

CAP EXPORT, LLC v. ZINUS, INC., Appeal No. 2020-2087 (Fed. Cir. May 5, 2021). Before Dyk, Bryson, and Hughes. Appealed from C.D. Cal. (Judge Wilson).

Background:

Zinus owns a patent directed to a bed frame that can be shipped in one box with all of its components packed into the headboard. Cap Export filed a declaratory judgment action against Zinus, alleging that claims of the patent were invalid and not infringed. In response, Zinus counterclaimed alleging infringement of the patent.

In the patent infringement proceedings, Cap Export argued that the patent was invalid in view of a similar "bed in a box." The district court held in favor of Zinus, finding that the asserted claims were valid over the asserted prior art and infringed. The district court's decision on validity was based in part on the deposition testimony of Zinus' president Colin Lawrie, who testified that he had never seen a bed that was shipped unassembled in one box. This testimony effectively negated any evidence of the existence of prior art, as defined by the on-sale bar.

However, Cap Export later discovered evidence suggesting that Lawrie had made false statements regarding his knowledge of the prior art. That is, it was revealed in another patent infringement case, of which Zinus had filed against another party, that Lawrie had signed invoices to purchase 405 beds from a Malaysian company a year before Zinus applied for the patent. The invoice described the beds as "all components fitting in the headboard, including the footboard and the longitudinal bar, for shipping." Thus, within a year of the judgment, Cap Export filed a motion to vacate under Rule 60(b)(3), which provides grounds for relief based on fraud, misrepresentation, or misconduct by an opposing party. On this basis, Cap Export asserted that Lawrie misrepresented his knowledge of the prior art as defined by the on-sale bar.

During the Rule 60(b)(3) proceedings, although Lawrie admitted that his testimony regarding his knowledge of the prior art "bed in the box" was "literally incorrect," he asserted that he did not intend to lie, and instead he meant that he had not seen an unassembled bed in one box with all of the components in the headboard. The district court found this explanation to be "implausible," and in accordance with Rule 60(b)(3), vacated the judgment against Cap Export.

Issue/Holding:

Did the district court err in vacating the judgment and injunction pursuant to Federal Rule of Civil Procedure 60(b)(3) based on Lawrie's misrepresentations? No, affirmed.

Discussion:

The Federal Circuit considered Zinus' assertions that, in accordance with Rule 60(b)(3), the alleged fraud must "not be discoverable by due diligence" before a judgment can be set aside. In this regard, Zinus argued that Cap Export did not exercise due diligence because evidence of Lawrie's false statements could have been discovered in emails relating to the purchase. In response to this argument, the Federal Circuit reasoned that due diligence in discovering fraud does not require an investigation unless there is a reason to suspect fraud, and here, there was no reason for Cap Export to believe that Lawrie's deposition testimony was not truthful.

The Federal Circuit also considered Zinus's assertions that the purchased beds would not have qualified as invalidating prior art. However, the Federal Circuit noted that when information called for by discovery is withheld, it is unnecessary to establish that the result would have been altered by the withheld information. Thus, the Federal Circuit affirmed the district court's decision.