

**UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT**

2008-1511, -1512, -1513, -1514, -1595

**THERASENSE, INC. (now known as Abbott Diabetes Care, Inc.)  
and ABBOTT LABORATORIES,**

Plaintiffs-Appellants,

v.

**BECTON, DICKINSON AND COMPANY,  
and NOVA BIOMEDICAL CORPORATION,**

Defendants-Appellees,

and

**BAYER HEALTHCARE LLC,**

Defendant-Appellee,

**APPEALS FROM THE UNITED STATES DISTRICT COURT  
FOR THE NORTHERN DISTRICT OF CALIFORNIA  
IN CONSOLIDATED CASE NOS.**

**04-CV-2123, 04-CV-3327, 04-CV-3732 AND 05-CV-3117,  
JUDGE WILLIAM H. ALSUP**

**BRIEF OF *AMICI CURIAE***

**OLE K. NILSSEN AND GEO FOUNDATION, LTD.**

**IN SUPPORT OF PLAINTIFFS-APPELLANTS**

**ABBOTT DIABETES CARE, INC. AND ABBOTT LABORATORIES'**

**PETITION FOR REHEARING EN BANC**

**March 10, 2010**

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## CERTIFICATE OF INTEREST

Counsel for *amici curiae* Ole K. Nilssen and Geo Foundation, Ltd. certifies the following:

1. The full name of every party or *amicus curiae* represented by me is:  
  
Ole K. Nilssen and Geo Foundation, Ltd.
2. The names of the real parties in interest are the same as those listed above.
3. All parent corporations and the publicly held companies that own 10 percent or more of the stock of the party or *amicus curiae* represented by me are:  
  
None.
4. The names of all law firms and the partners or associates that appeared for the party or *amicus curiae* now represented by me in the trial court or agency or are expected to appear in this court are:

FREEBORN & PETERS LLP: Leland W. Hutchinson, Jr., Jonathan Hill,  
and Matthew J. Kramer

March 10, 2010

  
Leland W. Hutchinson, Jr.

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**STATEMENT OF IDENTITY,  
INTEREST, AND SOURCE OF AUTHORITY TO FILE**

1. *Amicus curiae* Ole K. Nilssen (“Nilssen”) is a prolific inventor who has assembled a portfolio of over 240 patents. Since June 2000, *amicus curiae* Geo Foundation, Ltd. (“Geo”) has been the exclusive licensee of all of Nilssen’s patents, holding the right to enforce and/or sub-license that intellectual property.

2. Having extremely valuable rights under Nilssen’s portfolio of patents, *amici* are interested in the appropriate legal standards for determining inequitable conduct, including the evidentiary standard for proving deceptive intent as a predicate element to an inequitable-conduct determination.

3. The source of *amici’s* authority to file is the Motion for Leave to File the Brief of *Amici Curiae*, submitted concurrently herewith.

## INTRODUCTION

The standard for proving deceptive intent in inequitable-conduct cases is an issue of critical importance to inventors well beyond Petitioners, and to the patent system as a whole. Various panels of this Court have created a body of irreconcilable decisions on the evidentiary hurdles an accused infringer must clear in order to establish the deceptive intent required for a determination of inequitable conduct. The resulting uncertainty exacerbates the risk that extremely valuable patents can be rendered unenforceable in any case where the accused infringer fryspecks the file wrapper and urges the court to find, in hindsight, any omitted information to be both inherently material and omitted by nefarious intent. Patent applicants fearful of that risk have no choice but to engage in the practice of over-disclosure, thereby flooding the PTO with irrelevant information. *See, e.g.,* American Bar Association Section of Intellectual Property, A Section White Paper: *Agenda for 21st Century Patent Reform* 18 (2007) (AP-2).<sup>1</sup>

Thus, a doctrine designed to promote equity has been transformed into an instrument for producing profound injustice, and in a manner which contravenes the constitutional mandate “[t]o promote the progress of...useful arts.” U.S. Const. art. I, § 8, cl. 8. Unless this Court speaks with a unified voice on the evidentiary burden sufficient to prove the scienter predicate to an inequitable-conduct

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<sup>1</sup> For the Court’s reference, unpublished authority is attached hereto as a separate appendix, and cited as “AP---.”



determination, the enforceability of countless valuable patents will continue to turn on the happenstance of which of this Court's conflicting precedents applies in a given panel decision. Our legal system cannot countenance such arbitrary results.

### ARGUMENT

As this Court has explained, “[t]he inequitable conduct doctrine, a judicially created doctrine, was borne out of a series of Supreme Court cases in which the Court refused to enforce patents where the patentees had engaged in fraud in order to procure those patents.” *Digital Control Inc. v. Charles Mach. Works*, 437 F.3d 1309, 1315 (Fed.Cir. 2006)<sup>2</sup>; *see also Star Scientific, Inc v. R.J. Reynolds Tobacco Co.*, 537 F.3d 1357, 1365-66 (Fed.Cir. 2008) (noting that the penalty for inequitable conduct “was originally applied only in cases of ‘fraud on the Patent Office’”) (citations omitted). Fraud, of course, requires deliberate deception, ample evidence of which existed in each of these Supreme Court cases. *Precision Instrument*, for example, was a case where the “history of the patents and contracts in issue [were] steeped in perjury and undisclosed knowledge of perjury” and where one of the asserted patents “was admittedly based upon false data which destroyed whatever just claim it might otherwise have had to the status of a patent.” 324 U.S. at 816.

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<sup>2</sup> Citing *Precision Instrument Mfg. Co. v. Auto Maint. Mach. Co.*, 324 U.S. 806 (1945); *Hazel-Atlas Glass Co. v. Hartford-Empire Co.*, 322 U.S. 238 (1944); and *Keystone Driller Co. v. Gen. Excavator Co.*, 290 U.S. 240 (1933).

Leading up to 1988, decisions from this Court had eroded the requirement of deliberate deception and replaced it with a gross-negligence standard. *See, e.g., J.P. Stevens & Co., Inc. v. Lex Tex Ltd., Inc.*, 747 F.2d 1553, 1560 (Fed.Cir. 1984). At that time, with the courts applying a weakened deceptive-intent standard, fully 80% of all patent-infringement cases included charges of inequitable conduct. *See Ad Hoc Committee on Rule 56 and Inequitable Conduct, American Intellectual Property Law Association, The Doctrine of Inequitable Conduct and The Duty of Candor in Patent Prosecution: Its Current Adverse Impact on the Operation of the United States Patent System*, 16 AIPLA Q.J. 74, 75 (1987) (AP-6). This Court recognized that the doctrine had become “an absolute plague” on the patent system, with charges of inequitable conduct in “almost every major patent case.” *Burlington Indus., Inc. v. Dayco Corp.*, 849 F.2d 1418, 1422 (Fed.Cir. 1988). In response, the Federal Circuit, sitting en banc, held in *Kingsdown Med. Consultants, Ltd. v. Hollister Inc.*, 863 F.2d 867 (Fed.Cir. 1988), that “intent to deceive” is indeed a requirement in all inequitable conduct cases and that gross negligence is insufficient. *Id.* at 876.

Unfortunately, *Kingsdown* has done little to stem the inequitable-conduct plague. Indeed, following *Kingsdown*, inequitable-conduct arguments have been characterized by various Judges of this Court as a “plague” on more than a dozen

occasions.<sup>3</sup> For example, in 2008 Judge Rader observed, in his dissenting opinion in *Aventis*, that the dictates of *Kingsdown* have gone unheeded:

In light of the rejuvenation of the inequitable conduct tactic, this court ought to revisit occasionally its *Kingsdown* opinion.... In *Kingsdown*, this court clearly conveyed that the inequitable conduct was not a remedy for every mistake, blunder, or fault in the patent procurement process. Even mistakes that struck at the heart and integrity of the process...did not amount to inequitable conduct. Instead this court required “culpable” conduct supported by clear and convincing evidence of intent to deceive the USPTO.... *Kingsdown* properly made inequitable conduct a rare occurrence.

525 F.3d at 1350 (Rader, J., dissenting). Judge Rader further observed that recent inequitable-conduct decisions have over-emphasized materiality, without proper consideration of deceptive-intent evidence:

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<sup>3</sup> See *Dickson Indus., Inc. v. Patent Enforcement Team, L.L.C.*, 333 Fed.Appx. 514, 519 (Fed.Cir. 2009) (unpublished); *Larson Mfg. Co. of South Dakota, Inc. v. Aluminart Prods. Ltd.*, 559 F.3d 1317, 1342 (Fed.Cir. 2009) (Linn, J., concurring); *Abbott Labs. v. Sandoz, Inc.*, 544 F.3d 1341, 1358 (Fed.Cir. 2008); *Aventis Pharma S.A. v. Amphastar Pharms., Inc.*, 525 F.3d 1334, 1350 (Fed.Cir. 2008) (Rader, J., dissenting); *McKesson Info. Solutions, Inc. v. Bridge Med., Inc.*, 487 F.3d 897, 926-27 (Fed.Cir. 2007) (Newman, J. dissenting); *Ferring B.V. v. Barr Labs., Inc.*, 437 F.3d 1181, 1196 (Fed.Cir. 2006) (Newman, J., dissenting); *Ulead Sys., Inc. v. Lex Computer & Mgmt. Corp.*, 351 F.3d 1139, 1155 (Fed.Cir. 2003) (Newman, J., dissenting); *Hoffman-La Roche, Inc. v. Promega Corp.*, 323 F.3d 1354, 1372 (Fed.Cir. 2003) (Newman, J., dissenting); *Ohio Cellular Prods. Corp. v. Adams USA, Inc.*, 175 F.3d 1343, 1355 (Fed.Cir. 1999) (Newman, J., dissenting); *Dow Chem. Co. v. Exxon Corp.*, 144 F.3d 1478, 1480 (Fed.Cir. 1998) (Lourie, J., Newman, J. and Rader, J., dissenting); *Litton Sys, Inc. v. Honeywell, Inc.*, 140 F.3d 1449, 1469 (Fed.Cir. 1998) (Newman, J., dissenting); *Multiform Desiccants, Inc. v. Medzam, Ltd.*, 133 F.3d 1473, 1482 (Fed.Cir. 1998) (quoting *Dayco Corp.*, 849 F.2d at 1422); *Allied Colloids Inc. v. American Cyanamid Co.*, 64 F.3d 1570, 1578 (Fed.Cir. 1995); *Molins PLC v. Textron, Inc.*, 48 F.3d 1172, 1182 (Fed.Cir. 1995).

More recently...the judicial process has too often emphasized materiality almost to the exclusion of any analysis of the lofty intent requirement for inequitable conduct. Merging intent and materiality at levels far below the *Kingsdown* rule has revived the inequitable conduct tactic.

*Id.* at 1350-51 (citing *Nilssen v. Osram Sylvania, Inc.*, 504 F.3d 1223 (Fed.Cir. 2007), as an example of the Court's divergence from *Kingsdown*).

Three months following Judge Rader's *Aventis* dissent, this Court issued its *Star Scientific* decision wherein Chief Judge Michel (writing for a unanimous panel) provided clarification of the "clear and convincing evidence" burden of establishing deceptive intent. Noting past recognition by this Court that "materiality does not presume intent, which is a separate and essential component of inequitable conduct," *Star Scientific*, 537 F.3d at 1366 (citing *GFI, Inc. v. Franklin Corp.*, 265 F.3d 1268, 1274 (Fed.Cir. 2001)), the opinion explained that "clear and convincing evidence" means that an inference of deceptive intent "must...be the *single most reasonable inference* able to be drawn from the evidence...." *Id.* (emphasis added). Moreover, and critical here, the absence of a credible explanation for material misconduct cannot establish deceptive intent: "[t]he patentee need not offer any good faith explanation unless the accused infringer first carried his burden to prove a threshold level of intent to deceive by clear and convincing evidence." *Id.* at 1368.

The rationale of *Star Scientific*, if applied consistently by this Court, would considerably rein in the inequitable-conduct doctrine. However, certain decisions issued after *Star Scientific* are not in accord. Those decisions still permit an inference of deceptive intent when (1) highly material information is withheld; (2) the applicant knew of the information and should have known of the materiality of the information; and (3) the applicant has not provided a credible explanation for the withholding. *See, e.g., Praxair, Inc. v. ATMI, Inc.*, 543 F.3d 1306, 1313-1314 (Fed.Cir. 2008) (citing *Ferring B.V. v. Barr Labs., Inc.*, 437 F.3d 1181, 1191 (Fed.Cir. 2006)). Those, in fact, are the sole bases for the inequitable-conduct finding in the case at bar.<sup>4</sup>

In his concurring opinion in *Larson*, Judge Linn acutely described the problematic nature of this tripartite test for deceptive intent. *First*, the “high materiality” prong repeats the materiality element, thereby conflating materiality and intent in contravention of the principle that intent “is a separate and essential component of inequitable conduct.” 559 F.3d at 1343-44 (Linn, J., concurring). *Second*, the “‘should have known’ prong sets forth a simple negligence standard,

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<sup>4</sup> The Panel decision cites five key findings by the trial court: (1) that the statements to the PTO were critical in overcoming rejections, (2) that the EPO statements would have been important to the examiner, (3) that the EPO statements were consciously withheld, (4) that no credible explanation for the withholding was offered and (5) that the proffered explanations “were so incredible that they suggested intent to deceive.” *Therasense, Inc. v. Becton, Dickinson & Co.*, 593 F.3d 1289, 1306 (Fed.Cir. 2010).

lower even than the ‘gross negligence’ standard that was expressly rejected in *Kingsdown*.” *Id.* at 1344. **Third**, the “credible explanation” prong improperly “shifts the burden to the patentee to prove a negative: that it did not intend to deceive the PTO.” *Id.* In sum, this standard permits an inference of deceptive intent to be derived solely from significant materiality and negligence. *Id.* Judge Linn recognized that the standard is “in tension with the rule in *Star Scientific*” and “falls short of the standard ‘needed to strictly enforce the burden of proof and elevated standard of proof in the inequitable conduct context.’” *Id.* As a result, Judge Linn suggested that “the time has come for the court to review the issue en banc.” *Id.*

The case at bar exemplifies the same problems addressed by Judge Linn in *Larson*, and the decision here likewise cannot be reconciled with the rules of *Star Scientific*. Here, as in other cases, this Court affirmed a district-court decision inferring that an omission was intentionally deceptive based on its finding that the omitted information was both known to the patentee and highly material, as well as its disbelief of the explanation for the omission. *See* n.3, *supra*.

Critically, absent here are any findings that the patentee **subjectively believed** the EPO statements to be contradictory to their PTO statements, and thus subject to a duty of disclosure. *See, e.g., Molins*, 48 F.3d at 1178 (“One who alleges inequitable conduct...must offer clear and convincing proof of the

materiality of the prior art [and] *knowledge...of its materiality...*”) (emphasis added). That a finding of high materiality may be sustained on appeal, as it was here, does not alone compel the conclusion that the patentee must also have known of the materiality. To accept this proposition is to impermissibly allow the materiality element to consume the intent requirement, which must be maintained as “a separate and essential component of inequitable conduct.” *Star Scientific*, 537 F.3d at 1366. The need for separate proof of both prongs is precisely why an inference of intent arising merely from the fact that the applicant “should have known” of materiality—because the information withheld was found “highly material” as an objective matter—employs circular logic to hold an applicant to a mere negligence standard, undeniably violating the dictates of *Kingsdown*.

The decision at bar also permits the district court’s determination of credibility to serve as a substitute for actual evidence of deceptive intent. Although the existence of a good-faith explanation is clearly relevant and the district court must be accorded substantial deference in judging credibility, the absence of a compelling explanation cannot serve as affirmative evidence of deceptive intent. *Star Scientific*, 537 F.3d at 1368.

Other cases are similar. In *Nilssen*, for example, the district court found Nilssen’s failure to inform the PTO of a lawsuit he had filed against Motorola to be highly material as a matter of law under Section 2001.06(c) of the Manual of

Patent Examining Procedure (“MPEP”). There was no dispute that Nilssen knew of the *Motorola* litigation, but there was equally no dispute that nothing happened in *Motorola* which could have affected the pending applications. *Nilssen v. Osram Sylvania, Inc.*, 440 F.Supp.2d 884, 909-10 (N.D.Ill. 2006), *aff’d*, 504 F.3d 1223 (Fed.Cir. 2007), *cert. denied*, 128 S.Ct. 2938 (2008). The district court then inferred intent from its finding of high materiality and its disbelief of Nilssen’s explanations for the nondisclosure. *Id.* It did so even though there was no direct or affirmative evidence that Nilssen intended to deceive the PTO by omitting reference to *Motorola*, Nilssen’s testimony that he had no knowledge of MPEP § 2001.06(c) was plausible, and Nilssen had no motive to withhold information that was not relevant to patentability. This Court affirmed the intent finding without explanation, while generally acknowledging Nilssen’s defenses “were not per se unreasonable,” and specifically recognizing the possibility that Nilssen’s “[f]ailure to cite the *Motorola* litigation to the PTO may have been an oversight.” *Nilssen*, 504 F.3d at 1235.<sup>5</sup>

To be sure, the evidence of intent need not always be direct. But clear and convincing affirmative evidence, direct or circumstantial, is required separate and

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<sup>5</sup> As noted above, the *Nilssen* decision was subsequently cited by Judge Rader in his *Aventis* dissent as an example of recent cases that have “too often emphasized materiality almost to the exclusion of any analysis of the lofty intent requirement for inequitable conduct [thereby] [m]erging intent and materiality at levels far below” what the law ostensibly requires. *Aventis*, 525 F.3d at 1350-51 (Rader, J., dissenting).



apart from materiality. As *Star Scientific* makes clear, discredited explanations of good faith can not fill the evidentiary void as they were permitted to do in both this case and *Nilssen*. The case at bar therefore underscores a line of this Court's precedent which effectively eviscerates the independent requirement of deceptive intent by failing to require any evidence of deceptive intent beyond materiality and mere knowledge of the withheld information.

### CONCLUSION

As the standards for a finding of unenforceability have weakened in cases such as this one, *Nilssen*, and many others, the "plague" of inequitable conduct charges has worsened. Given the complexities of the patent process and the scientific process, it almost always will be possible to dredge up errors and claim they are intentional. See *Hoffman-La Roche*, 323 F.3d at 1381 (Newman, J., dissenting). However, this case presents the Court with a prime opportunity to once again make inequitable conduct a "rare occurrence," by rectifying internal conflict over the standards for inferring deceptive intent, and thereby ensure "strict[] enforce[ment] of the burden of proof and elevated standard of proof in the inequitable conduct context." *Star Scientific*, 537 F.3d at 1365. *Amici* thus respectfully urge this Court to grant Petitioners' request for rehearing en banc.

Respectfully submitted,



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March 10, 2010

**CERTIFICATE OF SERVICE**

The undersigned, an attorney, certifies that on March 10, 2010, he caused the foregoing **Brief of *Amici Curiae*** to be dispatched to a Federal Express carrier for next-business-day delivery to the Clerk of the Court for the United States Court of Appeals for the Federal Circuit, at the below address, and that a true and correct copy of the same was served on all counsel of record via Federal Express and electronic mail as set forth below.

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## CERTIFICATE OF COMPLIANCE

This brief complies with the typeface requirements of Federal Rule of Appellate Procedure 32(a)(5) and the type-style requirements of Federal Rule of Appellate Procedure 32(a)(6). The brief has been prepared in a proportionally spaced typeface using Microsoft Word 2003 and 14-point Times New Roman font.



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March 10, 2010

**APPENDIX TO BRIEF OF *AMICUS CURIAE*  
OLE K. NILSSEN AND GEO FOUNDATION, LTD.  
IN SUPPORT OF PLAINTIFFS-APPELLANTS  
ABBOTT DIABETES CARE, INC. AND ABBOTT LABORATORIES'  
PETITION FOR REHEARING EN BANC**

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## **A SECTION WHITE PAPER: AGENDA FOR 21<sup>ST</sup> CENTURY PATENT REFORM**

- Adopt the First-Inventor-to File Principle
- Define Prior Art Through “Best Practices”
- Repeal the “Best Mode” Requirement
- Encourage Meaningful Disclosure to the PTO by  
Reforming Inequitable Conduct
- Eliminate Intent-Based Determinations
- Publish Applications at 18-Months
- Improve Inter Partes Reexamination
- Create a Patent Opposition Proceeding
- Use Improved Reexamination as a “Second Window”
- Expand Pre-Grant Prior Art Submissions
- Simplify the Willful Infringement Issue
- Reduce The Claim Construction Reversal Rate
- Expand Rights for Prior Users
- Permit Filing by the Assignee of the Inventor

Revised May 1, 2007

**THE VIEWS EXPRESSED HEREIN ARE ON BEHALF OF THE AMERICAN BAR ASSOCIATION  
SECTION OF INTELLECTUAL PROPERTY LAW. EXCEPT AS EXPRESSLY NOTED,  
THEY HAVE NOT BEEN APPROVED BY  
THE HOUSE OF DELEGATES OR THE BOARD OF GOVERNORS OF  
THE AMERICAN BAR ASSOCIATION AND SHOULD NOT BE CONSTRUED  
AS REPRESENTING THE POLICY OF THE AMERICAN BAR ASSOCIATION.**

**Resolution TF – 4F:**

RESOLVED, that the Section of Intellectual Property Law favors, in principle, that a final determination by the trial court of invalidity of at least one patent claim that the patent challenger has contended to have been obtained by inequitable conduct in the U.S. Patent and Trademark Office (“PTO”) shall be a condition precedent to a court’s consideration or determination of unenforceability of the patent based on inequitable conduct in the PTO;

FURTHER RESOLVED, that the Section of Intellectual Property Law favors, in principle, that, in the absence of the consent of the patentee, neither discovery related solely to the issues of the unenforceability of a patent based on inequitable conduct in the U.S. Patent and Trademark Office (“PTO”) nor trial or decision thereof shall take place prior to the date that a final determination has been made by the trial court that at least one patent claim that the challenger has contended to have been obtained by inequitable conduct is invalid and should not have issued but for the contended inequitable conduct in the PTO; and

NOW THEREFORE, the Section favors the amendments to 35 U.S.C. § 282 contained in § 5(c) of S.3818, 109<sup>th</sup> Cong., 2d Sess. (2006) (Hatch-Leahy), or similar legislation, to the extent that they would preclude a trial or determination of unenforceability of a patent based on inequitable conduct in the U.S. Patent and Trademark Office (“PTO”) prior to a finding or conclusion of invalidity of a patent claim that should not have issued but for the asserted inequitable conduct in the PTO, provided that such legislation provides that inequitable conduct may be pled, and tried and decided by the trial court prior to a finding or conclusion of invalidity upon consent of the patentee.

***Discussion:***

Under current law, the standard for what might constitute inequitable conduct is vague and indefinite in its application. The Federal Circuit has held that at least five different standards apply to determination of what is material and thus must be disclosed to the PTO. *Digital Control, Inc., v. The Charles Machine Works*, 437 F.3d 1309 (Fed. Cir. 2006). The original goal of the duty to disclose was to assist the PTO in performing its increasingly difficult task. Unfortunately, the opposite has happened because of the uncertain standard for materiality. Applicants disclose too much prior art for the PTO to meaningfully consider, and do not explain its significance, all out of fear that to do otherwise risks a claim of inequitable conduct.

The Section supports limiting application of the inequitable conduct defense to cases where a fraud resulted in the PTO issuing one or more invalidated claims. That clearer standard will enable applicants to focus their disclosure of prior art on that which is most relevant, and to explain that prior art to the PTO in order to make the disclosure more helpful.

The Section has long taken the position that “inequitable conduct” allegations should be limited to the situation where the patent would not have issued in the form that it did but for some misconduct. The Section proposes to implement this principle by providing a refined “but for” threshold for pleading “inequitable conduct.” This would implement the policy that a fraud

arises only when a patent has been issued with one or more invalid claims because of misconduct and the “death penalty” of permanent unenforceability of the entire patent should not be available to an infringer of a wholly valid patent where no such fraud exists.

The NRC recommends that the “inequitable conduct” defense be modified to eliminate this “subjective element” from most patent litigation. Since this defense is highly discovery intensive, its elimination works to reduce litigation costs and associated uncertainties. On the other hand, maintaining the defense in cases of an actual fraud will mean that a powerful deterrent will remain in the law to securing any patent with an invalid claim through either concealment of material information or from materially misrepresenting information. These concepts are reflected in Resolution TF-4A.

The 2007 Bicameral Bill (H.R. 1908/S.1145) includes no reform to the inequitable conduct defense. The Section urges reform as discussed herein.

The 2006 Senate version of patent law reform legislation, S.3818, contained provisions that would codify some concepts of the existing law of inequitable conduct and would add some new concepts. It provided that a court may find a patent to be unenforceable if the challenger presents clear and convincing evidence that the patentee, its agent or privy (1) failed to disclose material information or submitted false material information or statements to the PTO; and (2) did so with an intent to mislead or deceive. The Section agrees with these proposals, but opposes other aspects of the inequitable conduct provisions of S.3818, as discussed below.

For example, Section 5c. of S.3818 does not establish a “but for” materiality. Section (B)(2)(D) requires that one or more claims be determined to be invalid before inequitable conduct renders the patent unenforceable, but it does not require a showing that the invalid claim(s) would not have issued but for the inequitable conduct. In other words, there is no linkage of the inequitable conduct to the finding of invalidity. Resolution TF-4B addresses the failure of the language of S.3818 to establish a “but for” standard of materiality.

The Section also disagrees with the further restriction in the ability to render a patent unenforceable to instances where the fraud is attributable to the patent owner. Such further restriction on the ability to render a patent unenforceable would vitiate the inequitable conduct defense. The perverse operation of the “inequitable conduct” defense will be eliminated by limiting this “death penalty” to cases of actual fraud, without further requiring attribution to the patent owner. The patent owner chooses counsel and should not benefit from fraud of its counsel. Nor should a fraudulent patent owner be permitted to revitalize the patent by selling it to a third party to whom the fraud cannot be attributed.

The language of S.3818 is somewhat different from previously considered provisions that would limit findings of unenforceability to those situations in which the fraud or misconduct is attributable to the patent owner. Section 5c of S.3818 contained safeguards that would require that the patent owner exercise due care in the selection and supervision of its agent or privy and rely on counsel in obtaining the patent. Specifically, under the terms of S.3818, a patent would not be held unenforceable if (1) the patentee had no actual or constructive notice of the misconduct of an agent or privy who was selected and supervised with due care, and the patentee



reasonably relied on counsel in obtaining the patent; (2) the patentee establishes good faith by other evidence that the court finds sufficient; and (3) the court has not determined that one or more claims are invalid.

The safeguards contained in S.3818 are improvements to previous proposals; however, they fall short of alleviating the Section's concerns. A patent that was procured by fraud or inequitable conduct should not be enforceable against the public. The provisions limiting findings of inequitable conduct to situations in which the patentee has actual or constructive notice of the misconduct will inhibit candid communications between applicants and their attorneys, and the provisions requiring the patentee to use good faith in selecting and supervising counsel will lead to protracted litigation on these fact-intensive issues. Adoption of a "but for" standard of materiality will solve most of the current problems resulting from unfounded allegations of fraud or inequitable conduct, and insulating patentees from the fraudulent conduct of their appointed representatives is unnecessary. Proposed Resolutions TF-4C and TF-4D express the Section's opposition to these aspects of the proposed legislation.

S.3818 also would preclude pleading or determination of inequitable conduct unless and until a determination that the patent "is not invalid in whole" and that the patent has been infringed by the infringer. Resolution TF-4F advocates that, in the absence of the consent of the patentee, neither discovery related solely to the issues of the unenforceability of a patent based on inequitable conduct in the PTO nor trial or decision thereof shall take place prior to a final determination by the trial court that at least one patent claim that is contended to have been obtained by inequitable conduct is invalid and should not have issued but for the contended inequitable conduct. The resolution therefore favors the amendments to 35 U.S.C. § 282 contained in § 5(c) of S.3818, to the extent that it would preclude a trial or determination of unenforceability of a patent based on inequitable conduct prior to a finding of invalidity of a patent claim that should not have issued but for the asserted inequitable conduct. However, discovery also should be precluded prior to such a finding and the legislation should provide that discovery, trial and determination of such unenforceability may proceed if the patent owner consents.

The additional requirement of S.3818 that there must be a showing of infringement as a prerequisite to pleading inequitable conduct is ill-advised. It is in the public interest that fraudulently procured patents be held unenforceable, and a party that has been charged with infringement should be permitted to challenge the enforceability of the patent, even if that party is successful at the trial level in defending against a charge of infringement. Accordingly, Resolution TF-4E opposes the provision of S.3818 that would preclude pleading or a finding of inequitable conduct until after a finding of infringement.

The Doctrine of Inequitable Conduct and The Duty of Candor in  
Patent Procurement: Its Current Adverse Impact on the Operation of  
the United States Patent System

A Position Paper Prepared by the Ad Hoc Committee on Rule 56 and  
Inequitable Conduct American Intellectual Property Law Association

March 11, 1987

## INTRODUCTION

At a January 28, 1987 meeting, the Board of Directors of the American Intellectual Property Law Association adopted six resolutions relating to inequitable conduct and the duty of candor as defined by Rule 56 of the Patent and Trademark Office. The thrust of these resolutions is to introduce a "rule of reason" approach.

The duty of fairness and candor, as implemented by Rule 56 of the Patent and Trademark Office ("PTO") requires an inventor and patent applicant to volunteer to the PTO examiner all information which is "material" to the prosecution of a pending patent application. The test of materiality, according to Rule 56, is whether the information would be considered "important to a reasonable examiner." If the inventor and patent applicant or his attorney do not turn over all such information, the Commissioner has the authority under Rule 56 to strike or reject the patent application regardless of the merit of the invention. The inventor may lose all rights to obtain patent protection, not only on the particular application in question but also all subsequent applications that rely on that application for priority purposes.

When patents are sought to be enforced in the courts at the present time, the supposed violation of the duty of candor is a favorite defense of accused infringers. They call it "fraud of the Patent Office" or "inequitable conduct".

The courts, in passing on the defense of unenforceability of a patent because of "fraud on the Patent Office" or "inequitable conduct," have been guided by Rule 56. Regardless of the merit of the invention and its patentability, the courts have struck down patents as unenforceable if the inventor, the patent owner, or the responsible attorney or agent acted with "gross negligence" in failing to turn over all information that would have been considered "important to a reasonable examiner" as stated in Rule 56.

Although the overall purpose of Rule 56 and the courts' implementation thereof is laudable in seeking to promote candor and to help PTO examiners perform their searching and examining responsibilities more

effectively and efficiently, the practical effect has been to deny patent protection for some worthy inventions and to generate uncertainty and confusion as to the enforceability of many patents.

This uncertainty leads to unpredictability of results and to a proliferation of "fraud" charges.<sup>1</sup> Estimates are that inequitable conduct is raised as a defense to claims of patent infringement in 80% of the cases before the courts. Only a small percentage of these charges are sustained. However, the injection of emotionally charged issues centering on the moral turpitude of the inventor and the patent owner and the professional integrity of the patent attorney or agent who helped procure the patent makes settlement more difficult and tends to deflect attention away from the basic merits of whether the invention in question is patentable and whether the inventor's patent, fairly interpreted, is being infringed.

As is further explained below, the six resolutions passed by the AIPLA seek to eliminate four undesirable aspects in the wording and implementation of Rule 56. As it currently stands, Rule 56 causes:

1. an ambiguous and inappropriate standard of materiality.
2. disproportionality between the nature of the alleged inequitable conduct and the forfeiture of all patent rights.
3. an absence of clear opportunities to correct or "purge" prior inequitable conduct that may have occurred in the procurement of a patent.
4. undue emphasis on the timing of a patent applicant's disclosure of material information.

## I. BACKGROUND

### A. EARLY COURT DECISIONS

The doctrine of "inequitable conduct" or so called "fraud on the Patent Office" originated in early Supreme Court decisions that condemned the use of common law type fraudulent misrepresentations and

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1. Judge Giles Rich of the Court of Appeals for the Federal Circuit has stated that "fraud on the PTO has been overplayed, is appearing in nearly every patent suit, and is cluttering up the patent system." *Kimberly-Clark Corp. v. Johnson & Johnson*, 745 F.2d 1437, 1454 (Fed. Cir. 1984).

perjury to obtain patents on inventions.<sup>2</sup> A finding of fraud in connection with the obtaining of an invalid patent claim could render other claims in the patent unenforceable if, as is commonly the case, the patent contains multiple claims on different aspects of an invention.<sup>3</sup> Fraudulent procurement could even render claims in related patents unenforceable. It could also provide a basis for an award of attorney's fees to a vindicated accused infringer or even, under some circumstances, provide a basis for an award of treble damages under the antitrust laws.<sup>4</sup>

### B. EVOLUTION OF RULE 56

Most of the early cases involved patent infringement suits in the courts in which fraud was raised in the form of an "unclean hands" defense by the accused infringer.

The PTO rules have long provided that a patent application could be struck from the files if "any fraud is practiced or attempted on the Patent Office" in connection with that application. In 1970, the Court of Customs and Patent Appeals recognized that "technical fraud" in the procurement of a patent could justify the PTO striking a patent application. *Norton v. Curtiss*, 433 F.2d 779, 167 U.S.P.Q. 532 (C.C.P.A. 1970). *Norton* involved an interference contest between rival applicants each of whom sought to obtain a patent on the same invention. The striking of one party's application might result in priority being awarded to the other party, who otherwise might not be entitled to obtain a patent. The court in *Norton* stated that the elements of common law fraud need not be established. It did recite the following elements of fraud necessary to strike an application:

1. Subjective "But For" Materiality ("If it can be determined that the claims would not have been allowed but for the misrepresentation, then the facts were material regardless of their effect on the objective question of patentability.").
2. Scierer (at least gross negligence).

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2. *Precision Instrument Mfg. Co. v. Automotive Maintenance Mach. Co.*, 324 U.S. 806 (1945); *Hazel-Atlas Glass Co. v. Hartford Empire Co.*, 322 U.S. 238 (1944); *Keystone Driller Co. v. General Excavator Co.*, 290 U.S. 240 (1933).

At one time, it was thought that the only means by which a patent could be attacked because of alleged fraud in its procurement was through a suit by the United States to cancel the patent. See *United States v. American Bell Tel. Co.*, 128 U.S. 315 (1888).

3. *Monolith Portland Midwest Co. v. Kaiser Aluminum & Chemical Corp.*, 407 F.2d 288 (9th Cir. 1969).

4. *Walker Process Equip., Inc. v. Food Mach. & Chem. Corp.*, 382 U.S. 172 (1965).

## 3. Reliance.

## 4. Injury.

In *Norton*, the court found that “technical fraud” had not been established by clear and convincing evidence as to the patent application in question.

In 1977, the P.T.O. extensively amended Rule 56. As amended, the Rule stated a positive duty of “disclosure” of material information rather than merely a proscription of “fraud.” The critical definition of “materiality” did not follow the “but for” test of *Norton*. It provided that “information is material where there is a substantial *likelihood* that a *reasonable examiner* would consider it *important* in deciding whether to allow the application to issue as a patent.” (emphasis ours).

As will be further explained below, such a vague definition of materiality was not derived from prior case law on fraud and inequitable conduct but rather was borrowed from another area of law, that of securities regulation.

The case law since 1977 has tended to expand and confuse the duty of candor and disclosure, especially as it relates to the duty to disclose information known to the inventor, the agent, owner or his attorney. In 1978, an academic commentator wrote, with fair support, that “Even under the broadest view of the duty to disclose prior art, the applicant does not commit inequitable conduct by failing to cite art of which he has no knowledge or which he believes in good faith to be less relevant than that expressly considered by the Patent and Trademark Office.”<sup>5</sup> However, since 1978, court decisions and PTO interpretations of Rule 56 have found violations of the rule even when there was no evidence of bad faith or deliberate conduct in the failure to cite material information.<sup>6</sup>

Often this heightened standard of candor has been applied retroactively to activity occurring in the 1950’s and 1960’s. There is much dispute over whether generally-accepted standards of practice in the Patent Office during those time periods even required such disclosure. Many attorneys sincerely believed that their only duty was to make sure that the patent claims they sought were neither anticipated by nor rendered obvious by the prior art and that they otherwise had no duty to disclose prior art information to an examiner who had his own duty to

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5. Chisum. Patents § 19.03[2][b] (1978).

6. E.g. In re *Jerabek*, 789 F.2d 886, 229 U.S.P.Q. 530 (Fed. Cir. 1986).

search the art. Whatever the historic facts, the courts have held that as a matter of law the duty of disclosure should be taken to have always been at the present high level.<sup>7</sup>

C. *FURTHER UNDESIRABLE TRENDS OF THE LAW: A.B. DICK V. BURROUGHS*

Today, the doctrine of inequitable conduct has come to encompass conduct far short of fraud in the common law sense or even in the sense that was adopted in *Norton*. A finding of inequitable conduct may render the claims of a patent permanently unenforceable even though those claims are otherwise valid under the strict requirements for obtaining a patent. In a notorious recent decision, *A.B. Dick Co. v. Burroughs Corp.*, the patent on the pioneering invention of ink jet printing was held unenforceable because the inventor's attorney did not disclose a prior art reference that he and the inventor knew of despite the fact that the PTO examiner did find and consider that reference and despite the fact that the patent claims were fully and impeccably valid in view of that same reference.<sup>8</sup>

In *A.B. Dick* Sweet patent 3,596,275 was held to be unenforceable against an infringer because Sweet's attorney did not voluntarily supply certain papers to the PTO examiner called the Magarvey references. The non-disclosed Magarvey references were independently found by the patent examiner. As a result, some claims were cancelled and others were amended. The final claims in the patent distinguished the prior art, including the Magarvey reference. Although the patent was valid, the Court held it unenforceable, citing Rule 56.

The Sweet patent had been the subject of other litigation in which it was held valid and enforceable in *Mead Digital Systems, Inc. v. A.B. Dick Company, et al.*, 521 F. Supp. 164 (S.D. Ohio 1981). The decision was affirmed in all respects by the Sixth Circuit. 723 F.2d 455 (1983). In the *Mead* litigation, the claims of the Sweet patent were found to be unobvious over the prior art, including the Magarvey papers.

The Sweet patent describes and claims equipment and methods for recording information with droplets generated from an electrically-controlled ink-jet. This technology is commonly known today as "ink-jet" recording or printing. The Sixth Circuit characterized the Sweet invention as a 'quantum leap in insight' (723 F.2d at 464).

Thus, the Sweet patent covered a highly meritorious invention and the patent was valid under the established standards of patentability. Yet

7. *Argus Chemical Corp. v. Fibre Glass-Evercoat Co., Inc.*, 759 F.2d 10, 225 U.S.P.Q. 1100 (Fed. Cir. 1985).

8. *A.B. Dick Co. v. Burroughs Corp.*, 798 F.2d 1392, 230 U.S.P.Q. 849 (Fed. Cir. 1986).

the Sweet patent was held unenforceable because the attorney violated his duty to turn over "material" information defined by the "important to a reasonable examiner" test of Rule 56:

However, the test for materiality is *not* whether there is anticipation or obviousness, but, rather, what a "reasonable examiner would consider . . . important in deciding whether to allow the application to issue as a patent" (Emphasis in original). 798 F.2d 1397.

In *A.B. Dick*, the patent, as allowed was not "obtained by" inequitable conduct, since the patent examiner in fact had the Magarvey references before him when he allowed the patent. But, in effect, the court declared the patent unenforceable because the inventor's attorney should have turned over the Magarvey articles before the examiner found them himself!

### III. THE STANDARD OF MATERIALITY SHOULD BE CHANGED TO THE "BUT FOR" TEST

In adopting Rule 56, the Patent Office went far afield. It borrowed the materiality standard enunciated by the Supreme Court in *TSC Industries, Inc. v. Northway, Inc.*, 426 U.S. 438 (1976). In that case, the Supreme Court was called upon to consider the definition of materiality under the proxy solicitation rules of the Securities and Exchange Commission. Those rules barred the use of proxy statements that were false or misleading with respect of the presentation or omission of material facts. The Supreme Court held that "An omitted fact is material if there is a substantial likelihood that a reasonable shareholder would consider it important in deciding how to vote." 426 U.S. at 449.

The TSC standard may well be fair and reasonable in encouraging businessmen to volunteer information that should be disclosed in proxy statements to permit uninformed shareholders to decide how to vote in a corporate election. However, it has little, if anything, to do with prior art information that should be disclosed to an examiner during prosecution of a patent application. An examiner in the Patent and Trademark Office is not in the same position as a shareholder who is asked to submit a proxy. The examiner is a skilled government officer who usually is a trained engineer and frequently a lawyer as well. The examiner is charged by law with the duty of examining a patent application in view of the prior art and has available the voluminous collection of prior art in the PTO.

Rule 56 should be amended to incorporate a "but for" standard of materiality, as was set out by the Supreme Court almost sixty years ago

in *Corona Co. v. Dovan Corp.*, 276 U.S. 358 (1928). In *Corona*, the patent applicant, in attempting to antedate prior art cited by the examiner, submitted affidavits that contained reckless statements concerning the extent of the applicant's reduction to practice. However, the record showed that the applicant had made a successful reduction to practice of the invention prior to the effective date of the prior art reference. The Supreme Court, in sustaining the validity and enforceability of the patent, stated:

Hence the affidavits, though perhaps reckless, were not the basis for it [the patent grant] or *essentially material* to its issue (276 U.S. at 374; emphasis added).

Prior to the adoption of Rule 56, the Court of Customs and Patent Appeals in *Norton* adopted the same "but for" test of materiality. Other courts similarly required that there be some causal connection between the misrepresented or omitted information and the allowability of the patent claims.<sup>9</sup> However, more recently, the Federal Circuit in cases such as *A.B. Dick* decision has embraced the PTO's Rule 56 definition.

A "but for" test of materiality would present a more predictable standard for inventors and patent applicants in presenting patent applications. It would be a better and more certain guide for the courts. The moral turpitude of the patent owner would not be material unless the conduct affected the objective patentability of the invention.

Punishment for its own sake is not the proper function of the patent system. Only inequitable conduct proximately causing an erroneous examination of the patent as finally issued should affect enforceability. Punishment of bad actors or individuals with evil intentions should be handled otherwise.

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9. *E.g. Pfizer, Inc. v. International Rectifier Corp.*, 685 F.2d 357, 217 U.S.P.Q. 39 (9th Cir. 1982):

In judging whether misrepresentations made before the Patent Office rise to the level of fraud or inequitable conduct that would justify invocation of the maxim of unclean hands, we have not adopted . . . a definition of materiality that encompasses any information that "might effect" the patentability of the claimed invention. Rather, we have adhered to the proposition that false statements or omissions are material so as to constitute fraud before the patent office when such statements or omissions were a "*substantial cause*" of the patent grant of a "crucial factor" in obtaining the patent. The proper focus in determining the materiality of information misrepresented to or withheld from the Patent Office is on the *effect* of the misrepresentation or withholding upon the subjective considerations of the patent examiner."



The proposition that a patent application can be reviewed by the patent examiner with all of the material information properly considered, but result in the inventor and patent owner obtaining an unenforceable patent is not, in the AIPLA's consideration, a policy that will further the United States patent system.

In defining what is "material" information to turn over to an examiner, there should be a casual connection between the merit of the invention and the validity of the patent. If the patent application claims are properly scrutinized by the examiner because the examiner has the information, then the prior failure to disclose such information should not be material. The inventor and patent applicant should get their patent and should be protected from infringement.

Resolutions No. 1 and No. 2 were adopted by the AIPLA to encourage return to the "but for" test.

*A.B. Dick* should be reversed, and Patent Office Rule 56 should be rewritten to incorporate the "but for" test. Return to the "but for" test set out by the Supreme Court in the *Corona* case, and by the Court of Customs and Patent Appeals in the *Norton* case, would require that examiners and the courts focus on the merit of the invention and the statutory requirements of patentability. There would be little reason for expensive and prolonged litigation proceedings into the knowledge and intent of the prosecuting attorney or the patent examiner.

#### IV. DISPROPORTIONALITY BETWEEN INEQUITABLE CONDUCT AND THE FORFEITURE OF PATENT RIGHTS

Under current law, there is a lack of proportionality between the nature of an apparent failure to comply with the duty of candor and the consequences of such a failure. Any act found to constitute inequitable conduct renders an entire patent permanently unenforceable. There is a forfeiture of the patent owner's rights. The accused infringer goes scot free regardless of its own wrongdoing.

A single patent may contain claims or sets of claims to related but distinct subject matter. For example, a patent might include claims to a manufacturing process, to an apparatus designed for carrying out the process, and for the resulting product. The omission of prior art or other information that provides the basis for a finding of inequitable conduct may only be material to certain of the claims. In the past, courts espoused a flexible approach to determining the enforceability of claims in such a situation, reasoning that "Since the refusal of courts to enforce patents in cases such as this is founded on equitable notions, [the courts]

possess the equitable discretion to choose whether to deny enforcement to the . . . patent in part or in whole."<sup>10</sup> However, more recently, the Court of Appeals for the Federal Circuit has adopted a rigid "all claims" rule.<sup>11</sup> Under this rule, an entire patent can become permanently unenforceable because of conduct that relates solely to a claim that covers subject matter that is not commercially significant and indeed may never have been asserted or relied upon by the patent owner.

This harsh, "all-or-nothing" approach is also followed by the Patent and Trademark Office. Under Rule 56(d), an application will be rejected if "there was any violation of the duty of disclosure through bad faith or gross negligence in connection with the application, or in connection with any previous application upon which the application relies."

Resolution No. 3 was adopted by the AIPLA to correct those harsh views.

## V. ABSENCE OF CLEAR OPPORTUNITIES TO "PURGE" POSSIBLE INEQUITABLE CONDUCT

In a recent decision, the Federal Circuit has recognized that an applicant may, during the original prosecution of a patent application, "cure" a prior act of inequitable conduct by following certain steps that "purge" the consequences of that conduct. *Rohm & Haas Co. v. Crystal Chem. Co.*, 722 F.2d 1556, 220 U.S.P.Q. 289 (Fed. Cir. 1983).

In *Rohm & Haas*, the court emphasized that the important policy of discouraging "all manner of dishonest conduct in dealing with the PTO" must be counterbalanced by the basic policies of the patent system to encourage disclosure of inventions and investment in commercialization of such inventions by the issuance of patents.

Surely, a very important policy consideration is to discourage all manner of dishonest conduct in dealing with the PTO. At the same time, the basic policy underlying the patent system is to encourage the disclosure of inventions through issuance of patents. Another policy of the system is to stimulate the investment of risk capital in the commercialization of useful patentable inventions so that the public gets some benefit from them, which may not occur in the absence of some patent protection. Clearly, we are faced with

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10. *In re Multidistrict Litigation Involving Frost Patent*, 540 F.2d 601, 191 U.S.P.Q. 241 (3d Cir. 1976).
  11. *J.P. Stevens & Co., Inc. v. Lex Tex Ltd., Inc.*, 747 F.2d 1553, 1561, 223 U.S.P.Q. 1089, 1093 (Fed. Cir. 1984).

questions of both socioeconomic policy on the one hand, and morals or ethics on the other. We think we should not so emphasize either category as to forget the other. (Emphasis added.)

Despite this apparent judicial recognition of the possibility of cure and purging, considerable uncertainty remains as to whether opportunities are available to effect a purge. *Rohm & Haas* dealt with the submission of misleading testing data. It is uncertain how the concept of cure will apply when the alleged inequitable conduct relates to the non-disclosure of prior art, especially when the examiner finds the prior art independently and before the applicant attempts a "cure" by disclosure of the art. It is also uncertain whether a purge can be effected as to an issued patent. The court in *Rohm & Haas* expressly declined to address the issue "of what, if anything, can be done *after* the patent issued to alleviate the effect of misconduct." The court cited a prior decision, *In re Clark*, 522 F.2d 623, 187 U.S.P.Q. 209 (C.C.P.A. 1975). *Clark* held that the procedure of filing a reissue application was not available as to a patent that had been held invalid by a court for fraud in failing to disclose known relevant prior art. It did not deal with a situation in which no such judicial ruling of fraud or inequitable conduct had been obtained.

Resolutions 4, 5 and 6 were adopted by the AIPLA to achieve changes in the Patent Office rules to permit and encourage purging and to provide a clear way for doing so.

## VI. TIMING OF PRIOR ART DISCLOSURES

There appears to be a widening gap between the PTO and the practicing profession as to their respective perceptions of Rule 56 as it relates to the timing of the disclosure of prior art information, such as patents and printed publications. As presently worded, Rule 56 imposes no requirement as to the timing of disclosure of material information. Yet, in applying Rule 56 the Court in *A.B. Dick* imposed a duty to make an early disclosure — at least where there is no disclosure prior to the examiner independently finding a reference.

One view of the purpose of the duty of candor is that it seeks to make sure that a patent does not actually issue without consideration being given to all material information which is available to the applicant, or the applicant's counsel. Under such a view, the timing of any disclosure of art is not critical so long as it is disclosed and considered by the examiner. However, the P.T.O. appears to have evolved the view that a major purpose of the duty of candor under Rule 56 is to force applicants to provide as much assistance as possible to the examiners in carrying out their duties, even as to the initial search for prior art. A "late"

citation of art creates extra work for an examiner who did not find and consider that art in the first Office action. Under this view, the duty of candor includes a duty to cite known material art as soon as the applicant or his attorney becomes aware of it.

Patent attorneys and agents differ in their practices as to the timing of the disclosure of known prior art information to the PTO examiner. Roughly speaking, there are two schools of thought. One school holds that a patent applicant, who pays a substantial filing fee, is entitled to a "fresh" search of the prior art and an independent examination by the PTO examiner. Any early disclosure of the results of the applicant's own search of the art to the examiner will tend to cause the examiner to limit the scope of his or her search. Furthermore, an applicant may not have a precise sense of what type of prior art the examiner considers material to the allowability of the claims in the application until the examiner issues an "office action" citing art and allowing or rejecting claims. Art not found by the examiner may then be disclosed if, and to the extent, that it is more pertinent than that found and considered by the examiner. At the time of the first action by the examiner, the applicant may be in a better position to determine the state of the art and to supplement the art of record to be considered by the examiner. For example, the applicant may have obtained the results of searches conducted by patent offices in other countries or may have become aware of prior art references that were not readily available as of the filing date.

The other school holds that the patent applicant should disclose all material information at the outset as a means of accelerating the examination process and assuring that the best prior art is considered by the examiner.

There are merits and demerits to both schools of practice. Regardless of which position is superior, the AIPLA does not believe that the duty of candor should be administered by the PTO or the Courts to prevent late disclosure by an inventor or patent owner who desires to purge himself.

The PTO rules currently provide for the filing of an "information disclosure statement," either concurrently with the filing of the patent application or within three months of such filing. 37 C.F.R. § 1.97. While the PTO commends this procedure as a "means of complying with the duty of disclosure set forth in § 1.56", the procedure is stated to be optional. The patent profession has reasonably relied on the optional character of such early disclosure. Neither the PTO nor the courts should upset this reasonable expectation by interpreting Rule 56 as imposing, implicitly, a critical timing requirement.

The concern of the PTO that issued patents be of high quality, based on a consideration of the best information available as to the state of the art, is laudable. The PTO has limited resources, and an applicant who

delays citation of prior art or the submission of material information may in fact create extra work for the examiner. This problem of "unnecessary" work load can be resolved by the provision for the payment of a reasonable fee when an applicant discloses information after the expiration of a reasonable period.

Resolution No. 5 so provides.

## VII. EXPLANATION OF THE RESOLUTIONS

1. **RESOLVED** that the AIPLA favors in principle an amendment to PTO Rule 56 to provide that a patent application shall not be stricken if the examiner cites and/or considers the material information allegedly withheld by an applicant.

### COMMENT:

This resolution implements the concept that the primary objective of the patent system should be to allow for the issuance of patents on meritorious inventions. If the material information is in fact found and considered by the examiner, a patent should issue. If particular individuals have committed or attempt to commit inequitable acts or frauds, such conduct should be dealt with by means other than imposing the sanction of forfeiture on the inventor's patent rights.

2. **RESOLVED** that the AIPLA favors in principle, as the standard of materiality in resolving inequitable conduct issues, that information withheld from or misstated to the PTO by the patent applicant shall be considered material only when, but for the withholding or misstating of such information, one or more claims of the patent should not have issued or should have issued with different scope.

### COMMENT:

This resolution would eliminate the current confusion and uncertain test based on "important to a reasonable examiner" standard of materiality in Rule 56. The "but for" rule would be the proper test for materiality.

3. **RESOLVED** that the AIPLA favors in principle amendment of PTO Rule 56(d) by deleting "or in connection with any previous application upon which the application".

**COMMENT:**

Patent law permits an applicant for a patent to file a subsequent "continuation" or "continuation-in-part" application that will be entitled to the benefit of the filing date of the prior application (commonly referred to as a "parent" application). 35 U.S.C. § 120.

As currently worded, Rule 56 provides that any inequitable conduct committed in connection with the parent application not only can result in the striking of that application but also can result in the rejection of a subsequent continuing application that relies upon that parent for priority purposes. In a sense, the "sins of the parent are visited upon the child."

These resolutions urge alteration of this concept of tainting applications. In effect, the filing of a continuing application should be available as one means by which a patent applicant can "purge" inequitable conduct in the form of misrepresentation or nondisclosure of information.

It should be noted that the subsequent application must itself be untainted by inequitable conduct. Thus, a full and correct disclosure of information must be made in connection with that application. It would have to be clear that an examiner decision on claims in the subsequent application was not influenced by any misrepresentations or omissions committed in a previous application.

4. **RESOLVED** that the AIPLA favors in principle amendment to PTO Rule 56 (d) to incorporate the concept of pre-patent issuance purging.
5. **RESOLVED** that the AIPLA favors in principle the amendment of PTO Rule 56 as follows:

Add the following sentence to paragraph (a):

"The duty shall be met by (i) disclosing such material information to the examiner at any time prior to the conclusion of prosecution of the application or (ii) the examiner's citing and/or considering such material information at any time prior to the conclusion of the prosecution of the application."

Add the following sentences to paragraph (d):

"Misrepresentations or violations of the duty of disclosure can be purged at any time prior to the conclusion of prosecution of

an application by disclosing such misrepresentations or violations to the examiner together with the correct information. Unless good cause be shown for the delay, a reasonable fee set by the Patent and Trademark Office shall be required for the disclosure of any allegedly material information not disclosed or misstated to the Patent Office after expiration of a reasonable time to be set by the Patent and Trademark Office.”

**COMMENT:**

These resolutions would implement the general principle of pre-issuance purging recommended in Resolution 2. They would also accommodate the concern of the PTO that late citation of prior art or corrections of material representations may create extra work. A reasonable fee may be set in case of such late submissions.

6. **RESOLVED** that the AIPLA favors in principle the concept of post-patent purging if the claims are not changed.

**COMMENT:**

The status of post-issuance purging is uncertain. This resolution recommends that such purging should be available. This would allow the preservation of patent rights in a valuable and meritorious invention, such as that involved in A.B. Dick.

It is probable that a statutory amendment would be required to implement completely the concept of post-issuance purging. This is because 35 U.S.C. § 251, which defines the requirements for obtaining a reissue of a patent, provides that reissue is available only when a patent “is, through error without any deceptive intention, deemed wholly or partly inoperative or invalid.”

The AIPLA has specific amendments under consideration.

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**H**This case was not selected for publication in the Federal Reporter.

Not for Publication in West's Federal Reporter See Fed. Rule of Appellate Procedure 32.1 generally governing citation of judicial decisions issued on or after Jan. 1, 2007. See also Federal Circuit Rule 32.1 and Federal Circuit Local Rule 32.1. (Find CTAF Rule 32.1)

United States Court of Appeals,  
 Federal Circuit.  
 DICKSON INDUSTRIES, INC., Plaintiff-Appellee,  
 v.  
 PATENT ENFORCEMENT TEAM, L.L.C., Defendant/Third Party Plaintiff-Appellant,  
 v.  
 Midstate Traffic Controls, Inc. and Sawhorse Investments, L.L.C., Third Party Defendants-Cross Appellants.  
**Nos. 2008-1372, 2008-1398.**

May 20, 2009.  
 Rehearing and Rehearing En Banc Denied July 23, 2009.

**Background:** Manufacturer of machines to cut rumble strips brought action seeking declaratory judgment that patent for apparatus and method for cutting rain drainage grooves in road surface was invalid and unenforceable. The United States District Court for the Western District of Oklahoma, [Joe Heaton](#), J., held that patent was invalid and unenforceable, and awarded attorney fees. Patentee appealed.

**Holdings:** The Court of Appeals, [Rader](#), Circuit Judge, held that:

- (1) substantial evidence supported jury's finding that patent was anticipated by prior art, and
- (2) remand was required to provide opportunity to fully develop record regarding inequitable conduct.

Affirmed in part, vacated in part, and remanded.

West Headnotes

## [11](#) Patents [291](#) [62\(1\)](#)

### [291](#) Patents

#### [291II](#) Patentability

##### [291III\(D\)](#) Anticipation

[291k57](#) Evidence of Prior Knowledge or Use

##### [291k62](#) Weight and Sufficiency

[291k62\(1\)](#) k. In general. [Most Cited](#)

### [Cases](#)

Substantial evidence supported jury's finding that patent for apparatus and method for cutting rain drainage grooves in road surface was anticipated by prior art, and thus was invalid, where prior patent disclosed grinding apparatus that could travel over road surface while grinding wheel was controlled by hydraulic cylinder, allowing grinding wheel to move up and down into road surface to form desired rumble strips, which expert testified contained each and every element of patent claim. [35 U.S.C.A. § 102](#).

## [12](#) Patents [291](#) [324.60](#)

### [291](#) Patents

#### [291XII](#) Infringement

##### [291XII\(C\)](#) Suits in Equity

##### [291k324](#) Appeal

[291k324.60](#) k. Determination and disposition of cause. [Most Cited Cases](#)

District court's inconsistent orders regarding issue of patentee's inequitable conduct during reexamination prejudiced patentee and denied it opportunity to adequately defend against allegation of inequitable conduct at trial, thus warranting remand for opportunity to fully develop record regarding inequitable conduct, where district court denied alleged infringer's motion to amend its complaint to add issue of inequitable conduct during reexamination, but then alleged issue to be presented at trial, despite patentee's motion in limine and repeated objection.

## Patents [291](#) [328\(2\)](#)

### [291](#) Patents

[291XIII](#) Decisions on the Validity, Construction, and Infringement of Particular Patents

##### [291k328](#) Patents Enumerated




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[291k328\(2\)](#) k. Original utility. [Most Cited Cases](#)

[4,473,319](#). Cited as Prior Art.

Patents [291](#)  [328\(2\)](#)

[291](#) Patents

[291XIII](#) Decisions on the Validity, Construction, and Infringement of Particular Patents

[291k328](#) Patents Enumerated

[291k328\(2\)](#) k. Original utility. [Most Cited Cases](#)

[4,701,069](#). Invalid.

\***515** Appeals from the United States District Court for the Western District of Oklahoma in case no. 02-CV-467, [Joe Heaton](#), Judge [John A. Kenney](#), McAfee & Taft, of Oklahoma City, OK, for plaintiff-appellee. With him on the brief were [Michael D. McClintock](#), [Charles L. McLawhorn, III](#), and [Andrew B. Peterson](#).

[James J. Wolfson](#), Carlton Fields, P.A., of Atlanta, GA, for defendant/third party plaintiff-appellant. With him on the brief was [Gail E. Podolsky](#).

[David A. Cheek](#), Cheek & Falcone, PLLC, of Oklahoma City, OK, for third party defendants-cross appellants.

Before [MAYER](#), and [RADER](#), Circuit Judges, and POSNER, Circuit Judge. <sup>FN\*</sup>

FN\* Honorable [Richard A. Posner](#), Circuit Judge, United States Court of Appeals for the Seventh Circuit, sitting by designation.

[RADER](#), Circuit Judge.

\*\***1** The United States District Court for the Western District of Oklahoma upheld the jury verdict that claim 5 of Patent Enforcement Team's (PET's) patent, [U.S. Patent No. 4,701,069 \('069 Patent\)](#), is invalid due to anticipation or obviousness. Furthermore, the district court found the \***516** ['069 Patent](#) is unenforceable due to inequitable conduct of PET during the reexamination of the patent. The district court also concluded that this is an exceptional case and awarded Dickson Industries, Inc. (Dickson) attorney fees under [35 U.S.C. § 285](#). This court affirms the district court's ruling that claim 5 is invalid. Never-

theless, because the trial court erred in finding PET's patents unenforceable due to inequitable conduct, this court remands for a new trial on inequitable conduct, and accordingly, vacates the award of attorney fees based on the exceptional case finding.

I.

Dickson, an Oklahoma company, filed suit against PET, a Florida Company, seeking a Declaratory Judgment that PET's ['069 Patent](#) is invalid and unenforceable. Dickson manufactures and sells machines to cut rumble strips. PET is in the business of licensing patents. By way of introduction to its licensing program, PET informed companies that using certain machines to cut rumble strips might infringe the ['069 patent](#). PET invited these companies to negotiate a license. In 2001, PET approached Midstate Traffic Controls, Inc. (Midstate), one of Dickson's customers. Midstate refused to enter into a license agreement with PET. Instead, Midstate sued Dickson for indemnification. After Midstate and Dickson reached a settlement, Dickson filed a Declaratory Judgment Action against PET in the United States District Court for the Western District of Oklahoma. <sup>FN1</sup>

FN1. On appeal, PET challenges personal jurisdiction in the Western District of Oklahoma. However, PET stipulated to personal jurisdiction in Oklahoma when it entered into the Joint Motion to Dismiss in the United States District Court of Arizona, agreeing to be bound by "any and all findings and conclusions in the Oklahoma Action." [A1213] Moreover, PET waived any further objection regarding personal jurisdiction when it stipulated to the fact "This court has jurisdiction over this matter" in the Joint Status Report and Discovery Plan, submitted to the court on February 27, 2006. [A1218]

Dickson subsequently amended its Complaint to allege that PET tortiously interfered with Dickson's business relations, and PET filed a counterclaim against Dickson for infringement of claim 5 of the ['069 Patent](#). In early 2003, the case was administratively closed pending reexamination of the patent. It was re-opened in 2006 after the USPTO upheld claims 1-7 of the original ['069 Patent](#).

After issuing its Markman ruling, the district court

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entered a Scheduling Order setting deadlines for all parties to file a motion for leave to amend their pleadings. Dickson timely filed a Motion for Leave to File Second Amended Complaint, seeking to add an allegation that the '['069 Patent](#)' is unenforceable due to inequitable conduct by PET during reexamination. The district court denied Dickson's motion. At the same time, it vacated the prior Scheduling Order and replaced it with one that did not allow for the amendment of pleadings.

In June 2007, Dickson responded to PET's Motion for Partial Summary Judgment on Validity by arguing the '['069 Patent](#)' is unenforceable due to inequitable conduct during reexamination. PET filed a motion in limine to exclude such evidence. The district court denied the motion 10 days prior to trial. PET renewed its motion at the pretrial conference. Relying on the court's denial of Dickson's Motion for Leave to File Second Amended Complaint, PET's attorney told the judge that he believed that the issue of inequitable conduct during reexamination was not in issue. Moreover, he was not prepared to try the issue. Nevertheless, the district \*517 court denied PET's renewed motion in limine and allowed the parties to proceed.

\*\*2 At the conclusion of trial, the jury found claim 5 of the '['069 Patent](#)' invalid due to anticipation or obviousness and PET liable for tortious interference with Dickson's business relationships. The jury awarded Dickson both compensatory and punitive damages in the amount of \$1,541,236. The district court upheld the jury's verdict. Dickson filed a post-trial Motion to Declare the '['069 Patent](#)' Unenforceable Due to Inequitable Conduct. Dickson alleged that during the reexamination of the '['069 Patent](#)', PET failed to disclose the Spangler Patent, affidavits concerning the Modified Target Saw (MTS), and the video and photos of the operation of the MTS. After concluding that the omitted references are material and the omission of these references was done with the intent to deceive, the district court granted Dickson's motion and ruled that the '['069 Patent](#)' is unenforceable due to inequitable conduct by PET during reexamination. Furthermore, the district court concluded that this is an exceptional case under [35 U.S.C. § 285](#) because Dickson has shown by clear and convincing evidence that PET and/or its attorneys engaged in inequitable conduct before the USPTO during the reexamination.

## II.

The '['069 Patent](#)' is entitled "Rain Drainage Grooves in a Road and Apparatus for Making Them." James Whitney filed a patent application for the invention in 1986. The patent issued in 1987. Claim 5 is representative:

A method of forming a plurality of grooves in the surface of a road, the method including the steps of rotating a cutting cylinder about an axis which is substantially horizontal and which axis is at an angle to the longitudinal direction of the road, moving the rotating cutting cylinder along the road, and simultaneously, moving said cylinder alternately up above the road surface and down into said road surface, to thereby form a plurality of generally parallel grooves in the road each groove have a forward side wall and a rearward side wall.

[U.S. Patent No. 4,701,069 \(filed Dec. 10, 1986\)](#). During trial, Dickson alleged that the Spangler Patent, issued in 1984, anticipates the '['069 Patent](#)'. Dickson further alleged that during the reexamination of the '['069 Patent](#)', PET failed to disclose the Spangler Patent and other material prior art references and documentation.

The Spangler Patent discloses a grinding apparatus that can travel over the road surface while the grinding wheel is controlled by a hydraulic cylinder allowing the grinding wheel to move up above and down into the road surface, in order to cut rumble strips. [U.S. Patent No. 4,473,319 \(filed Apr. 27, 1982\)](#) ("[M]odifying the existing road surface to obtain said desired profile by propelling road resurfacing equipment over the existing the road surface while continuously controlling said road resurfacing equipment....") PET learned about the Spangler patent prior reexamination; however, it did not disclose the patent to the USPTO during the reexamination.

## III.

\*\*3 Anticipation under [35 U.S.C. § 102](#) requires a single prior art reference which discloses each and every element of the claimed invention. See [Akzo N.V. v. U.S. Int'l Trade Comm'n](#), 808 F.2d 1471, 1479 (Fed.Cir.1986). In an anticipation analysis, what a prior art reference discloses is a factual determination that this Court reviews for clear error. See [Zenon En-](#)

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*vironmental, Inc. v. U.S. Filter Corp.*, 506 F.3d 1370, 1377 (Fed.Cir.2007). The Court \*518 must assume that all underlying factual issues were resolved in favor of the verdict winner, and must uphold the findings if they are supported by substantial evidence. *Akamai Technologies, Inc. v. Cable & Wireless Internet Services, Inc.*, 344 F.3d 1186, 1192 (Fed.Cir.2003). A factual finding is supported by substantial evidence if a reasonable jury could have found in favor of the prevailing party in light of the evidence presented at trial. *Id.*

[1] There is substantial evidence to lead a reasonable jury to find that the Spangler Patent anticipates the '069 Patent. The Spangler Patent discloses a grinding apparatus that can travel over the road surface while the grinding wheel is controlled by a hydraulic cylinder, allowing the grinding wheel to move up and down into the road surface to form the desired rumble strips. Dickson's expert, Chris Bailey, testified concerning the Spangler Patent and concluded that the Spangler Patent contains each and every element of claim 5 of the '069 Patent.

The Spangler Patent contemplates an application to cut rumble strips and discloses an embodiment in which a grinding wheel that attaches to a hydraulic cylinder is used to remove the surface of the road. The operator is able to control the hydraulic cylinder which in turn alters the vertical position of the grinding wheel. Moreover, PET's expert opined that if the jury concludes that one of ordinary skill in the art would read the Spangler Patent to teach moving the cutting head above the road surface then the Spangler Patent anticipates claim 5. There is substantial evidence indicating that a person of ordinary skill in the art would understand that the Spangler Patent discloses moving the cutting head above the road surface via the hydraulic cylinder. As such, the Spangler Patent anticipates claim 5 of the '069 Patent.

Thus, this court affirms the district court's decision to uphold the jury verdict that claim 5 of the '069 Patent is invalid.

#### IV.

Because inequitable conduct ultimately falls within the discretion of the district court, this court reviews that determination for an abuse of discretion. *Kingsdown Med. Consultants, Ltd. v. Hollister, Inc.*,

863 F.2d 867, 876 (Fed.Cir.1988) (en banc). The trial court's factual findings on the issues of materiality and intent, however, are reviewed for clear error. *Id.* Where a court premises its inequitable conduct determination upon clearly erroneous findings of materiality and/or intent, it constitutes an abuse of discretion and this court must reverse. *Impax Labs., Inc. v. Aventis Pharms.*, 468 F.3d 1366, 1375 (Fed.Cir.2006).

\*\*4 To find a patent unenforceable due to inequitable conduct, the accused infringer must present clear and convincing evidence that the applicant (1) made an affirmative misrepresentation of material fact, failed to disclose material information, or submitted false material information, and (2) intended to deceive the PTO. *Cargill, Inc. v. Canbra Foods, Ltd.*, 476 F.3d 1359, 1363 (Fed.Cir.2007). A determination based solely on one part of the test is legally erroneous. *Id.*

“Information is material when a reasonable examiner would consider it important in deciding whether to allow the application to issue as a patent.” *Star Scientific, Inc. v. R.J. Reynolds Tobacco Co.*, 537 F.3d 1357, 1367 (Fed.Cir.2008) (quoting *Symantec Corp. v. Computer Assocs. Int'l, Inc.*, 522 F.3d 1279, 1297 (Fed.Cir.2008)). For instance, information concealed from the USPTO may be material even if it does not invalidate the patent. \*519 *Li Second Family Ltd. P'ship v. Toshiba Corp.*, 231 F.3d 1373, 1380 (Fed.Cir.2000). But an otherwise material reference is not material if it is merely cumulative to, or less relevant than, information already considered by the examiner. See *Digital Control, Inc. v. Charles Mach. Works*, 437 F.3d 1309, 1319 (Fed.Cir.2006).

Moreover, “materiality does not presume intent, which is a separate and essential component of inequitable conduct.” *GFI, Inc. v. Franklin Corp.*, 265 F.3d 1268, 1274 (Fed.Cir.2001). The alleged infringer must prove with clear and convincing evidence that the patentee concealed the material information with the specific intent to mislead or deceive the USPTO. *Star Scientific*, 537 F.3d at 1366. And even gross negligence is insufficient to prove intent to deceive. *Kingsdown*, 863 F.2d at 876. “In a case involving nondisclosure of information, clear and convincing evidence must show that the applicant made a deliberate decision to withhold a known material reference.” *Star Scientific*, 537 F.3d at 1366 (quoting *Molins PLC v. Textron, Inc.*, 48 F.3d 1172,

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[1181 \(Fed.Cir.1995\)](#)).

[2] In this case, the district court denied Dickson's motion to amend its complaint to add the issue of inequitable conduct during reexamination. Relying on the district court's earlier ruling, PET did not fully prepare the issue for trial. Then, despite PET's motion in limine and repeated objection, the district allowed the issue to be presented at trial. The district court's inconsistent orders prejudiced PET and denied it the opportunity to adequately defend against the allegation of inequitable conduct at trial. For instance, PET was denied the opportunity to introduce evidence of good faith, which militates against a finding of deceptive intent. *See, e.g., Larson Mfg. Co. of S.D. v. Aluminart Products Ltd., 559 F.3d 1317, 1341 (Fed.Cir.2009)*.

The district court's contradicting positions undermine the legitimacy of its ruling on inequitable conduct. This court cannot say with confidence that the record regarding inequitable conduct is not incomplete. Thus, this court vacates the district's decision on the issue of inequitable conduct and remands to provide an opportunity to fully develop the record regarding inequitable conduct. Further, this Court vacates the award of attorney fees premised on inequitable conduct as premature.

**\*\*5** On remand, in order to prevail, Dickson must prove, by clear and convincing evidence that PET failed to disclose material information to the USPTO and intent to deceive the USPTO. *See Star Scientific, 537 F.3d at 1366*. The materiality prong and the intent prong are separate components of the inequitable conduct and must be independently satisfied. *Id.* Materiality does not presume intent and in the case of omission of material information, possession of the material references alone is insufficient to prove intent. *Larson, 559 F.3d at 1341*. Rather, there must be clear and convincing evidence that PET intended to deceive or mislead the USPTO. *Id.*

This court has long recognized that “the habit of charging inequitable conduct in almost every major patent case has become an absolute plague.” *Burlington Indus., Inc. v. Dayco Corp., 849 F.2d 1418, 1422 (Fed.Cir.1988)*. Given the severe consequences of unenforceability when it is imposed on a patent, it is paramount that the district court exercise necessary caution to ensure that the patent owner met

its burden of proof with respect to both the materiality and deceptive intent.

V.

Because substantial evidence supports the jury verdict that claim 5 of the '069 \*520 Patent is invalid due to anticipation or obviousness, this court affirms in part. However, this court vacates the district court's finding that the '069 is unenforceable due to inequitable conduct during reexamination and vacates the award of attorney fees premised on inequitable conduct. This court remands in order to create a complete record and provide PET an opportunity to defend against Dickson's allegation of inequitable conduct.

AFFIRMED IN PART, VACATED IN PART, AND REMANDED.

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