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Federal Circuit Concludes Differently on Two Exceptional Case Actions

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On June 5, 2017, the Federal Circuit arrived at two different conclusions concerning whether a case is exceptional under 35 U.S.C. § 285, reversing the district court in both cases. The two cases are *Checkpoint Sys., Inc., v. All-Tag Security S.A.* (2016-1397) and *Rothschild Connected Devices Innovations, LLC v. Guardian Prot. Servs., Inc.* (2016-2521).

In the first case, Checkpoint Systems, Inc. ("Checkpoint") brought suit against All-Tag Security A.A., All-Tag Security Americas, Inc., Sensormatic Electronics Corp., and Kobe Properties SARL (collectively "All-Tag"), alleging that certain tags that All-Tag manufactured in Belgium and imported into the United States infringed one of its patents. After a jury finding that the patent was not infringed, invalid, and unenforceable, the district court found the case to be exceptional. The district court based its decision on the fact that Checkpoint never compared the accused products to the claims of its patent. Instead, Checkpoint compared other tags that All-Tag manufactured in Switzerland. The district court also found that Checkpoint had improper motive to bring the suit, finding that Checkpoint wanted to improperly interfere with All-Tag's business and to protect Checkpoint's own competitive advantage. As support, the district court pointed to other lawsuits that Checkpoint brought to assert its patent, its market share, and its acquisition of competitors. The Federal Circuit reversed the district court's decision. In doing so, it noted that the accused tags and the other tags that Checkpoint analyzed were made with the same type of machines, and that All-Tag never alleged the accused products were different from the products that Checkpoint evaluated. In general, the Federal Circuit found nothing to suggest that Checkpoint brought suit without a reasonable belief of infringement. In addition, the Federal Circuit disagreed with the district court that Checkpoint's decision to bring suit amounted to improper motive to make the case exceptional under § 285. While improper motive can make a case exceptional under § 285, simply bringing suit to exercise one's right to exclude under the patent laws is not such an improper motive. Quoting the Supreme Court's decision in *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749 (2014), the Federal Circuit cautioned that fee awards are not to be used as a penalty for failure to win a patent infringement suit.

In the second case, Rothschild Connected Devices Innovations, LLC ("Rothschild") filed suit against ADS Security, L.P. ("ADS"), asserting that ADS's home security system infringed one of Rothschild's patents. During litigation, ADS sent Rothschild a notice pursuant to Federal Rule of Civil Procedure 11(c)(2), referred to as the Safe Harbor provision, that included a proposed Rule 11(b) motion for sanctions along with prior art that ADS believed anticipated claim 1 of Rothschild's patent. Under the Safe Harbor provision, before a party seeks sanctions under Rule 11, that party must provide notice to the opposing party of its intent to seek sanctions, and afford the opposing party twenty-one days to take corrective action. Here, after receiving the notice, Rothschild moved to voluntarily dismiss its action. ADS opposed and filed a cross-motion for attorney fees pursuant to § 285. In denying ADS's cross-motion for attorney fees, the district court relied on Rothschild's discretion to withdraw the case under Rule 11's Safe Harbor provision. The Federal Circuit reversed and remanded, finding three ways that

the district court abused its discretion. First, the district court failed to consider that Rothschild ignored prior art that ADS provided to Rothschild. In addition, the district court failed to find that Rothschild engaged in vexatious litigation. Evidence showed that Rothschild asserted its patent in fifty-eight litigations against various companies in a wide range of technology areas, and settled the vast majority of them for significantly low costs. Last, the district court erred as a matter of law by equating Rule 11 to § 285. Quoting the Supreme Court in *Octane Fitness*, the Federal Circuit ruled that whether a party avoids or engages in sanctionable conduct under the provisions of Rule 11 should not serve as a benchmark for whether a case is exceptional under § 285. Accordingly, just because Rothschild moved to dismiss the case under Rule 11's Safe Harbor provision does not mean that Rothschild is automatically immune from being penalized under § 285.

When considering the two decisions together, the Federal Circuit provides confidence to patent holders that they should not be penalized under § 285 for simply losing a patent suit that they reasonably believed they could win. At the same time, the court supports seeking attorney fees under § 285 when evidence suggests that the plaintiff has brought suit in bad faith.