

The Fed. Circ. In February: Infringement Defense Challenges

By **Paul Stewart** (February 27, 2023)

The U.S. Court of Appeals for the Federal Circuit issued a **decision** in *Lite-Netics LLC v. Nu Tsai Capital LLC* on Feb. 17 that addresses the intersection between state tort law, federal patent law and the First Amendment.

In this decision, the Federal Circuit reversed as an abuse of discretion the U.S. District Court for the District of Nebraska's grant of a preliminary injunction against a patent owner's communications with its customers about its allegations of infringement.



Paul Stewart

The Federal Circuit held that the preliminary injunction was a prior restraint against speech, was inconsistent with the patent owner's rights under both patent law and the First Amendment to communicate allegations of infringement, and could not be upheld unless the patent owner's infringement allegations were both objectively and subjectively baseless.

Following a detailed analysis, the Federal Circuit concluded that the patent owner's infringement allegations were at least reasonable, and thus the injunction could not stand.

The case began on Aug. 31, 2022, when Lite-Netics sued Nu Tsai Capital, doing business as Holiday Bright Lights, for infringement of two patents relating to strings of Christmas lights that attach magnetically to houses.

Immediately thereafter, Lite-Netics sent a letter to its customers stating that its lights were protected by patents; other companies were attempting to copy the patented lights; Lite-Netics had sued HBL to stop it from selling infringing products; and Lite-Netics was considering including resellers of HBL's products as co-defendants in the lawsuit.

Many of the Lite-Netics customers who received the letter were also HBL customers.

In response to this letter, HBL asserted six counterclaims, including tortious interference and defamation. That same day, HBL filed a combined motion for a temporary restraining order and preliminary injunction, seeking to enjoin Lite-Netics from making statements accusing HBL of copying patented products and from suggesting to customers that they may be sued for infringement too.

One week later, the district court granted the requested temporary restraining order. Shortly thereafter, following an evidentiary hearing, the district court entered a preliminary injunction.

The order enjoined Lite-Netics from

making statements ... suggesting "copying" by HBL, suggesting HBL customers will be burdened as additional defendants in this or any lawsuit, or suggesting that HBL is a patent infringer.

In its supporting opinion, the district court recognized that HBL's state law counterclaims would be preempted by federal patent laws unless HBL could show that Lite-Netics acted in

bad faith.

The district court concluded that:

HBL's state-law tort claims were not preempted here, centrally because it held that Lite-Netics's infringement allegations were so clearly meritless that their assertion was in bad faith.

On that basis, the district court held that HBL would likely succeed on the merits of its tortious interference and defamation counterclaims. The district court also held that the equitable factors governing preliminary relief favored issuance of an injunction. Lite-Netics appealed and the Federal Circuit reversed.

The Federal Circuit reiterated its long-standing rule that "federal patent law preempts state-law tort liability for a patentholder's good faith conduct in communications asserting infringement of its patent and warning about potential litigation."

Thus, to survive preemption, the claimant must show bad faith by the patent owner. The Federal Circuit also clarified that the bad faith requirement rests partly on First Amendment principles. The court said:

The First Amendment principles are particularly significant when an injunction against speech is at issue.

For a claimant to prevail in obtaining an injunction against a patentee's commercial speech, the claimant must show both objective baselessness of the infringement claim and subjective bad faith. The court emphasized that incorrect infringement allegations are not necessarily baseless.

The remainder of the Federal Circuit's decision assesses the merits of Lite-Netics' allegations of infringement, and confirms the considerable leeway that patent owners have in developing and communicating infringement allegations without fear of tort liability.

For example, one of the asserted claims of Lite-Netics' patents required a magnet "wherein said magnet had a pull strength of at least five pounds." HBL argued that this language required a single magnet having a pull strength of at least five pounds. HBL's product, in contrast, had a pair of adjacent magnets with a combined pull strength of five pounds.

Without issuing a final decision on claim construction or infringement, the Federal Circuit had no difficulty concluding that Lite-Netics' infringement position was reasonable:

We see no basis for deeming objectively unreasonable an assertion that two such pieces [of magnetic material] would be understood by a relevant artisan as a single "magnet," whether as a matter of claim construction or as a matter of application.

Further, the Federal Circuit also relied on the reasonableness of the patent owner's allegation that a two-piece magnet is the equivalent of a one-piece magnet.

In addition, the court observed that the patent claim recited a magnet, and the use of the article "a" is ordinarily understood to mean "one or more." For this reason as well, the Federal Circuit held, it was reasonable for the patent owner to allege infringement of the "a magnet" limitation by a pair of magnets.

Another Federal Circuit panel might not have adopted this additional holding. The asserted claim required "a" magnet "wherein said magnet had a pull strength of at least five pounds."

In this context, one could argue that the use of the article "a" indicates only that the claimed device has one or more magnets, each with a pull strength of at least five pounds.

Nevertheless, the panel's conclusion that Lite-Netics' infringement allegation was not baseless seems sound in view of the primary holding that the word "magnet" could reasonably cover a device made of two parts, literally or under the doctrine of equivalents.

The Federal Circuit's alternative reliance on a debatable claim-construction argument serves only to illustrate the difficulty that infringement defendants have in proving the objective baselessness of the patent owner's claims.

HBL may find it easier to carry that burden, as the Federal Circuit remanded the case to the same district court judge that initially ruled in its favor.

Despite its victory on appeal, Lite-Netics may have a tough time prevailing on its infringement claim before that judge. The judge who held Lite-Netics' claim constructions to be objectively baseless may be unlikely to construe those same claim terms on the merits in Lite-Netics' favor.

As a result, the infringement case could possibly be decided on summary judgment in favor of HBL. This case, therefore, may end up before the Federal Circuit a second time, but this time on the merits of the patent infringement claims.

Paul Stewart is a partner at Knobbe Martens.

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