



## Patentee Losing Claim Construction Does Not Make Infringement Case “Exceptional”™

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*iLOR, LLC v Google, Inc.*, Nos 2010-1117, -1172, 2011 US App. LEXIS 516, US Court of Appeals for the Federal Circuit, 11 January 2011

### Abstract

The Federal Circuit overturns an award of attorneys' fees under 35 USC § 285 where a patentee's claim construction position, although not ultimately adopted by the Court, is not objectively baseless.

### Legal context

Previously, the full court of the US Court of Appeals for the Federal Circuit, in *In re Seagate Technology, LLC*, 497 F.3d 1360 (Fed. Cir. 2007) (en banc), clarified and rewrote the rules for awarding attorneys' fees under 35 USC § 284 against an adjudged infringer for willful infringement. In *iLOR, LLC v Google, Inc.*, Nos 2010-1117, -1172, 2011 US App. LEXIS 516 (Fed. Cir. 11 Jan. 2011, '*iLOR IV*'), the Federal Circuit addresses the flipside of the issue, ie, when a court may award attorneys' fees under 35 USC § 285 against an unsuccessful patentee. In both cases, the Federal Circuit set a high bar as to what constitutes an 'exceptional case' justifying an award of attorneys' fees.

### Facts

iLOR is an internet company and assignee of US Patent No. 7,206,839. This patent is generally directed to a '[m]ethod for adding a user-selectable function to a hyperlink'. iLOR brought a patent infringement action against Google in the US District Court for the Eastern District of Kentucky and moved for a preliminary injunction against Google: *iLOR, LLC v Google, Inc.*, No. 5:07-CV-109 (E.D. Ky. filed 17 April 2007).

The only claim limitation in dispute required that 'the toolbar *be[] displayable* based on a location of a cursor in relation to a hyperlink'. The District Court rejected iLOR's proposed claim construction in favor of Google's proposed claim construction and denied the requested preliminary injunction: *iLOR, LLC v Google, Inc.*, No. 5:07-CV-109, 2007 US Dist. LEXIS 88835, at \*18 (E.D. Ky. 30 Nov. 2007, '*iLOR I*'), *aff'd*, 550 F.3d 1067 (Fed. Cir. 2008).

On appeal from that decision, the Federal Circuit agreed with the District Court's claim construction, and found that the District Court did not err in denying the requested preliminary injunction: *iLOR, LLC v Google, Inc.*, 550 F.3d 1067, 1069 (Fed. Cir. 2008, '*iLOR*



II').

Thereafter, Google successfully moved to recover attorneys' fees and costs and expenses under 35 USC § 285. In an order dated 15 October 2009, the District Court granted Google's motion, finding that the case was exceptional, since it was 'not close' on the merits (which the Federal Circuit interpreted to be a finding that the patentee's case was objectively baseless) and that iLOR had acted in subjective bad faith: *iLOR, LLC v Google, Inc.*, No. 5:07-CV-109, 2009 US Dist. LEXIS 98584 (E.D. Ky. 15 Oct. 2009, '*iLOR III*'). A final order increasing the award of attorneys' fees from \$627,039.25 to \$660,351.93 was entered on 23 December 2009. Both of these orders were appealed and addressed together.

### **Analysis**

*iLOR IV* began its analysis by quoting 35 USC § 285, the statute governing the award of attorneys' fees in 'exceptional cases':

A 'court in exceptional cases may award reasonable attorney[s]' fees to the prevailing party'.

2011 US App. LEXIS 516, at \*7. *iLOR IV* noted the importance of the appellate court's 'responsibility, in light of the substantial economic and reputational impact of such sanctions, to examine the record with care to determine whether the trial court has committed clear error in holding the case exceptional or has abused its discretion with respect to the fee award'. *Id.* (quoting *Medtronic Navigation, Inc. v BrainLAB Medizinische Computersysteme GmbH*, 603 F.3d 943, 953 (Fed. Cir. 2010)).

The Federal Circuit identified the US Supreme Court's decision in *Professional Real Estate Investors, Inc. v Columbia Pictures Industries, Inc.*, 508 US 49 (1993), as a backdrop to its interpretation of 35 USC § 285. *iLOR IV* interpreted *Professional Real Estate* as follows:

There, the [US Supreme] Court recognized that the right to bring and defend litigation implicated *First Amendment* rights and that bringing allegedly frivolous litigation could only be sanctioned if the lawsuit was 'objectively baseless in the sense that no reasonable litigant could realistically expect success on the merits'. 'Only if challenged litigation is objectively meritless may a court examine the litigant's subjective motivation.'

2011 US App. LEXIS 516, at \*9 (citations omitted). The Federal Circuit next turned to its pre-*Seagate* precedent in *Brooks Furniture Manufacturing, Inc. v Dutailier International, Inc.*, 393 F.3d 1378 (Fed. Cir. 2005), which applied *Professional Real Estate* to interpret Section 285's requirements as follows:

In determining whether a case is 'exceptional' under § 285, the relevant standard is ... that an award of attorneys' fees is permissible 'when there has been some material inappropriate conduct related to the matter in litigation, such as willful infringement, fraud or inequitable conduct in procuring the patent, misconduct during litigation, vexatious or



unjustified litigation, conduct that violates *Fed. R. Civ. P. 11*, or like infractions'. ... [A]bsent misconduct during patent prosecution or litigation, sanctions may be imposed against a patent plaintiff 'only if both (1) the litigation is brought in subjective bad faith, and (2) the litigation is objectively baseless'. An infringement action 'does not become unreasonable in terms of [§ 285] if the infringement can reasonably be disputed. Infringement is often difficult to determine, and a patentee's ultimately incorrect view of how a court will find does not of itself establish bad faith'.

*iLOR IV*, 2011 US App. LEXIS 516, at \*9–10 (citations omitted). The Federal Circuit confirmed that, '[u]nder this exacting standard, the plaintiff's case must have no objective foundation, and the plaintiff must actually know this. Both the objective and subjective prongs of *Brooks Furniture* "must be established by clear and convincing evidence." We recognize a 'presumption that the assertion of infringement of a duly granted patent is made in good faith.' *Id.* (emphasis added; citations omitted). Thus, as the Federal Circuit held in *Seagate*, the objective standard is the threshold inquiry.

Turning to the 'objectively baseless' prong of the analysis, *iLOR IV* noted that, under both *Brooks Furniture and Seagate*, 'objective baselessness' does not turn on the state of mind of the patentee at the time the action was commenced, but rather depends on an objective assessment of the merits of the case and it must be determined based on the record ultimately made in the infringement proceedings. In applying this analysis *iLOR IV* found the District Court erred in finding that the patentee's assertion was objectively baseless, even though the action ultimately proved unsuccessful. In particular, *iLOR IV* held, 'Google has not met its high burden to show by clear and convincing evidence that this suit was brought frivolously or that iLOR's position on claim construction was objectively baseless'. *Id.* at \*13.

In analysing the objective merit of iLOR's position, the Federal Circuit examined the evidence relied upon by iLOR in advancing its ultimately unsuccessful claim construction position. While the District Court and the Federal Circuit in *iLOR I* and *II* ultimately rejected iLOR's evidence in favour of Google's evidence, *iLOR IV* nonetheless recognized that a 'reasonable litigant could proffer these arguments in good faith'. *Id.* at \*15. In particular, iLOR offered evidence from the patent claims, the specification and the prosecution history to support its claim construction. See *id.* at \*17 ('In light of the claim terms, specification, and prosecution history, we believe that iLOR could reasonably argue for the claim construction that it proposed.').

Significantly, with respect to the claim construction issue, *iLOR IV* noted, '[a]s with many cases, this suit presents a routine question of claim construction in which the issues are often complex and the resolutions not always predictable ... . Even when presented with 'simple' claim terms, courts may differ in their interpretation of those terms. Here, the claim issues were far from 'simple.' The objective evidence in this case demonstrates that iLOR could reasonably argue that its broad claim construction position was correct and that Google infringed its claims.' *Id.* at \*17–18.



To buttress the finding that the claim construction positions were not objectively baseless, *iLOR IV* turned to the fact that on the appeal from *iLOR I*, the Federal Circuit held oral argument and issued a precedential written opinion in *iLOR II* which ‘suggests that we did not regard the case as frivolous’. *Id.* at \*18.

Thus *iLOR IV* summarized its conclusion as follows:

As we held in the first appeal, *iLOR*'s claim construction was incorrect. But simply being wrong about claim construction should not subject a party to sanctions where the construction is not objectively baseless.

*Id.* at \*18–19. Finally, the Federal Circuit also found the District Court erred in relying upon an inference as to the patentee's state of mind regarding the relative merits of the case, based on pre-litigation statements by *iLOR* in a blog, noting that:

However, these statements are irrelevant to the issue of objective baselessness. A finding of objective baselessness is to be determined by the record made in the infringement proceedings.

*Id.* at \*19. Since the Federal Circuit's decision to reverse turned on a threshold finding that the ‘objectively baseless’ prong was not satisfied, the Court did not need to consider whether the subjectively bad faith prong was satisfied.

### **Practical significance**

*iLOR IV* has confirmed the high bar the Federal Circuit has set for finding a case an ‘exceptional case’ to justify an award of attorneys' fees in the US. Failing to succeed in a patent infringement action either as a patent holder or accused infringer is not enough to justify a finding that a case is an exceptional case. In the absence of some other aggravating factor (eg, inappropriate litigation conduct, inequitable conduct), the losing party must have both an objectively and subjectively baseless position at the time of bringing the patent infringement action under the current state of the law.

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