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Federal Circuit reverses district court decision on exceptional case and attorneys' fees

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The US Court of Appeals for the Federal Circuit has reversed a district court decision in a patent infringement case involving what constitutes an exceptional case justifying an award of attorneys' fees under 35 USC Section 285.

The plaintiff, Rothschild Connected Devices Innovations (RCDI), sued ADS Security and several other defendants for patent infringement in the Eastern District of Texas based on US Patent 8,788,090. Shortly after the suit was filed, ADS emailed counsel for RCDI alleging that the patent was invalid under 35 USC Section 101 as claiming ineligible subject matter and also invalid under 35 USC Section 102 based on various prior devices and processes. In that email, ADS asserted that the suit was frivolous and threatened penalties under Rule 11 of the Federal Rules of Civil Procedure, but ADS also offered to settle the matter if RCDI paid approximately $43,000 in attorneys' fees and costs to ADS. RCDI rejected that offer, leading ADS to file its safe harbour notice under Rule 11. In response, RCDI filed its motion to voluntarily dismiss ADS. However, ADS opposed the motion to dismiss and filed a cross-motion for attorneys' fees under Section 285, stating that RCDI's lawsuit was objectively unreasonable and that the case was simply intended to exploit the high costs to defend complex litigation and extract a nuisance value settlement from ADS. ADS pointed to numerous prior lawsuits filed by RCDI based on the same patent as a pattern of vexatious litigation.

The district court granted RCDI's motion to dismiss and it denied ADS's motion for attorneys' fees. In its denial of attorneys' fees to ADS, the court found that RCDI did not engage in conduct sufficient to make the action an exceptional case under Section 285. The court stated that voluntarily dismissing ADS within the safe harbour period was the type of reasonable conduct that Rule 11 is designed to encourage. The court also brushed aside ADS's assertion of vexatious litigation and concluded that RCDI had made facially plausible arguments supporting patent eligibility.

In its reversal and remand, the Federal Circuit found that the district court had abused its discretion by:

- failing to consider RCDI's willful ignorance of the prior art provided by ADS; and
- failing to find that RCDI's filing of 58 prior lawsuits and settlement of most of those cases for less than the average cost of defending an infringement lawsuit was vexatious litigation.

The Federal Circuit further stated that the district court had erred as a matter of law by improperly conflating Rule 11 with Section 285 when it ruled that Section 285 "should [not] be applied in a manner that contravenes the aims of Rule 11" when RCDI voluntarily dismissed ADS within the safe harbour period.

Citing a decision by the Supreme Court in *Octane Fitness, LLC v Icon Health & Fitness, Inc* (134 S Ct 1749 (2014)), the Federal Circuit stated that "[w]hether a party avoids or engages in sanctionable conduct under Rule 11 is not the appropriate benchmark", but rather whether the party's unreasonable conduct is so exceptional as to justify an award of fees.

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