

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

In the
United States Court of Appeals
for the Federal Circuit

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.

Appeal 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
The Honorable William H. Alsup, Judge Presiding.

BRIEF OF AMICUS CURIAE
THE INTELLECTUAL PROPERTY LAW ASSOCIATION OF CHICAGO
SUPPORTING NEITHER AFFIRMANCE NOR REVERSAL

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August 2, 2010

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CERTIFICATE OF INTEREST

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Chicago certifies the following:

1. The full name of every party or *amicus* represented by me is:

The Intellectual Property Law Association of Chicago

2. IPLAC submits this brief *amicus curiae* and has no interest in the outcome of the case as between the parties.

3. All parent corporations and any 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* now represented by me in the trial court or agency or are expected to appear in this court are:

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INTEREST OF AMICUS CURIAE

Founded in 1884, the Intellectual Property Law Association of Chicago (IPLAC) is a voluntary bar association of over 1,000 members who practice with patents, trademarks, copyrights, trade secrets and the legal issues they present. IPLAC is the country's oldest bar association devoted exclusively to intellectual property matters. In litigation, IPLAC's members are split about equally between patent owners and accused infringers, with interests also split about equally toward increasing and decreasing the availability of inequitable conduct as a defense to patent infringement litigation. Its members include attorneys in private and corporate practice before the U.S. Patent and Trademark Office as well as federal bars throughout the United States.¹ As part of its central objectives, IPLAC is dedicated to aiding in the development of the patent laws, especially at the Federal Circuit.

All parties have consented to the filing of this brief.

¹ While over 30 federal judges are honorary members of IPLAC, none of them was consulted or participated in any way regarding this brief.

SUMMARY OF THE ARGUMENT

Panels and members of this Court have decried and cautioned against inequitable conduct allegations. Nevertheless, conclusions of inequitable conduct have unique consequences relative to other aspects of patent cases. While this Court has raised the inequitable conduct pleading standards, raising these standards is not a panacea for controlling inequitable conduct allegations.

The Federal Circuit should decide whether the Federal Circuit test for inequitable conduct is at substantial variance with Supreme Court precedents. It should specifically consider whether one such precedent demands that even if conduct can be characterized as “perhaps reckless,” but cannot be characterized as a basis for the granting of a patent or essentially material to the grant, the conduct is not to be characterized as inequitable conduct.

A recent Supreme Court decision, *Skilling v. United States*, 130 S.Ct. 2896 (2010), may be instructive. Resolving that the “honest services” law was intended as a codification of the common law, the Supreme Court also resolved that the law had a scope consistent with the common law it codified. It had a scope limited to fraud and bribery. The analysis within and the resolution of the case are useful for consideration as to the scope of the law of inequitable conduct. Just as the Supreme Court returned the honest services law to its common law roots of fraud and

bribery, it may be appropriate for this Court to return the scope of inequitable conduct law to its common law roots of fraud.

In considering whether to change its test for inequitable conduct, the Federal Circuit should concomitantly consider whether to adjust its law as to the limits and consequences of inequitable conduct. This Court's case law states that the consequences of inequitable conduct always include at least complete and permanent unenforceability of the patent involved. It may be appropriate, for consistency with Supreme Court precedents, that the terminating sanction of patent unenforceability should be returned to being the sanction for the most egregious cases. Unenforceability is permitted as a defense to a patent infringement civil action in the 1952 Patent Act, but the Act is otherwise silent, such that complete and utter patent unenforceability is not mandated as the minimum consequence of inequitable conduct. The same is true of the Supreme Court precedents codified by the Act.

ARGUMENT

I. THE FEDERAL CIRCUIT SHOULD CONSIDER WHETHER ITS TEST FOR INEQUITABLE CONDUCT SHOULD CHANGE

A. THE FEDERAL CIRCUIT HAS A SINGLE TEST FOR INEQUITABLE CONDUCT

This Court has a single test for inequitable conduct. That test is stated in, for example, *Star Scientific, Inc. v. R.J. Reynolds Tobacco Co.*, 537 F.3d 1357, 1365 (Fed. Cir. 2008).² Federal Circuit inequitable conduct jurisprudence has been criticized as being vague in its variability, as for example in sanctioning five standards for materiality. See Brief of *Amicus Curiae* – American Bar Association, at 5. But these standards are subsumed within and are part of the single overarching test. See *Digital Control Inc. v. Charles Machine Works*, 437 F.3d 1309, 1314-16 (Fed. Cir. 2006).

Panels and members of this Court have decried inequitable conduct as a plague in at least two periods. See, e.g., *Aventis Pharma S.A. v. Amphastar Pharmaceuticals, Inc.*, 525 F.3d 1334, 1349-50 (Fed. Cir. 2008)(Rader, J., dissenting)(inequitable conduct, once “a plague,” “has taken on a new life as a litigation tactic.”); see also the dissent in *Taltech Ltd. v. Esquel Enterprises Ltd.*, 604 F.3d 1324 (Fed. Cir. 2010) (Gajarsa) (“This case exemplifies the ongoing pandemic of baseless inequitable conduct charges that pervade our patent

² Specifics of this Court’s current test are noted *infra* at 18-19.

system.”); *see also Burlington Industries, Inc. v. Dayco Corp.*, 849 F.2d 1418, 1422 (Fed. Cir. 1988) (“[T]he habit of charging inequitable conduct in almost every major patent case has become an absolute plague.”); *see also* Randall R. Rader, *Always at the Margin: Inequitable Conduct in Flux*, 59 Am.U.L.Rev. 777, 779 (2010) (The number of inequitable conduct appeals doubled from 2004 to 2008).

Current inequitable conduct cases exist in the presence of cautions by the Court against inequitable conduct allegations. *See, e.g., Kothmann Enters. Inc. v. Trinity Indus., Inc.*, 455 F.Supp.2d 608, 647 (S.D. Tex. 2006) (“The Federal Circuit is concerned about the virtually routine assertion of inequitable conduct in patent cases.”); *see also Burlington Indus.*, 849 F.2d at 1422 (Fed. Cir. 1988) (“A patent litigant should be made to feel . . . that an unsupported charge of ‘inequitable conduct in the Patent Office’ is a negative contribution to the rightful administration of justice.”); *FMC Corp. v. Manitowoc Co., Inc.*, 835 F.2d 1411, 1415 (Fed. Cir. 1987) (“‘Inequitable conduct’ is not, or should not be, a magic incantation to be asserted against every patentee.”).

The Court may have seen more inequitable conduct cases in these periods despite its warnings for many reasons. The Court should also recognize that inequitable conduct allegations are made and proofs of inequitable conduct attempted for many reasons.

Among both sets of reasons, conclusions of inequitable conduct have unique consequences relative to other aspects of patent cases. Inequitable conduct is unique in potential and result for sometimes rendering a group of patents unenforceable. Proof of inequitable conduct can terminate the patent owner's case on the patent in suit and its potential cases on other patents within and beyond its family. *See, e.g., Keystone Driller Co. v. General Excavator Co.*, 290 U.S. 240 (1933) (five patents unenforceable).

Inequitable conduct is also unique in potential and consequences in its potentially direct path to compensation from a patent owner for the bringing and expenses of suit. As an example, this Court's recent decision in *Taltech*, 604 F.3d at 1324, affirms the award of attorneys' fees and costs for reasons including two grounds of inequitable conduct. *See also* 6 D. Chisum, *Chisum on Patents*, §19.03[6] (Matthew Bender), as to nine possible consequences of inequitable conduct.

Inequitable conduct is also unique in patent infringement defenses in the three aspects of (1) diverting attention from the activities of the accused infringer, (2) requiring much less proof of correspondence between prior art and the claimed invention than such patent defenses as anticipation and obviousness, and (3) focusing on aspects of "who knew what and when they knew it" -- matters that federal district courts are most accustomed to in handling their criminal dockets.

Perhaps only willfulness has a nearly equal focus on intent. Of course, this Court recently adjusted the standard of intent for willfulness to comport with Supreme Court law, and now it requires objective recklessness, *see Seagate*, 497 F.3d at 1371. However, because the situation addressed in inequitable conduct is interaction with the government in requesting a grant from the government, inequitable conduct has a uniquely fascinating angle in patent law.

Last, inequitable conduct allegations are made and proofs are attempted because they can be. This Court has recently raised the standards for pleading inequitable conduct. *Exergen Corp. v. Wal Mart Stores, Inc.*, 575 F.3d 1312 (2009). This did not change the substantive aspects of the law. The Court should recognize that raising the pleading standards is not a panacea for controlling the blight of inequitable conduct allegations. As an example, the Court required only that the allegations of facts support a reasonable inference of intent. *Id.* at 1328-29. The Court did not impose that the inference to be drawn from the facts at the pleadings stage must meet merits tests, as for example, that the inference be the single most reasonable inference able to be drawn from the facts. *Id.* at n. 5.

Moreover, in at least in some district courts, pleading barriers do not preclude the pursuit of inequitable conduct charges. For example, the Local Patent Rules recently enacted by the United States District Court for the Northern District of Illinois include a form order for patent cases. See N.D.II. LPR Appendix A.

According to that order, the accused infringer may pursue inequitable conduct as a defense whether inequitable conduct is pleaded or not. *Id.* at 4.(e)(“Discovery is permitted with respect to ... defenses of patent ... unenforceability not pleaded by a party.”)

B. THE FEDERAL CIRCUIT SHOULD CONSIDER WHETHER THE FEDERAL CIRCUIT TEST IS AT VARIANCE WITH SUPREME COURT PRECEDENTS

The Federal Circuit should consider whether its test for inequitable conduct is at variance with Supreme Court precedents.

As the *amicus* brief of the American Bar Association in support of *en banc* review advocated, at 11-15, one may assert that the test is at substantial variance with Supreme Court precedents. Notable is that the Supreme Court has not considered inequitable conduct in the terms of the test of the Federal Circuit. *Id.* As advocated by the ABA, the Supreme Court has only considered inequitable conduct in factual circumstances related to fraud. *Id.*³

The words of the Supreme Court precedents, though, have been words of unclean hands. That is, Supreme Court patent jurisprudence supports determination of inequitable conduct “not bound by formula or restrained by any limitation that tends to trammel the free and just exercise of discretion.” *Keystone Driller*, 290

³ See also R. Goldman, Evolution of the Inequitable Conduct Defense in Patent Litigation, 7 Harv. J.L. & Tech. 37 (1993), both as to this point and the history of inequitable conduct.

U.S. at 245, 246. “Any willful act concerning the [patent infringement] cause of action which rightfully can be said to transgress equitable standards of conduct is sufficient cause for the invocation of the maxim [that “he who comes into equity must come with clean hands”] by the chancellor.” *Id.*

At the same time, words of cases are frequently *dictum* while holdings are precedential. As an example, the dissent correctly observed in *In re Bilski*, 545 F.3d 943, 984 (Fed. Cir. 2008), *rev’d*, *Bilski v. Kappos*, 129 S.Ct. at 2735 (2010), that a Supreme Court description seeming to endorse “transformation” as a test for patent-eligible subject matter was *dictum* and not to be followed. As a second example, the Supreme Court itself observed that a “might” formulation of materiality found in its own words was not the correct formulation of materiality in the stockholder proxy solicitation disclosure context. *TSC Industries, Inc. v. Northway, Inc.*, 426 U.S. 438, 446-47 (1976). The Supreme Court there applied the formulation found in the Restatement of Torts, an objective “would” formulation. The “might” formulation would have led to an inappropriate “avalanche” of disclosure, not unlike the current problem in patent law. *Id.* at 448-49.^{4 5}

⁴ In copyright law, also, unclean hands is “recognized only rarely ...when the ... transgression is of serious proportions [as by] falsifying a court order, ... evidence, or misrepresented ... or obtained information ... through unfair means.” 3 M. Nimmer, Copyright § 13.09(b)(1978).

As noted by the ABA, *Corona Cord Tire Co. v. Dovan Chemical Corp.*, 276 U.S. 358 (1928), has relevance. The Supreme Court was sitting as a court of equity, as the subject case was a bill to enjoin infringement, a subject of equity. *Corona* at 364. A contention analyzed in the case was whether the patent was procured by false evidence. The contention was also stated to be in the interest of depriving the patent of its presumption of validity. The Court rejected the contention. The Court stated that affidavits filed at the PTO “though perhaps reckless, were not the basis for [the granting of the patent] or essentially material to its issue.” Without saying a word as to whether a court could, within the bounds of equity, strip a patent of its validity presumption, the Court resolved that in the case before it, the presumption was not destroyed.

The present case has some parallels to *Bilski*, where Supreme Court precedents were several in number, with some on one side of a divide and one,

⁵ Statements in circuit court decisions and elsewhere about Supreme Court statements, further, can be misstatements. For example, the frequent statement that patent applicants owe an uncompromising duty of candor and good faith appears to be a conflation of two statements by the Supreme Court in *Precision Instrument Mfg. Co. v. Automotive Maintenance Machinery Co.*, 324 U.S. 806 (1945). The Supreme Court stated that unclean hands concerned “the requirements of conscience and good faith,” and separately that patent applicants had an “uncompromising duty to report to [the PTO] *all facts concerning possible fraud or inequitableness underlying the applications in issue.*” *Precision* at 814, 818 (emphasis added). An uncompromising duty to report possible fraud and inequitableness is a different duty than “the highest standards of honesty and candor” as in *Norton v. Curtiss*, 433 F.2d 779, 794 (C.C.P.A. 1971). Patent applicants are not PTO fiduciaries.

Diamond v. Diehr, 450 U.S. 175 (1981), on the other. So too here, there are several Supreme Court precedents, with some on one side of a divide and one, *Corona*, apparently on the other.

The Federal Circuit should consider whether its test for inequitable conduct is at variance with Supreme Court precedents, as to both their holdings and pronouncements, and whether their pronouncements are *dicta* or the *ratio decidendi*. It should also specifically consider whether *Corona* represents the analog to *Diehr* in the *Bilski* situation, and whether *Corona* demands that conduct that can be characterized as “perhaps reckless” but not more, and not a basis for the granting of a patent or essentially material to the grant, should not be inequitable conduct.

C. IF THE COURT RESOLVES THAT ITS TEST IS AT VARIANCE WITH SUPREME COURT PRECEDENTS, THE COURT SHOULD DETERMINE HOW TO CONFORM ITS TEST TO THOSE PRECEDENTS

If the Court resolves that its test for inequitable conduct is at variance with Supreme Court precedents, the Court should determine how to conform to those precedents.

Clearly, the Supreme Court has concluded that in determining some legal issues, a single test may be appropriate. Thus in *Pfaff v. Wells Electronics*, 525 U.S. 55 (1998), the Supreme Court resolved that a single test was appropriate as to the patent law’s on sale bar. In reaching this resolution, the Supreme Court used its

own precedents, such as *The Telephone Cases*, 126 U.S. 1 (1888), as its primary sources of relevant authority. 525 U.S. at 62-3. The Supreme Court did not accept this Court’s multifactor, totality of the circumstances test to determine the trigger for the on-sale bar, although the test was developed through many cases over years of analysis. 525 U.S. at n.11. As the Supreme Court noted, the totality of the circumstances cases was criticized as unnecessarily vague. *Id.*

On the other hand, in determining other legal issues, a single test may not be appropriate. In *eBay Inc. v. Mercexchange, L.L.C.*, 547 U.S. 388 (2006), the Supreme Court rejected the perceived rule of this Court “that a permanent injunction will issue once infringement and validity have been adjudged.” *Id.* at 393-34.

Nevertheless, a test that is well-formulated, while perhaps inappropriate as a single test, may yet be a useful and important clue or investigative tool for determining a matter at issue. Thus in *Bilski*, the Supreme Court resolved that the single “machine or transformation” test for eligible subject matter was not appropriate as a single test, and a single test itself was inappropriate. The Supreme Court stated however that the “machine or transformation” test may yet remain “a useful and important clue, an investigative tool, for determining” the matter to be decided. *See Bilski*, 129 S.Ct. at 2385.

Another example is *KSR International Co. v. Teleflex Inc.*, 550 U.S. 398 (2007), where the Supreme Court called for flexibility for determining obviousness. Still, the Supreme Court stated that when the CCPA established the “TSM” test, it “captured a helpful insight.” *Id.* at 401. The issue for the Supreme Court was not the value of the test, because it was a helpful insight, but that “[h]elpful insights ... need not become rigid and mandatory formulas.” *Id.* at 401-2. Further, helpful insights applied as rigid and mandatory formulae, can be “incompatible with [Supreme Court] precedents.”

Where it has had reason to speak on the scope of the exercise of discretion, an exercise that is inherent in equitable matters such as injunction and unclean hands, the Supreme Court has stated that familiar principles of equity apply with equal force to disputes arising under the Patent Act as elsewhere.⁶ *eBay*, 547 U.S. at 391.

⁶In *A.C. Aukerman Co. v. R.L. Chaides Const. Co.*, 960 F.2d 1020, 1031 (Fed. Cir. 1992), this Court stated:

For many decades, parties have generally been allowed to plead equitable defenses at law without having to resort to a separate bill in equity. In 1915, Congress enacted 38 Stat. 956, codified as 28 U.S.C. § 398, which authorized such pleadings. ... Section 398 was then superseded in 1937 by Fed.R.Civ.P. 2 which merged legal and equitable claims into a single civil action. See Fed.R.Civ.P. 2 Advisory Committee note 1; 2 J.W. Moore, *Moore's Federal Practice* ¶ 2.05[2], at 2-33 n. 49 (2d ed. 1991). Section 398 was later repealed as being obsolete in light of Fed.R.Civ.P. 2. *Id.* FN10

FN10. Even before these provisions, an equitable defense could be interjected into a claim at law by way of a bill in equity to enjoin the prosecution of an adversary's suit at law until the equitable defense was

The Supreme Court has also explained that discretion is not to be free of legal standards. For example, in speaking on the grant of injunctions, the Supreme Court stated:

Discretion is not whim, and limiting discretion according to legal standards helps promote the basic principle of justice that like cases should be decided alike." *Martin v. Franklin Capital Corp.*, 546 U. S. 132, 139 (2005). When it comes to discerning and applying those standards, in this area as others, "a page of history is worth a volume of logic." *New York Trust Co. v. Eisner*, 256 U. S. 345, 349 (1921) (opinion for the Court by Holmes, J.).

Id. at 395.

Quoting another of its cases, the Supreme Court also stated that "in a system of laws discretion is rarely without limits. ... we have found limits in 'the large objectives' of the relevant Act, which embrace certain 'equitable considerations.'"

Id.

IPLAC submits that in reviewing the law as to whether a patent is unenforceable for unclean hands, this Court should consider whether courts should apply a rigid sole test for decision, or on the other hand, apply discretion that is not bound by formula but has limits in large objectives of the Patent Act that embrace equitable considerations. If the Court decides that discretion should be permitted,

decided. *See Liberty Oil Co. v. Condon Nat'l Bank*, 260 U.S. 235, 243, 43 S.Ct. 118, 121, 67 L.Ed. 232 (1922).

then the Federal Circuit single test should change, at a minimum from being the sole test for decision.

Perhaps the Federal Circuit single test should change to being a useful and important clue, an investigative tool, for determining whether some patents are unenforceable for unclean hands. The Federal Circuit should then accept that determination of inequitable conduct is not to be restrained by any limitation that tends to trammel the free and just exercise of discretion, in that any willful act in patent prosecution that concerns the patent infringement cause of action at bar and which rightfully can be said to transgress equitable standards of conduct, as exemplified in the early Supreme Court cases on inequitable conduct, is sufficient cause for the invocation by a district court of the maxim that "he who comes into equity must come with clean hands."⁷

On the other hand, given that the cases in which the Supreme Court concluded that inequitable conduct was present were cases of egregious conduct, the Federal Circuit should consider whether its test should conform to the narrow actual holdings of the Supreme Court cases. "A page of history is worth a volume of logic." *eBay* at 395.

⁷ IPLAC does not suggest excusing intentional culpable conduct bearing an immediate and necessary relationship to the relief sought. Neither does IPLAC endorse denying all relief to a patent proponent merely because of a minor error in the prosecution of the patent in suit with no necessary and immediate relationship to the relief sought.

If fraud is to be the standard of inequitable conduct, as recklessness is the standard of willfulness, developing the application of the standard of fraud could be a concern to this Court. “Fraud” is not self-defining. However, as in *Seagate* at 1371, whether as to fraud here or recklessness there, this Court can trust future cases to further develop the application of the standard.

A recent Supreme Court decision that is from a distant and unrelated area of law is nevertheless instructive. In *Skilling*, 130 S.Ct. at 2896, the Supreme Court addressed challenges to the “honest services” law. *Id.* Resolving that the law was intended as a codification of the common law, the Supreme Court resolved that the law had a scope consistent with the common law it codified. *Id.* It had a scope limited to fraud and bribery. *Id.*

The analysis within and the resolution of *Skilling* are useful for consideration of the scope of the law of inequitable conduct. As with the honest services law, this Court’s inequitable conduct law is subject to assertions of vagueness and overbreadth. As with the honest services law, this Court’s inequitable conduct law is in some sense a codification of the common law.

Surely this Court has intended its inequitable conduct law to articulate as its test of inequitable conduct the very factors for analysis that spring from and harmonize the precedents of the common law of unclean hands in patent cases. The 1952 Patent Act, pursuant to which this Court must act to effect the congressional

action of the Act, was in major part a codification. P. J. Federico, *Commentary on the New Patent Act*, 75 J. Pat. & Trademark Off. Soc’y 161, 166-170. As to patents being unenforceable, the Act stated at 35 U.S.C. § 282 that a defense to patent infringement was unenforceability. Federico stated that the defense of unenforceability was to include “equitable defenses such as laches, estoppel and unclean hands.” Federico at 215.

As with the honest services law, this Court’s inequitable conduct law springs from the Supreme Court’s common law precedents, some of which immediately preceded the 1952 Patent Act and which are narrow in terms of their facts and holdings. Thus, just as the *Skilling* Court returned the honest services law to its common law roots of fraud and bribery, it may be appropriate to return the scope of inequitable conduct law to its common law roots of fraud. And as with *Skilling*, this Court would thereby overcome challenges to inequitable conduct law as to vagueness and overbreadth, while preserving the law.

II. AS A CONCOMITANT ASPECT OF CONSIDERING WHETHER TO CHANGE ITS TEST FOR INEQUITABLE CONDUCT, THE FEDERAL CIRCUIT SHOULD CONSIDER WHETHER ITS LAW AS TO THE LIMITS AND CONSEQUENCES OF INEQUITABLE CONDUCT SHOULD CHANGE

In considering whether to change its test for inequitable conduct, the Federal Circuit should concomitantly consider whether to adjust its law as to the limits and consequences of inequitable conduct. If the Court returns to the origin of the

equitable maxims and seminal precedents involved, the Federal Circuit should perhaps also return to the limits and consequences of the maxims.

A. THE FEDERAL CIRCUIT HAS STATED LIMITS AND CONSEQUENCES FOR INEQUITABLE CONDUCT

The Federal Circuit has stated limits and consequences for inequitable conduct. Its test for inequitable conduct as stated in *Star Scientific*, 537 F3d 1357 at 1365, has inherent limits:

- The burden of proving inequitable conduct lies with the accused infringer.
- To successfully prove inequitable conduct, the accused infringer must present evidence that the applicant made an affirmative misrepresentation of material fact, failed to disclose material information, or submitted false material information.
- To successfully prove inequitable conduct, the accused infringer must also present evidence that the applicant intended to deceive the PTO.
- At least a threshold level of each element, both materiality and intent to deceive, must be proven by clear and convincing evidence.
- Even if this elevated evidentiary burden is met as to both elements, the district court must still balance the equities to determine whether the

applicant's conduct before the PTO was egregious enough to warrant holding the entire patent unenforceable.

- Where intent to deceive is inferred, the inference of deceptive intent must be the single most reasonable inference to be drawn from the evidence.

This Court's case law as in *J.P. Stevens & Co. v. Lex Tex Ltd.*, 747 F.2d 1553 (Fed. Cir. 1984)(*en banc*, in part) also states that the minimum consequence of inequitable conduct is always complete, permanent unenforceability of the patent involved. *J.P. Stevens* at 1560.

B. THE FEDERAL CIRCUIT SHOULD CONSIDER WHETHER ITS STATED LIMITS AND CONSEQUENCES FOR INEQUITABLE CONDUCT ARE AT VARIANCE WITH SUPREME COURT PRECEDENTS

The precedents on unclean hands had a limit: they did not require that suitors lead blameless lives. *E.g.*, *Loughran v. Loughran*, 292 U.S. 216, 229 (1934). To gain an equity court's attention, the unclean hands had to have an immediate and necessary relationship to the equity for which suit was brought. Story's Equity Jurisprudence, 14th ed., §§ 98, 99, relied on by *Keystone Driller*.

In early jurisprudence, unclean hands also had the limit that it barred the aid of equity, but did not bar the aid of the law court. Story, *id.*

Further, early jurisprudence also stated that when assessing "motive and design," if motive and design could be ascribed to honesty and legitimacy, as

equally to corruption, there was no unclean hands. *Conard v. Nicoll*, 29 U.S. (4 Pet.) 291, 297 (1830).

C. IF THE COURT RESOLVES THAT ITS LIMITS AND CONSEQUENCES FOR INEQUITABLE CONDUCT ARE AT VARIANCE WITH SUPREME COURT PRECEDENTS, THE COURT SHOULD CONSIDER HOW TO CONFORM ITS LIMITS AND CONSEQUENCES TO THOSE PRECEDENTS

If the Court resolves that its limits and consequences for inequitable conduct are at variance with Supreme Court precedents, the Court should consider how to conform its limits and consequences to those Supreme Court precedents.

For example, if the Court finds that there is variance, it should then consider whether the law of inequitable conduct should permit court relief to a patent owner who has distanced itself from inequitable conduct, before seeking the aid of the court -- based on the lack of an immediate and necessary relationship between the unclean hands and the equity sought.

Not all inequitable conduct is incurable. In the current state of the law, inequitable conduct is not without possibility of cure, albeit in limited circumstances. *See, e.g., Rohm & Haas Co. v. Crystal Chem. Co.*, 722 F.2d 1556 (Fed. Cir. 1983). As well, misuse may also be purged. *See, e.g., United States Gypsum Co. v. National Gypsum Co.*, 352 U.S. 457, 465, 472-73 (1957). Further, at least one court has considered the possibility of cure of inequitable conduct after prosecution, although it rejected the curative efforts in the specific case. *See*

Kearney & Trecker Corp. v. Giddings & Lewis, Inc., 425 F.2d 579, 597 (7th Cir. 1971). It is not inherent in inequitable defenses that taint is permanent and without cure.

The Court should consider whether inequitable conduct jurisprudence should, even in the presence of inequitable conduct, always completely bar all remedies, or whether instead it should be directed more carefully to the doing of equity. Not all equitable defenses, even considering only patent defenses, provide complete bars to relief. Laches is an equitable defense, yet it does not bar all relief, only pre-filing damages. *See e.g., Leinoff v. Louis Milona & Sons, Inc.*, 726 F.2d 734, 741 (Fed. Cir. 1984). Further, there are areas of law where an objective of the law is to force infringers of rights to consider and examine their actions, and where a duality exists between legitimate interests of infringers and important claims of those who invoke the laws' policies against infringers. *E.g., McKennon v. Nashville Banner Publishing Co.*, 513 U.S. 352 (1995)(ADEA case). In those areas, courts may grant relief according to the equities in spite of unclean hands. *Id.* Patent law is certainly an area such as this, in objective and duality of interests and claims. It is not inherent in equitable defenses that they must be complete bars to relief.⁸

⁸ This Court's rigid rule that prosecution history estoppel completely barred relief by equivalents was also overruled in *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 535 U.S. 722, 728, 737 (2002). Flexibility of relief as a matter of

The Federal Circuit should also consider whether it should reinforce the limit that its case law has recently strongly embodied, and that exists in the origin of unclean hands doctrine, that if motive and design can be ascribed to honesty and legitimacy, as the single most reasonable inference, then there has not been inequitable conduct. *See, e.g., Star Scientific*, 537 F.3d at 366-67 and *Conard*, 29 U.S. (4 Pet.) at 291, 297.

Once again, a case from another area of law may be instructive. In *The Pension Committee of the University of Montreal Pension Plan v. Banc of America Securities, LLC*, 685 F.Supp.2d 456 (S.D.N.Y. 2010), District Judge Scheindlin of *Zubulake*⁹ fame has written an opinion that is a *tour de force* on the spoliation of evidence, a concern for courts as they consider whether those who “petition” the government (courts) have been fair in their petitioning. The concern arises from the need of the courts to preserve the integrity of the judicial process, to assure it works to uncover the truth. *Id.* at 465. The courts have the power to impose sanctions to protect integrity, but the power is limited to that necessary to redress abusive conduct. *Id.*

equity was permitted. As said in *KSR* at 550 U.S. 398 (2007), “[r]igid preventative rules that deny [decisionmakers] recourse to common sense .. are neither necessary ... nor consistent with [Supreme Court case law].”

⁹ *See, e.g., Zubulake v. UBS Warburg LLC* (“*Zubulake V*”), 229 F.R.D. 422 (S.D. N.Y. 2004).

The case addresses not egregious examples of wrongful litigants, but careless and indifferent efforts that resulted in adverse consequences for litigation opponents, deprived of something they should have had, *i.e.*, in this area of law, evidence. *Id.* at 463. The question was whether the plaintiff's conduct deserved sanctions. *Id.*

The law provides a range of sanctions. *Id.* at 467. Less severe ones are fines and cost-shifting. *Id.* More severe ones are dismissal, preclusion and the imposition of adverse inferences. *Id.* The court has broad discretion to determine the appropriate sanction. *Id.* at 469. The purposes of sanctions are to: (1) deter the parties from engaging in the wrongful conduct; (2) place the risk of erroneous judgment on the party who wrongfully created the risk to the integrity of the system; and (3) restore the prejudiced party to the same position it would have been in absent the wrongful conduct. The full range of potential sanctions include further discovery, cost-shifting, fines, special jury instructions, preclusion, and the entry of default judgment or dismissal (also known as terminating sanctions). *Id.*

It is well accepted in this area of law that the courts should always impose the least harsh sanction that can provide an adequate remedy. *Id.* A terminating sanction is justified only in the most egregious cases, such as where a party has engaged in perjury, tampering with evidence, or intentionally destroying evidence.

Id. Further, awards of sanctions risk increased frequency in the filing of sanctions motions. *Id.*

The analysis within *Pension* and the resolution of *Pension* are not without their instructive aspect for this Court's consideration of its law of the limits and consequences of inequitable conduct. For inequitable conduct, as for spoliation of evidence, the concern is whether those who "petition" government -- the courts or the PTO -- have been fair in their petitioning. The concern in both areas of law arises from the need of the courts to preserve the integrity of the judicial process, to assure it works to uncover the truth.¹⁰ But for existing Federal Circuit law, as courts of equity, the district courts would have the range of power of equity to impose sanctions to protect system integrity, for inequitable conduct, a power properly limited to that necessary to redress conduct which abuses the process.

Inequitable conduct and spoliation alike are asserted against litigants who are not necessarily egregious but instead who exhibit careless and indifferent efforts. As an example, in *Gen. Electro Music Corp. v. Samick Music Corp.*, 19 F.3d 1405, 1411-12 (Fed. Cir. 1994), the issue was that a patent owner asserted that its search of the prior art had been careful and thorough, although it was not. The purpose was to gain expedited prosecution. The adverse consequence to the accused infringer was only that it faced a patent that enjoyed expedited

¹⁰ Patents issue from quasi judicial processes. *See, e.g., United States v. American Bell Tel. Co.*, 128 U.S. 315, 363 (1888).

examination. As another example, in *Nilssen v. Osram Sylvania, Inc.*, 504 F.3d 1223 (Fed.Cir. 2007), the issue was the payment of maintenance fees. The adverse consequence to the accused infringer was only that it was sued on a patent as to which the patent owner saved some PTO fees. “These cases hardly involve the gross misconduct and deceit that characterized the original Supreme Court cases.” Rader, 59 Am.U.L.Rev at 782. Further, in *Kingsdown Medical Consultants, Ltd. v. Hollister Inc.*, 863 F. 2d 867 (Fed.Cir. 1988), this Court characterized the situation as to which a District Court found inequitable conduct as a matter of “a ministerial act.” *Id.* at 873. Moreover, “[a]llegations of inequitable conduct often are based on speculation or harmless mistake.” ABA Report at 2, ABA Brief App A-003. *See also* L. Dolak, *As If You Didn't Have Enough To Worry About: Current Ethics Issues for Intellectual Property Practitioners*, 82 J. Pat. & Trademark Off. Soc'y 235, 237 and 244-45 (2000)(as to other unique allegations of inequitable conduct).

In both equitable conduct law and spoliation law, the question for the court is whether conduct deserves sanctions. The purposes of sanctions would seem to be the same. It is also known that awards of sanctions risk increased frequency in the filings of both types of charges.

For consistency with Supreme Court precedents on inequitable conduct, the terminating sanction of patent unenforceability would perhaps be justified only in cases of the most egregious conduct, such as the conduct of the Supreme Court

precedents. Unenforceability is permitted as a defense to a patent infringement civil action in the 1952 Patent Act, but the Act is permissive that unenforceability is a defense, and complete and utter patent unenforceability is not mandated as the minimum consequence. The same is true of the case law that gave rise to the presence of the defense in the Act: complete and permanent unenforceability is not mandated.

As in willfulness and the *Seagate* decision, times change and call for different legal tests. Just as *Seagate* at 1368 *et seq.* recognized that the widespread disrespect of patents that existed in 1982 no longer existed as of the time of *Seagate* (2007), this case can recognize that the issue of today is not widespread, egregious inequitable conduct. It is in fact the opposite, a time of almost universally obsessive overdisclosure of information to the PTO. ABA IPL Report at 2, ABA Brief App. A-003. It is also a time of allegations that are a plague and pandemic.

Also, just as in *Seagate*, this Court can recognize that its test of inequitable conduct has created practical concerns that call for change.¹¹ (*Skilling* here might

¹¹ This is not to say that the necessary relationship of trust in *ex parte* prosecution, see *Norton v. Curtiss*, 433 F.2d at 794, is to be undone. It is that now reasoning is required beyond the reasoning that honesty and candor are needed to unburden the PTO. Reasoning is now needed about the new, present set of facts – that by reason of the current test of inequitable conduct, honesty and candor *themselves* are burdening the PTO. Compare *Norton* at 794. See also *Rohm & Haas Co. v. Crystal Chemical Co.*, 722 F.2d 1556, 1571 (Fed. Cir. 1983), and E. Peters, Note, *Are We*

also provide the parallel for *Safeco Ins. Co. of Am. v. Burr*, 127 S.Ct. 2201 (2007), cited in *Seagate*. See *Seagate* at 1370-1.)

Likewise, perhaps the law should provide a range of sanctions, just as in the area of spoliation. *Corona* at 373 considered whether to strip a patent of its presumption of validity because of “false evidence,” and simply by addressing the matter as such implied that stripping the presumption was a potentially appropriate sanction for the inequitable conduct aspect of the situation as well as the validity aspect.

Perhaps the same less severe sanctions as in spoliation could exist. Perhaps the same more severe sanctions could exist. Perhaps as in *Corona*, stripping the presumption of patent validity could lie somewhere along the spectrum of sanctions. Further, perhaps consistent with their powers and capabilities as courts of equity, as admirably represented by the analysis and resolution of *Pension*, the district courts could have broad discretion to determine the appropriate sanction for the inequitable conduct before them. Perhaps as in spoliation, it could be accepted in inequitable conduct law that courts should impose the least harsh sanction that can provide an adequate remedy, after selection of an appropriate remedy as a delicate matter, after the investment of a great deal of time and attention.

Living in a Material World?: An Analysis of the Federal Circuit's Materiality Standard Under the Patent Doctrine of Inequitable Conduct, 93 Iowa L. Rev. 1519 (2008), as to policy considerations to be balanced, and how to balance them.

Perhaps it is time for not only the limits but also the consequences of inequitable conduct law to change, such that on a case-by-case basis, lesser offenses as in wrongly expediting patent prosecution and wrongly paying small entity fees could be addressed by appropriate and less severe sanctions than a complete loss of the right to a remedy.¹²

The Supreme Court has “made clear that often the ‘exercise of a court’s equity powers ... must be made on a case-by-case basis’”:

....In emphasizing the need for ‘flexibility,’ for avoiding ‘mechanical rules,’ *Holmberg v. Armbricht*, 327 U.S. 392, 396 (1946), we have followed a tradition in which courts of equity sought to ‘relieve hardships which, from time to time, arise from a hard and fast adherence ‘ to more absolute legal rules, which, if strictly applied, threaten the ‘evils of archaic rigidity.’ *Hazel-Atlas Glass Co. v. Hartford-Empire Co.*, 322 U.S. 238, 248 (1944).

Holland v. Florida, 2010 WL 2346549 (June 14, 2010)(first degree murderer subject to strict time limit of the Antiterrorism and Effective Death Penalty Act of 1996, specifically intended to expedite executions, nevertheless given equitable relief).

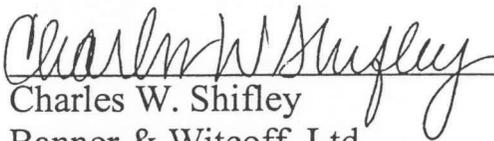
¹² For additional ideas, see N. Murphy, Note, *Inequitable Conduct Doctrine Reform: Is the Death Penalty for Patents Still Appropriate?*, 93 Minn. L. Rev. 2274 (2009).

III. CONCLUSION – EQUITY ABHORS - RIGIDITY

Equity abhors – rigidity. The law of inequitable conduct should follow Supreme Court precedents, and perhaps be flexible in substance, limits and consequences.

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August 2, 2010

CERTIFICATE OF SERVICE AND DISPATCH TO THE CLERK

I hereby certify that on this 2nd day of August, 2010, two copies of the foregoing Brief Of The *Amicus Curiae* Intellectual Property Law Association Of Chicago, Supporting Neither Affirmance Nor Reversal were mailed, first-class U.S. mail, postage prepaid, to the following principal counsel:

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Dated: August 2, 2010

Charles W. Shufly

CERTIFICATE OF COMPLIANCE WITH RULE 32(a)(7)(B)

I certify that this brief complies with Fed. R. App. P. 32(a)(7)(B). The brief contains fewer than half of 14,000 and about 6,882 words, when counted as provided in Fed. R. App. P. 32(a)(7)(B)(iii) and Fed. Circ. R. 32(b).

Dated: August 2, 2010

A handwritten signature in cursive script, reading "Charles M. Shipley", is written over a horizontal line.