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# *The Federal Circuit Addresses Equitable Remedies and Defenses Against Patent Owners For Their Misconduct Before the District Court and the PTO*

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The Federal Circuit's decision in *Luv N' Care v. Laurain* (April 12, 2024) addresses the legal standards for remedying egregious forms of deceptive conduct by patent owners through the equitable barring of relief and patent unenforceability.

## **I. Background**

The parties manufacture children's dining mat products that are integrated with tableware and designed to adhere to tables. Luv N' Care ("Plaintiff") brought an action in the Western District of Louisiana against Lindsay Laurain and Eazy-PZ, LLC ("Defendants"), seeking an injunction and damages based on unfair competition, and a declaratory judgment that Defendants' patent was invalid, unenforceable, and not infringed. Defendants counterclaimed with claims of patent, copyright, trademark, and trade dress infringement, violation of Louisiana's Unfair Trade Practices and Consumer Protection Law, and unjust enrichment.

The district court found that Plaintiff proved that Defendants were barred from their requested relief due to unclean hands, but failed to prove that Defendants' patent was unenforceable due to inequitable conduct. The district court also granted partial summary judgment of invalidity of Defendants' patent, and denied Plaintiff's motion for attorney fees and costs.

On appeal, the Federal Circuit (1) affirmed the finding of unclean hands, (2) vacated the finding of no inequitable conduct, (3) vacated the partial judgment of invalidity, and (4) vacated the denial of attorney fees and costs.

## II. The Federal Circuit's Analysis

### Unclean Hands Barring Relief

The doctrine of unclean hands requires a showing that a party's misconduct "has immediate and necessary relation" to the relief sought in litigation. The Federal Circuit highlighted the following factual findings as support for the district court's determination of unclean hands:

- Defendants delayed, without reason, the disclosure of related patent applications revealing the U.S. Patent and Trademark Office ("PTO")'s construction of a key claim term until after the close of discovery and dispositive motions;
- Defendants obstructed discovery of Ms. Laurain's prior searches relating to her awareness of relevant prior art before filing the application that issued into the asserted patent; and
- Defendants' witnesses repeatedly gave false or evasive testimony in depositions that obscured information that could have been used by experts and in dispositive motions.

Slip Op. at 12-14. The Federal Circuit found no error in the district court's conclusion that Defendants tried to gain an unfair advantage in litigation "by deceit and reprehensible conduct." *Id.* at 9 (citing district court). Defendants' misconduct was found to have an "immediate and necessary" relation to the requested relief because it informed their litigation strategy on claim construction and undermined Plaintiff's invalidity and unenforceability defenses. *Id.* at 13-14.

Notably, the Federal Circuit also affirmed the district court's finding that Defendants' conduct, with respect to their patent infringement claim, "cannot be cordoned off" from their conduct with respect to their other claims on infringement of trade dress and a design patent, because the "loss of confidence in a party's candor cannot be overcome with respect to other theories of recovery." *Id.* at 15 (citing district court).

### Unenforceability From Inequitable Conduct

Inequitable conduct requires a showing that the patentee (1) withheld material information from the PTO, and (2) did so with the specific intent to deceive the PTO. *Therasense, Inc. v. Becton, Dickinson & Co.*, 649 F.3d 1276, 1290 (Fed. Cir. 2011) (en banc).

For the materiality element, there are two types to consider—but-for and per se materiality. But-for materiality (*i.e.*, the PTO would not have allowed a claim had it been aware of the undisclosed prior art) is the standard unless there is "affirmative egregious misconduct," which can be characterized by "deliberately planned and carefully executed schemes to defraud the PTO and the courts." *Id.* at 1292. When there is affirmative egregious conduct, materiality is per se, and there is no need to show a causal relationship to the PTO's patentability determination. The conduct at issue in *Luv N' Care* was based on Ms. Laurain and her patent agent's ("applicants") misrepresentations to the PTO concerning a prior art mat that did not have a self-sealing feature. The district court found that this misrepresentation was not but-for material since the prior art mat itself was disclosed to the PTO. Slip Op. at 8-9. However, the Federal Circuit was unable to discern any finding of whether there was affirmative egregious misconduct establishing per se materiality. *Id.* at 16-17. The Federal Circuit also observed that the district court's materiality analysis was improperly "embedded with its assessment of deceptive intent," which is a separate requirement. *Id.* at 17.

Further, the Federal Circuit vacated the district court's finding that certain prior art references withheld from the PTO were not material because they were cumulative to the disclosed prior art mat. *Id.* However, the withheld references included self-sealing features, and could thus be considered not cumulative to the record considered by the PTO, since the applicants had specifically misrepresented to the PTO that the disclosed prior art mat *lacked* that functionality. *Id.*

For the element of deceptive intent, the district court had found none present because the applicants' misrepresentations of the prior art mat, and their declarations containing false or misleading information, did not individually demonstrate specific intent to deceive the PTO. *Id.* at 20-21. The Federal Circuit disagreed and emphasized its prior decisions holding that individual acts that may not appear deceptive in isolation may still collectively support a finding of deceptive intent. *Id.* at 19-21.

#### Invalidity and Attorney Fees

The Federal Circuit vacated the judgment of invalidity given issues of material fact on secondary considerations and the prior art's disclosure of claim elements. *Id.* at 22-31. The Federal Circuit also identified Plaintiff as the prevailing party, even if it did not prevail on all issues, because it won on its relationship-altering claim that Defendants were barred from recovering from Plaintiff. *Id.* at 32-33. The district court was ordered to determine, on remand, whether the case was exceptional under the totality of the circumstances and whether it should award attorney fees and costs. *Id.* at 33-35.

### **III. Some Take-Aways**

The Federal Circuit affirmed the district court's findings of "reprehensible conduct" for Defendants' unclean hands, and ordered analysis of Defendants' overall conduct to determine if it amounted to "affirmative egregious conduct" for inequitable conduct. Here, the overall misconduct at issue involved a series of misrepresentations, omissions and withholding of material information before the district court and the PTO. More generally, considering the overall conduct of a bad actor is consistent with assessing the totality of circumstances, which courts must undertake to decide on equitable remedies and defenses.

On inequitable conduct, the opinion cautions against conflating the analysis of the two requirements of materiality and deceptive intent, but the analytic approach can appear similar. The Federal Circuit has repeatedly endorsed proving deceptive intent through serial acts in their collective aggregate and not individually. But this opinion also supported a similar approach to materiality by underscoring the need to assess materiality not only through the lens of but-for materiality for individual omissions, but also through "affirmative egregious conduct," which could be determined by considering how an act fits into an overall scheme to defraud the PTO.

Notably, the basis for unclean hands in this case was litigation misconduct. The doctrine of unclean hands can be invoked for bad faith in connection with a breach of an agreement between the parties. But here, the doctrine was applied to the breach of a party's duty of candor, where the district found the underlying acts to be "offensive to the integrity of the [c]ourt," resulting in its "loss of confidence in [Defendants'] candor." Slip Op. at 13. Further, the Federal Circuit affirmed the district court's decision that litigation misconduct relating to claim construction, invalidity and unenforceability of one patent broadly barred claims of infringement of a different design patent and of trade dress. This opinion highlights the severe consequences that patent owners may face for litigation misconduct, over other sanctions available under the Federal Rules. Accused infringers may be more incentivized by this precedent to take inventory of patent owners' misrepresentations, omissions or unexcused delays in developing robust equitable defenses as further tools to resolve cases in their favor.



*If you have any questions concerning these developing issues, please do not hesitate to contact any of the following Paul Hastings lawyers:*

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