

NOVEMBER 21, 2006

Highway Equip. Co. v. FECO, Ltd.

Nos. 05-1547, -1578, Federal Circuit (Schall, Linn, Dyk)

[A] dismissal with prejudice ... granted pursuant to the district court's discretion under Rule 41(a)(2), has the necessary judicial imprimatur to constitute a judicially sanctioned change in the legal relationship of the parties, such that the district court properly could entertain [a] fee claim under 35 U.S.C. § 285

On November 21, 2006, the Federal Circuit, inter alia, affirmed the district court's judgment denying FECO's motion for attorney fees and expenses under 35 U.S.C. § 285 following the dismissal with prejudice, based on the filing of Highway Equipment's covenant not to sue, of infringement claims involving U.S. Patent No. 6,517,281, which related to an adjustable spreader for particulate material. The Federal Circuit stated:

35 U.S.C. § 285 provides that "[t]he court in exceptional cases may award reasonable attorney fees to the prevailing party." [The statute prohibits] an award of fees to the plaintiff unless the court awards relief on the merits, either through a judgment on the merits or through a settlement agreement enforced through a consent decree. [This rejects] the so-called "catalyst theory," which maintained that a plaintiff obtained relief on the merits if the plaintiff achieved its desired result due to the defendant's voluntary change in conduct. [T]he critical focus is not on the defendant's voluntary change in conduct, but rather whether there is a "judicially sanctioned change in the legal relationship of the parties." [A] defendant's voluntary change in conduct, even if it accomplishes what the plaintiff sought to achieve, lacks the necessary "judicial imprimatur on the change."... The dispositive issue is thus whether the dismissal with prejudice had sufficient judicial imprimatur to constitute a "judicially sanctioned change in the legal relationship of the parties."

In this case, the district court exercised its discretion in dismissing the patent claims raised in the underlying action with prejudice pursuant to Fed. R. Civ. P. 41(a)(2). That rule provides in relevant part that "an action shall not be dismissed at the plaintiff's instance [after answer] save upon order of the court and upon such terms and conditions as the court deems proper."



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[T]he district court has discretion to condition the plaintiff's voluntary dismissal on terms that would avert any prejudice to the defendant, including dismissing the case "with prejudice."

[T]he voluntary filing of the covenant in this case was designed to be judicially enforceable and was the basis for the court's order dismissing the claims with prejudice. The covenant was not simply an extrajudicial promise made by one party to another outside the context of litigation. The district court's determination to dismiss the remaining controversy with prejudice evidently was prompted by the fact that Highway Equipment had prosecuted the case against FECO through the final pretrial conference to the eve of trial without any explanation of why the covenant was only then filed with the court. In exercising its discretion and dismissing the case with prejudice, following and in light of the covenant, the district court extinguished Highway Equipment's ability to sue again on those claims. To hold that, in this circumstance, there has been no disposition on the merits would undermine the purpose of Rule 41 to encourage a plaintiff's voluntary dismissal under such terms as to avoid prejudice. Such a holding would imply that the only way for a defendant to obtain a disposition on the merits would be to oppose a dismissal and proceed to litigation on the merits, and would encourage the litigation of unreasonable or groundless claims.

[A]s a matter of patent law, the dismissal with prejudice, based on the covenant and granted pursuant to the district court's discretion under Rule 41(a)(2), has the necessary judicial imprimatur to constitute a judicially sanctioned change in the legal relationship of the parties, such that the district court properly could entertain FECO's fee claim under 35 U.S.C. § 285. FECO's prevailing party status is not predicated on whether Highway Equipment filed a Rule 41(a)(2) motion to dismiss with prejudice at the outset but is sufficiently based on its having filed a covenant not to sue with the court to end the litigation, resulting in a dismissal with prejudice....

Turning to the merits of the fee claim ... FECO argues that Highway Equipment engaged in litigation misconduct and inequitable conduct before the Patent and Trademark Office ("PTO"). Regarding inequitable conduct, FECO argues that Highway Equipment failed to disclose material prior art and failed to name an alleged co-inventor, Dick Serbousek.... FECO has shown no clear error in the district court's findings and we decline to second-guess the district court's judgment that the defendant is not entitled to attorney fees based on litigation misconduct.... The district court's judgment as to attorney fees under § 285 is affirmed.

For more information on these issues or other intellectual property law matters, please contact **Lawrence M. Sung, Ph.D.** at lsung@nixonpeabody.com or 202-585-8221.

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