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Honesty is the Best Policy: Federal Circuit Affirms Vacatur of Judgment Due to Material Misrepresentations

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The United State Court of Appeals for the Federal Circuit recently affirmed a decision by the United States District Court for the Central District of California, setting aside a judgment and injunction in a patent infringement case due to material misrepresentations on the part of the prevailing party discovered after the final judgment was issued. This case serves as a reminder of the importance of making honest and factually accurate statements to a court and the severe consequences that can stem from failing to do so.

The case involved U.S. Patent No. 8,931,123, owned by Zinus, Inc., which included claims directed to "[a]n assemblable mattress support" (*i.e.*, a bed frame) that "can be shipped in a compact state with all of its components compactly packed into the headboard." In January 2016, Cap Export, LLC filed a declaratory judgment action against Zinus alleging the claims of the '123 patent were invalid and not infringed. Zinus counterclaimed, alleging infringement of the '123 patent and unfair business practices under California state law. After a first summary judgment decision in Zinus' favor was vacated on procedural grounds and remanded by the Federal Circuit, Zinus again filed a motion for summary judgment. The District Court granted partial summary judgment that the '123 patent claims were not invalid "because none of the 'prior art' references considered by the Court either anticipated or made obvious the patent claims embodied in the '123 patent." Based on that ruling, the District Court entered a final judgment in Zinus' favor on May 30, 2019, which included, among other things, $1.1 million in damages to be paid by Cap Export to Zinus, and a permanent injunction against Cap Export.

Thereafter, Cap Export discovered evidence that the October 2016 deposition testimony of Zinus' then-President, Colin Lawrie, had been false as to statements made concerning knowledge of prior art. These misrepresentations were discovered when Zinus filed a lawsuit against an unrelated party, Classic Brands, LLC, alleging infringement of the '123 patent. In support of a motion to transfer, Classic Brands filed a declaration attaching documents that led Cap Export to discover evidence that Zinus, through a sales representative, purchased 405 beds with "all components fitting in the headboard" from a Malaysian company called Woody Furniture. The purchase order was executed in 2012—pre-dating the filing of the '123 patent—and was signed by Colin Lawrie.

On September 29, 2019, Cap Export filed a motion to vacate the judgment and injunction pursuant to Federal Rule of Civil Procedure 60(b)(3), which allows a court to relieve a party from a final judgment, order, or proceeding based on "fraud, . . . misrepresentation, or misconduct by an opposing party." Cap Export's primary basis for its allegations of fraud and misrepresentation was Lawrie's testimony in his October 2016 deposition where he repeatedly denied knowledge of prior art disclosing the type of bed covered by the '123 patent (*i.e.*, one with all components fitting in the headboard). Specifically, Lawrie was questioned:

1. 1. What do you think the novelty or the invention is of the ['123 patent]?
   2. The ability to package an unassembled bed into a headboard and have it ship in one box.
   3. Prior to September 2013 had you ever seen a bed that was shipped disassembled in one box?
   4. No.
   5. Not even—I'm not talking about everything stored in the headboard, I'm just saying one box.
   6. No, I don't think I have.

In opposition to Cap Export's 60(b)(3) motion, Lawrie submitted a declaration admitting that his October 2016 deposition testimony was "literally incorrect," but asserted that he did not "intend to answer falsely" because he "meant that [he] had not seen a bed shipped disassembled in one box with all of the components in the headboard." The District Court found Lawrie's explanation "wholly implausible" and determined Lawrie made repeated "affirmative misrepresentations" to the Court concerning his knowledge of the prior art, and set aside the judgment – including the $1.1 million award.

Zinus subsequently appealed to the Federal Circuit. It argued the District Court erred in granting the 60(b)(3) motion because, under Ninth Circuit precedent, fraud in the 60(b)(3) context must "not be discoverable by due diligence before or during the proceedings." Specifically, Zinus contended emails relating to the Woody Furniture purchases "would have been discoverable if Cap Export's lawyers had exercised due diligence and propounded standard document production requests for a patent case." The Court noted the Ninth Circuit's "additional due diligence requirement appears contrary to the text of Rule 60(b)(3)," and it was not aware of any other circuits adopting it. Nevertheless, the Federal Circuit followed this "questionable" standard.

Yet even applying the Ninth Circuit's rule, the Federal Circuit affirmed, finding the District Court did not abuse its discretion. The Court explained "due diligence in discovering fraud does not require investigation unless there is reason to suspect fraud." On that issue, the Court found "Cap Export had no reason to suspect fraud" because Cap Export (1) deposed Lawrie and asked him repeatedly about his knowledge of prior art and (2) undertook numerous prior art searches that failed to reveal evidence of the Woody Furniture purchases. On that record, the Court held the Ninth Circuit's due diligence requirement was satisfied. The Court also found the other requirements for relief under Rule 60(b)(3) were satisfied, as the motion was made within a year of the final judgment, Lawrie's statements were indeed material misrepresentations, and the evidence of the purchases of the beds would have been material to Cap Export's argument against the '123 patent's validity.

Cap Export reinforces the importance of making truthful, factually accurate statements in all sworn statements. Indeed, there is perhaps no greater obligation in the legal profession. Further, this case serves as a reminder that preparing a witness for a deposition or court appearance is a two way street: the witness should be forthcoming with their attorney about any potential issues that may arise so they can be handled appropriately, and, in turn, the attorney must remind the client that they are required to provide truthful and accurate responses to questions. Failing to do so, as this case demonstrated, can have severe consequences.

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  Associate