Cir. 1988) (“It would be particularly inappropriate to vacate the district court’s order in the instant case in light of appellee’s motion for attorney’s fees pending before the district court”); *Williams v. Alioto*, 625 F.2d 845, 848 (9th Cir. 1980) (“Claims for attorneys’ fees ancillary to the case survive independently . . . and may be heard even though the underlying case has become moot.”); *Grano v. Barry*, 733 F.2d 164, 168 n.2 (D.C. Cir. 1984) (“[O]ur dismissal of this part of the appeal as moot is not dispositive as to the issue of attorneys’ fees raised at oral argument.”).

Consistent with this overwhelming authority, the district court rightly rejected Dragon’s argument that mootness deprives Appellants of fees. It correctly held that “[a]lthough the issue of infringement underlying [Dragon]’s complaint is moot, [Appellants’] motions for attorney’s fees remain outstanding.” Appx0010-0011. The pending fees motions here created “an actual controversy between two parties to this case having adverse legal interests in its resolution.” *Microsoft*, 2014 WL 10209132, at *1. Citing, *inter alia*, *Bancorp* and *Walling*, the district court held that “[a]n appropriate disposition of the entire case may include an award of costs.” Appx0011-0012.

Insofar as the district court's vacatur order did not prejudice Appellants' pending request for fees, it was not legally erroneous. *See* Appx0010-0011. The district court's separate decision, however, as to whether Appellants were prevailing parties is where the court went awry. Appx0002. In strictly conditioning fees on a non-vacated underlying determination from the same forum making the fee assessment, the court's decision ran afoul of *Crowell, Bancorp, PRC*, and other discussed authority permitting fees after vacatur and mootness. In particular, the district court's determination that Appellants did not remain prevailing parties after it vacated the noninfringement final judgment "alter[s] the historical fact of" this Court's final invalidity decision and the district court's underlying noninfringement determination for purposes of Appellants' motions for fees. *See PRC*, 64 F.3d at 647. That is legal error.

The overwhelming majority of Circuit Courts agree with Appellants that pre-mootness judgments can still be used in determining prevailing-party status despite later mootness or vacatur. *See* Br. of Amicus Curiae Electronic Frontier Foundation 8-10 (collecting cases); *see also UFO Chuting*, 508 F.3d at 1197 & n.8; *Jacksonville Prop. Rights Ass'n, Inc. v. City of Jacksonville*, 635 F.3d 1266, 1275 n.20 (11th Cir. 2011); *Libertarian Pty.*, 876 F.3d at 952.

Despite this ample authority, Dragon asserts that the First Circuit's ruling in *Diffenderfer v. Gomez-Colon*, 587 F.3d 445 (1st Cir. 2009), cannot be squared with

the Supreme Court’s ruling in *Lewis*. Dragon Br. 46-48. *Lewis* however explicitly declined to resolve the “prevailing party” issue that *Diffenderfer* and other Circuit Courts resolved. *See Lewis*, 494 U.S. at 483.

Contrary to Dragon’s argument, the Supreme Court has not held that a party can never prevail if the underlying judgment becomes moot on appeal. *See UFO Chuting*, 508 F.3d at n.8 (“[T]he [*Lewis*] Court did not hold that a party automatically loses its prevailing party status when the appeal becomes moot before a Court of Appeal reaches final judgment.”) (citing *Lewis*, 494 U.S. at 484). And unlike the plaintiff in *Lewis*, Appellants here received the direct and substantial benefit they sought—freedom from Dragon’s claim of patent infringement. Thus, *Lewis* does not stand for a blanket rule that pre-mootness judgments later vacated cannot support “prevailing party” status.

Consequently, Appellants succeeded in materially changing the parties’ legal relationship in two, independent ways—through noninfringement and invalidity—and neither vacatur nor mootness of noninfringement vitiates the material change that occurred.

C. The Scope of § 285 Allows Fees Assessed Against Counsel for “Exceptional” Cases

1. The Federal Circuit Should Decide the Scope of § 285 Fees Now

In the intervening time since Appellants’ opening brief, another district court has addressed the issue of whether attorneys can be liable under § 285. *See Cap*

Export, LLC v. Zinus, Inc., 2:16-cv-00371-SVW-MRW, slip op. at 1-2 (C.D. Cal. May 10, 2019) (declining to award § 285 fees against counsel). Dragon points to other post-*Octane* district-court decisions addressing attorney liability under § 285, which, like *Cap Export*, did not resolve this question by addressing *Octane*. Dragon Br. 58-59 (citing cases). As a result, Appellants' request to have the Court resolve this issue of first impression is not merely an academic exercise but is needed to lay still this unsettled area of law.

The Federal Circuit has not yet had occasion post-*Octane* to resolve whether § 285 fees can be assessed against attorneys. The *Phonometrics* line of cases concern a pre-*Octane* analysis of § 285 and did not meaningfully grapple with the broad language and purpose of the statute.⁶ Fundamentally, no district court nor the Federal Circuit has addressed the Supreme Court's pronouncement in *Octane* that the beginning and end of any § 285 analysis is whether the case is "exceptional" in

⁶ Appellants previously discussed *Phonometrics, Inc. v. Westin Hotel Co.* ("*Phonometrics I*"), 319 F.3d 1328 (Fed. Cir. 2003). Opening Br. 54-55. Dragon addresses two subsequent *Phonometrics* cases. Dragon Br. 57-58 (discussing *Phonometrics, Inc. v. ITT Sheraton Corp.* ("*Phonometrics II*"), 64 F. App'x 219 (Fed. Cir. 2003) (nonprecedential) and *Phonometrics, Inc. v. Westin Hotel Co.* ("*Phonometrics III*"), 350 F.3d 1242 (Fed. Cir. 2003)). Appellants previously distinguished *Phonometrics II*, which simply vacated on the issue of joint and several liability between the party and its attorneys and remanded for the court to "specify the appropriate separate liability of Phonometrics and of its counsel." 64 F. App'x at 222-23. Opening Br. 54-55. *Phonometrics III* did not resolve that outstanding question, merely noting that the district court partitioned § 285 fees to the party and § 1927 fees to counsel. 350 F.3d at 1249 n.9. Nevertheless, these cases illustrate that this issue needs clarification and resolution now.

the context of assessing fees against counsel. The interpretation and governing scope of § 285 presents a pure question of law and should be decided now. *See* Opening Br. 43-45.

2. If Attorneys Are Not Liable under Section 285, A Gap Exists That Allows Exceptional Attorney Behavior to Escape All Liability

Attorneys who represent under-capitalized, shell companies and perpetuate exceptional litigation behavior can insulate themselves from liability under Dragon’s interpretation of § 285. District courts have recognized that failing to hold similarly situated entities, such as non-parties, liable results in perverse incentives under § 285. “Congress enacted Section 285 to provide incentives to defend against frivolous infringement claims because doing so benefits the public,” and “if recourse can only be had against a judgment-proof shell company, no such incentive exists.” *Iris Connex, LLC v. Dell, Inc.*, 235 F. Supp. 3d 826, 846 (E.D. Tex. 2017) (permitting award against non-party).

Dragon points to alternative remedies available against attorneys, such as Federal Rule of Civil Procedure 11, Rule 37(a)(4), 28 U.S.C. § 1927, or the district court’s inherent power. Dragon Br. 65. However, sanctions may be warranted under one rule or statute even if other rules, statutes, or powers exist that sanction the same conduct. *Chambers v. Nasco, Inc.*, 501 U.S. 32, 49-50 (1991); *see also* Fed. R. Civ. P. 11, Advisory Committee’s Notes to 1993 Amendment. Moreover, these alternatives do not contradict the purpose and interpretation of § 285 under

Octane. Section 285 is broad and not limited to the parties (as is Federal Rule of Appellate Procedure 38, which is assessed against counsel) and serves the same purpose of deterrence for “exceptional” conduct. *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 572 U.S. 545, 549 (2014); S. Rep. No. 79-1503, at 2 (1946). The public benefit from deterring frivolous infringement claims brought by an insolvent patent-assertion entity can *only* be furthered by holding both the insolvent plaintiff and its co-conspirator counsel liable for that frivolousness. *Cf. Iris*, 235 F. Supp. 3d at 846.

The Federal Rules, on the other hand, concern different circumstances, remedies, and requirements. For example, Rules 11 and 37 establish certain sanctions that apply to pleadings, motions, or discovery responses. There may be instances of litigation behavior that do not fall squarely into either of these two rules but still amounts to a case “that stands out from others with respect to the substantive strength of a party’s litigating position (considering both the governing law and the facts of the case) or the unreasonable manner in which the case was litigated.” *See Octane*, 572 U.S. at 554. There are also other mechanisms, like the 21-day safe harbor provision of Rule 11, that procedurally distinguish this form of relief from § 285. Indeed, Rule 11 motions “[o]rdinarily . . . should be served promptly after the inappropriate paper is filed, and if delayed too long, may be

viewed as untimely.”⁷ *See* Fed. R. Civ. P. 11, Advisory Committee’s Notes to 1993 Amendment. In contrast, § 285 motions are only available at the conclusion of a case. Finally, district courts have discretionary authority under Rule 11, 37, and their inherent power to fashion an “appropriate sanction,” whereas § 285 specifies that the *only* appropriate sanction is fees. *Cf. Chambers*, 501 U.S. at 51.

As for § 1927 fees, the district court here appreciated that the conduct was sanctionable but could not be captured under § 1927 because the actions did not “multipl[y] the proceedings,” as required by statute. Appx0002-0003; *see also* Appx0005 (“Thus, although Defendants identify behavior that I might properly have sanctioned under Section 285, the allegations do not meet the standard for a Section 1927 fee award.”). Under § 1927, as long as the nefarious actor does not require, *e.g.*, a second claim-construction hearing, he is not multiplying the proceedings. *See* Appx0003-0004 (“The Parties did not subsequently relitigate the claim constructions such that they prolonged the litigation. Accordingly, an award of Section 1927 fees on this basis is inappropriate.”).

Moreover, § 1927 and a district court’s inherent power both require a showing of bad faith, something that *Octane* explicitly did away with for § 285. *Compare LaSalle Nat. Bank v. First Conn. Holding Grp., LLC*, 287 F.3d 279, 288

⁷ In fact, in the related cases, the district court denied the defendants’ separate Rule 11 motion for sanctions against Dragon as untimely. Appx5741.

(3d Cir. 2002) (requiring bad faith for § 1927 fees) *and Chambers*, 501 U.S. at 46-47 (requiring bad faith under inherent power) *with Octane*, 572 U.S. at 554-55.

Therefore, absent application of § 285 against counsel, certain “exceptional” behavior can avoid sanctions, and in particular fees, altogether.

D. Whether the Case Was “Exceptional” Is Outside the Scope of This Appeal at This Time

Dragon presents numerous arguments in its Counterstatement of the Case related to whether the district court properly construed the claims and whether Appellants presented contrary arguments to the PTAB regarding claim construction. *See* Dragon Br. 7-10; 13-18. But those arguments go to the question of whether this was an “exceptional case,” which has not yet been addressed by the district court and is outside the scope of this appeal. Appellants are pursuing a § 285 claim that Dragon and its counsel filed and pursued a case that an adequate pre-suit investigation would have revealed was meritless and then continued to pursue it despite a clear prosecution history disclaimer. *See, e.g.*, Appx0150; Appx0158-0169. Nevertheless, certain of Dragon’s attacks on the merits warrant response.

Appellants’ pursuit of fees is based on the fact that the applicants of the ’444 Patent disclaimed “continuous recording” during prosecution but then accused the very devices that were disclaimed. Opening Br. 8-14. Dragon characterizes the district court’s claim-construction decision on disclaimer as “at best, fairly

debatable” and gives two reasons, but neither have merit. Dragon Br. 28; *id.* at 8-10. First, Dragon alleges that expert testimony should have been used in evaluating disclaimer to account for the viewpoint of “one skilled in the art.” *Id.* at 8-10. But Dragon cites to no case holding that expert testimony is necessary to find prosecution-history disclaimer. Indeed, all claim construction is conducted from the viewpoint of “one skilled in the art,” and it would be a significant change in prevailing law to *require* that courts consult “less reliable” extrinsic evidence to construe claims. *Cf. Phillips v. AWH Corp.*, 415 F.3d 1303, 1317-18 (Fed. Cir. 2005). Moreover, Dragon made this argument only in response to Appellants’ § 285 motions, Appx0994-0996, not during claim construction or the appeal from the district court’s noninfringement order.

Second, Dragon argues that the prosecution history itself was “not so simple” and that the relied-on “[p]assages from the prosecution history were excerpted, with important segments inconsistent with the disclaimer argument excised.” Dragon Br. 9-10. Regardless, these issues were fully developed during claim-construction briefing, with FAW making the same arguments regarding “selective[] quot[ing].” Appx4546; *see* Appx4537-4549. Any pre-suit investigation would have revealed that the applicant amended the claim language and expressly argued that “continuous recording” was not covered by the claims. Appx0160-0163.

Dragon also alleges that Appellants argued to the PTAB that the claims of the '444 Patent were invalid over “continuous recording” devices because the “undisputed record shows that Goldwasser and Yifrach are ‘continuous recording devices’ of the type the district court found disclaimed.” Dragon Br. 13. Dragon’s only support for this statement is two self-serving expert declarations that it filed *in response* to the § 285 motions. *See id.* (citing Appx0925, Appx0952). Dragon provides no record support to the references themselves and ignores that Appellants expressly refuted that they were taking inconsistent positions before the district court and PTAB. *See* Appx2431-2433 (explaining that Goldwasser is not a continuous recording device).

* * * * *

But neither of these fact-intensive issues, which are fully briefed before the district court, has been addressed by the fact-finder in the first instance, and thus, they are outside the scope of this appeal.

III. CONCLUSION

For these reasons and the reasons provided in Appellants’ opening brief, this Court should reverse and remand.

May 22, 2019

/s/ Jamie R. Lynn

Jamie R. Lynn
jamie.lynn@bakerbotts.com
Lauren J. Dreyer
lauren.dreyer@bakerbotts.com
BAKER BOTTS L.L.P.
1299 Pennsylvania Ave NW
Washington, DC 20004
(202) 639-7700 (telephone)
(202) 639-7890 (facsimile)

Michael Hawes
Michael.hawes@bakerbotts.com
Ali Dhanani
ali.dhanani@bakerbotts.com
BAKER BOTTS L.L.P.
910 Louisiana St
Houston, TX 77002
(713)-229-1234 (telephone)
(713)-229-1522 (facsimile)

G. HOPKINS GUY III
hopkins.guy@bakerbotts.com
BAKER BOTTS L.L.P.
1001 Page Mill Road
Building One, Suite 200
Palo Alto, CA 94304
(650) 739-7500 (telephone)
(650) 739-7699 (facsimile)

Attorneys for Appellant, DISH Network L.L.C.

/s/ Mark A. Baghdassarian

Mark A. Baghdassarian
mbaghdassarian@kramerlevin.com
Shannon H. Hedvat
shedvat@kramerlevin.com

KRAMER LEVIN NAFTALIS & FRANKEL
LLP

1177 Avenue of the Americas

New York, NY 10036

(212) 715-9193 (telephone)

(212) 715-8362 (facsimile)

Attorneys for Appellant, Sirius XM Radio Inc.

PROOF OF SERVICE

I hereby certify that on this 22nd day of May, 2019, I electronically filed the foregoing with the Clerk of the Court for the United States Court of Appeals for the Federal Circuit through the Court's CM/ECF system. Participants in the case who are registered CM/ECF users will be served by the appellate CM/ECF

Dated: May 22, 2019

/s/ Jamie R. Lynn
Jamie R. Lynn

CERTIFICATE OF COMPLIANCE WITH FEDERAL RULE OF
APPELLATE PROCEDURE 32(a)(7)(B)

In reliance upon the word-count feature of the word-processing system used to prepare this brief, I hereby certify that this brief contains 6,984 words, excluding the parts of the brief exempted by Federal Rule of Appellate Procedure 32(a)(7)(B)(iii).

/s/ Jamie R. Lynn
Jamie R. Lynn