Patentee’s Willful Ignorance, Vexatious Lawsuits Set Off Alarm Bells

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The US Court of Appeals for the Federal Circuit reversed a district court decision that an infringement case was not exceptional and found that the patentee’s willful ignorance of prior art and commencement of multiple lawsuits alleging infringement justified an attorneys’ fee award, even if the conduct did not violate Federal Rule of Civil Procedure 11. Rothschild Connected Devices Innovations, LLC v. Guardian Protection Servs., Inc., Case No. 2016-2521 (Fed. Cir., June 5, 2017) (Wallach, J) (Mayer, J, concurring).

Rothschild is the owner of a patent for a system and method with which a user can customize products using a software interface that instructs hardware to mix solids and liquids as the user directs. Rothschild commenced almost 60 cases alleging infringement of its patent, including one against ADS Security and several other unrelated defendants. After answering, ADS moved for judgment on the pleadings that Rothschild’s patent claimed unpatentable matter under § 101 and served a Rule 11 motion for failure to sufficiently investigate the relevant prior art. Rothschild moved to voluntarily dismiss the case, and ADS cross-moved for attorneys’ fees under § 285. The district court granted Rothschild’s motion to dismiss and denied ADS’s motion for fees, in large part because Rothschild did what litigants faced with a strong Rule 11 motion are supposed to do: stand down. ADS appealed.
The Federal Circuit reversed, explaining that even under the deferential abuse-of-discretion standard that applies to § 285 determinations, the district court erred in three respects. First, the district court failed to consider Rothschild’s willful ignorance of relevant prior art. In particular, the Court was troubled by Rothschild’s simultaneous, inconsistent positions that it made a good-faith determination that its patent was valid and that it did not review the prior art identified by ADS. Because Rothschild provided no support for its assertions about its pre-suit review, the Court ascribed no evidentiary value to them.

Second, the district court did not appreciate the vexatious nature of Rothschild’s assertion of patent infringement in almost 60 cases, particularly when Rothschild asserted its patent claiming a way to create customizable consumable liquid products (as Judge Mayer referenced in his concurrence) against defendants such as ADS, a security system company, that provide no such products, customizable or not.

Finally, the district court equated the exceptional case standard under § 285 with the standard for sanctions under Rule 11, notwithstanding the Supreme Court of the United States’ guidance in Octane Fitness that whether a litigant violated Rule 11 is “not the appropriate benchmark” and that § 285 authorizes attorneys’ fee awards when “a party’s unreasonable conduct—while not necessarily independently sanctionable—is nonetheless so ‘exceptional’ as to justify an award of fees.”

The case was remanded to the district court for a determination of the attorneys’ fee award.

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