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Federal Circuit Patent Bulletin: *Rothschild Connected Devices Innovations, LLC v. Guardian Prot. Servs.*

June 8, 2017

Whether a party avoids or engages in sanctionable conduct under Rule 11(b) "is not the appropriate benchmark"; indeed, "a district court may award fees in 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."

On June 5, 2017, *Rothschild Connected Devices Innovations, LLC v. Guardian Prot. Servs.*, the U.S. Court of Appeals for the Federal Circuit (Prost, Mayer, Wallach*) reversed and remanded the district court's denial of ADS's request for 35 U.S.C. § 285 attorney fees following the voluntary dismissal of Rothschild's claim alleging ADS' home security systems infringed U.S. Patent No. 8,788,090, which related to a system and method for creating a personalized consumer product enabling user customization of solid and fluid mixes. The Federal Circuit stated:

A "court in exceptional cases may award reasonable attorney fees to the prevailing party." [A]n exceptional case, though rare, 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. District courts may determine whether a case is "exceptional" in the case-by-case exercise of their discretion, considering the totality of the circumstances. In weighing the evidence, the district court may consider, among other factors, "frivolousness, motivation, objective unreasonableness (both in the factual and legal components of the case)[,] and the need in particular circumstances to advance considerations of compensation

Authors

Neal Seth
Partner
202.719.4179
nseth@wiley.law

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and deterrence." An exceptional case determination must find support in a "preponderance of the evidence." . . .

The District Court clearly erred by failing to consider Rothschild's willful ignorance of the prior art. In its Safe Harbor Notice and Cross-Motion for attorney fees, ADS included prior art that purportedly anticipates claim 1 of the '090 patent. In response to ADS's Cross-Motion for attorney fees, Rothschild submitted two affidavits relevant here. In the first, Rothschild's counsel stated that he had "not conducted an analysis of any of the prior art asserted in [the] Cross[]Motion to form a belief as to whether that prior art would invalidate" the '090 patent. In the second, Rothschild's founder echoed these statements. However, in the same affidavits, Rothschild's counsel and founder both assert that they possessed a "good faith" belief that the '090 patent "is valid." It is unclear how Rothschild's counsel and founder could reasonably believe that claim 1 is valid if neither analyzed the purportedly invalidating prior art provided by ADS. More problematic here, the District Court did not address these incongruent statements in its analysis. A district court abuses its discretion when, as here, it "fail[s] to conduct an adequate inquiry." . . .

ADS next alleges that Rothschild has engaged in vexatious litigation related to the '090 patent. According to ADS, Rothschild has asserted claim 1 of the '090 patent in fifty-eight cases against technologies ranging from videocameras to coffeemakers to heat pumps. Further, ADS contends that Rothschild has settled the vast majority, if not all, of these cases for significantly below the average cost of defending an infringement lawsuit. The District Court rejected ADS's contention, finding "the fact that a patentee has asserted a patent against a wide variety of defendants and settled many of those cases . . . does not alone show bad faith."

The District Court based this aspect of its analysis on a clearly erroneous assessment of the evidence. The District Court predicated its finding on "the absence of any showing that [Rothschild] acted unreasonably or in bad faith in the context of this suit." [However,] that ancillary finding improperly rests upon statements from Rothschild's counsel and founder that have no evidentiary value. Therefore, in the absence of evidence demonstrating that Rothschild engaged in reasonable conduct before the District Court, the undisputed evidence regarding Rothschild's vexatious litigation warrants an affirmative exceptional case finding here.

Finally, we turn to ADS's argument that the District Court failed to account for the totality of the circumstances by equating Rule 11 to § 285. The District Court held that "§ 285 should [not] be applied in a manner that contravenes the aims of Rule 11—[Rothschild]'s decision to voluntarily withdraw its complaint within the safe harbor period is the type of reasonable conduct [that] Rule 11 is designed to encourage." ADS avers that the District Court's analysis "improperly conflat[ed] the provisions of Rule 11and relief under [§] 285." . . . Whether a party avoids or engages in sanctionable conduct under Rule 11(b) "is not the appropriate benchmark"; indeed, "a district court may award fees in 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."