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Federal Circuit Patent Bulletin: *Checkpoint Sys., Inc. v. All-Tag Security S.A.*

June 7, 2017

"'The exercise of discretion in favor of [awarding attorney fees] should be bottomed upon a finding of unfairness or bad faith in the conduct of the losing party, or some other equitable consideration of similar force, which makes it grossly unjust that the winner of the particular law suit be left to bear the burden of his own counsel fees.'"

On June 5, 2017, in *Checkpoint Sys., Inc. v. All-Tag Security S.A.*, the U.S. Court of Appeals for the Federal Circuit (Newman,* Lourie, Moore) reversed the district court's award of $6.6 million in attorney fees under 35 U.S.C. § 285 following a jury verdict, inter alia, that All-Tag did not infringe U.S. Patent No. 4,876,555, which related to improved merchandise anti-theft tags attached that deactivate when the goods are purchased. The Federal Circuit stated:

Section 285 of the Patent Act provides for the award of attorney fees in "exceptional cases." [F]ee awards are for "the rare case in which a party's unreasonable conduct—while not necessarily independently sanctionable—is nonetheless so 'exceptional' as to justify an award of fees." The Court explained that the standard applied by the Federal Circuit had been too rigorous, and that "an 'exceptional' case is simply one 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." . . .

Checkpoint states that its litigating position was of objectively reasonable strength as to law and fact, despite the error as to which sample tag was provided to its expert for analysis. The manufacture of that tag in Switzerland rather than in Belgium was made known by

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All-Tag before trial, and All-Tag attempted to exclude Checkpoint's expert's testimony pre-trial and moved for judgment as a matter of law post-trial. The district court denied both motions.

Although the jury found against Checkpoint, the district court denied JMOL, and we affirmed, the district court agreed that Checkpoint's claims were not frivolous. . . . The aspects that the district court stated were dispositive were Checkpoint's motivation in bringing the lawsuit, inadequate pre-suit investigation, and the failure of Checkpoint's expert to inspect the correct accused product. The district court stated that Checkpoint brought suit for an improper purpose, that is, to "interfere improperly" with All-Tag's business and "to protect its own competitive advantage." The district court cited Checkpoint's lawsuits against other asserted infringers, its market share, and its acquisition of competing producers as showing the improper motive of "protect[ing] its own competitive advantage." However, the patent law provides the statutory right to exclude those that infringe a patented invention. Enforcement of this right is not an "exceptional case" under the patent law.

All-Tag argues that it was appropriate to consider Checkpoint's competitive motivation because the Supreme Court mentioned "motivation" as a factor to be considered. Indeed, "motivation" to harass or burden an opponent may be relevant to an "exceptional case" finding. However, motivation to implement the statutory patent right by bringing suit based on a reasonable belief in infringement is not an improper motive. A patentee's assertion of reasonable claims of infringement is the mechanism whereby patent systems provide an innovation incentive.

Here, no such harassment or abuse is shown. [T[here is a "presumption that an assertion of infringement of a duly granted patent is made in good faith." Checkpoint states that it had obtained two infringement opinions from counsel and previously obtained judgments against All-Tag for infringement of the Swiss counterpart of the '555 patent.

Further, Checkpoint points to the district court's finding that Checkpoint had sufficient evidence of infringement to survive summary judgment motions and a Daubert challenge, and to proceed to a jury trial. "Absent misrepresentation to the court, a party is entitled to rely on a court's denial of summary judgment and JMOL . . . as an indication that the party's claims were objectively reasonable and suitable for resolution at trial."

The district court also found the expert's failure to test an accused product supported the exceptional case finding and fee award. In light of the guidance in the remand order, the district court "clarified" its earlier finding on this point. The district court found Checkpoint's expert's reliance on two of All-Tag's manufacturing process patents, the '466 and '343 patents, as evidence of infringement "insufficient," stating "there was evidence that All-Tag's manufacturing processes were not the same as those disclosed in the '466 and '343 patents, making comparisons of the patents, instead of the actual products, insufficient."

There was no representation by All-Tag that the accused products were different from the tested products, and the district court did not so find. There was no allegation of falsity or fraud or bad faith on the part of Checkpoint or its expert. Further, All-Tag's witness testified that the All-Tag patents explained how All-Tag manufactured its resonance tags, agreeing with counsel that to understand the process by which the accused tags were produced, it was "enough to just read the patent," and providing no additional details. This aspect

does not support the "exceptional case" ruling against Checkpoint.

The Court has cautioned that fee awards are not to be used "as a penalty for failure to win a patent infringement suit." The legislative purpose behind § 285 is to prevent a party from suffering a "gross injustice": "The exercise of discretion in favor of [awarding attorney fees] should be bottomed upon a finding of unfairness or bad faith in the conduct of the losing party, or some other equitable consideration of similar force, which makes it grossly unjust that the winner of the particular law suit be left to bear the burden of his own counsel fees."

We conclude that the district court erred, and thus abused its discretion, in its assessment of "exceptional case," for the record shows that the charge of infringement was reasonable and the litigation was not brought in bad faith or with abusive tactics. The award of attorney fees under 25 U.S.C. § 285 is reversed.