
Note

Inequitable-Conduct Doctrine Reform: Is the Death Penalty for Patents Still Appropriate?

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The Federal Circuit's use of the inequitable-conduct doctrine enables defendants to avoid all liability for infringing otherwise valid patents.¹ Recent application of the doctrine has been likened to "imposing the death penalty for relatively minor acts of misconduct."² When patent holders bring infringement suits, they often fear their conduct will be subject to hindsight bias, rendering their patents unenforceable.³ To prevail on an inequitable-conduct defense, an alleged infringer must

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1. See S. REP. NO. 110-259, at 62 (2008) ("The defense has proven to be irresistible for litigants—if proven, it allows an infringer to escape any liability for infringing a valid patent.").

2. Robert Pear, *Candor at Heart of Debate over Patents in Congress: Should Firms Lose Rights Won by Misrepresentation?*, INT'L HERALD TRIB., Apr. 30, 2008, at 11 (quoting Robert Armitage, Senior Vice President and General Counsel of Eli Lilly); see also *Star Scientific, Inc. v. R.J. Reynolds Tobacco Co.*, 537 F.3d 1357, 1366 (Fed. Cir. 2008) ("[I]t is also inequitable to strike down an entire patent where the patentee only committed minor missteps or acted with minimal culpability or in good faith.").

3. See *Patent Reform: The Future of American Innovation: Hearing Before the S. Comm. on the Judiciary*, 110th Cong. 131 (2007) (statement of Jon W. Dudas, Under Secretary of Commerce for Intellectual Property and Director, U.S. Patent and Trademark Office) (noting that uncertainty surrounding the inequitable-conduct doctrine creates the potential for "draconian penalties" for innocent omissions); see also Paul M. Janicke, *Inequitable Conduct: Out of the Frying Pan?*, PATENTLY-O, Aug. 7, 2008, <http://www.patentlyo.com/patent/2008/08/inequitable-con.html> (explaining that "credible-sounding explanations" for innocent omissions by applicants years after a patent filing and application "are not that easy to come by").

present clear and convincing evidence that the patent holder misrepresented or omitted material information during the application process with the intent to deceive the Patent and Trademark Office (PTO).⁴ Recent, inconsistent application of the doctrine, combined with severe penalties when inequitable conduct is found, has heightened uncertainty around patent rights.

Due to the potential windfall and lack of disincentives for raising the defense, alleged patent infringers now raise the doctrine in nearly every case.⁵ Even the Federal Circuit Court of Appeals—the court entrusted with hearing all patent appeals—noted that “the habit of charging inequitable conduct in almost every major patent case has become an absolute plague.”⁶ In the last four years, concerns about the strength of patent rights have sparked repeated attempts for congressional reform of the patent system.⁷ Nevertheless, proponents of the doctrine argue that the draconian remedy of holding the entire patent unenforceable is necessary to discourage some patent applicants from engaging in inequitable conduct with the PTO.⁸

4. See *J.P. Stevens & Co. v. Lex Tex Ltd.*, 747 F.2d 1553, 1559–60 (Fed. Cir. 1984).

5. See S. REP. NO. 110-259, at 60; Kevin Mack, Note, *Reforming Inequitable Conduct to Improve Patent Quality: Cleansing Unclean Hands*, 21 BERKELEY TECH. L.J. 147, 155–56 (2006) (noting that the inequitable-conduct defense is adjudicated in sixteen to thirty-five percent of all infringement cases and inferring that, because many cases are dismissed before trial, “the percent of patent cases in which a litigant plead [sic] inequitable conduct is substantially higher than these figures”). A 1998 AIPLA study found that over eighty percent of cases involved an allegation of inequitable conduct. Sailesh K. Patel & D. Christopher Ohly, *Inequitable Conduct and the Patent Reform Act of 2009?*, NASABA IP NEWSL. (N. Am. S. Asian Bar Ass’n), July 2008, at 6, available at http://www.nasaba.com/_uploads/_news128698009037495952_IP%20Section%20Newsletter%20July%202008.pdf.

6. *Burlington Indus., Inc. v. Dayco Corp.*, 849 F.2d 1418, 1422 (Fed. Cir. 1988). More recently, in *McKesson Information Solutions, Inc. v. Bridge Medical, Inc.*, Judge Newman dissented, stating that “[t]his court returns to the ‘plague’ of encouraging unwarranted charges of inequitable conduct, spawning the opportunistic litigation that here succeeded despite consistently contrary precedent.” 487 F.3d 897, 926–27 (Fed. Cir. 2007) (Newman, J., dissenting).

7. See Patent Reform Act of 2006, S. 3818, 109th Cong. § 5 (2006); Patent Reform Act of 2005, H.R. 2795, 109th Cong. § 5 (2005); *Patent Reform Act of 2007: Hearing on H.R. 1908 Before the Subcomm. on Courts, the Internet, and Intellectual Property of the H. Comm. on the Judiciary*, 110th Cong. 43–44 (2007) (statement of Kevin Sharer, CEO and Chairman of the Board of Amgen, Inc.) (“When a patent is litigated, the most innocent statements, or failures to disclose the smallest thing, can become the bases for charges of inequitable conduct.”).

8. See, e.g., Patent Office Prof’l Ass’n, *The Patent Reform Act Will Hurt*,

This Note reexamines the intended and unintended consequences of the inequitable-conduct doctrine and argues that judicial discretion is needed to create less severe outcomes. Rather than holding an entire patent unenforceable, this Note proposes variable minimum penalty guidelines—analogueous to sentencing guidelines in criminal law—that react to levels of materiality and misconduct found by the court. The implementation of minimum guidelines by the Federal Circuit, or through congressional reform, will establish greater certainty for future patent holders and incentivize continued investment in innovation.

Part I of this Note describes the development and application of the inequitable-conduct doctrine that has led to the current uncertainty surrounding patent enforceability. Part II highlights policy considerations and perspectives implicated by the doctrine, as well as recently suggested legislative reforms. Finally, Part III proposes a system of variable minimum penalties based on the level of materiality and intent that would ensure more appropriate outcomes.

I. DEVELOPMENT AND IMPLEMENTATION OF THE INEQUITABLE-CONDUCT DOCTRINE

The Supreme Court established the inequitable-conduct doctrine more than sixty years ago to prevent a patent holder that engaged in misconduct during its application from enforcing its rights against an alleged infringer.⁹ But in the decades since its adoption, a series of court decisions has turned a modest device meant to encourage candor on patent applications into a trap that can extinguish the enforcement rights of honest applicants who make good faith mistakes or omissions.

A. INEQUITABLE-CONDUCT DOCTRINE AND DETERRING MISCONDUCT ON THE PTO

Each year, hundreds of thousands of patent applicants try to convince PTO examiners that their applications meet the cri-

Not Help, the U.S. Patent System, PROF'L INVENTORS ALLIANCE, Aug. 2007, http://www.piausa.org/patent_reform/articles/the_patent_reform_act_will_hurt_not_help_the_u_s_patent_system (“[M]aking inequitable conduct less of a threat removes the very enforcement mechanism the [PTO] would use to insure the quality of [patent applications].”).

9. *Precision Instrument Mfg. Co. v. Auto. Maint. Mach. Co.*, 324 U.S. 806, 819 (1944).

teria for patentability.¹⁰ Applicants have a natural incentive to withhold information that they believe might jeopardize their chances of obtaining a patent, hoping a patent examiner will not uncover any compromising information themselves.¹¹ To combat this natural tendency, the PTO established a duty to disclose information material to patentability.¹² This duty of “candor and good faith” is imposed on all persons dealing with the PTO during the application process—called prosecution.¹³ If the PTO examiner determines the invention is patentable, a patent is issued.¹⁴ This gives the applicant—now a patentee—the right to exclude all others from practicing its invention.¹⁵ Patentees can enforce this right by alleging infringement in litigation to gain relief through damages¹⁶ or an injunction¹⁷ against the infringer’s actions.¹⁸ Conversely, alleged infringers can use the doctrine of inequitable conduct as a defense.¹⁹ If proven, the doctrine renders the entire patent unenforceable.²⁰

1. Development of Equity-Based Doctrine

Before 1945, courts refused to apply an equitable defense to hold a patent unenforceable for failure of the patentee to disclose information to a PTO examiner.²¹ However, in *Precision Instrument Manufacturing Co. v. Automotive Maintenance Machinery Co.*,²² the Supreme Court broke from precedent when it established the inequitable-conduct doctrine in the field of patent law.²³ Based on Precision’s awareness and lack of disclo-

10. The number of patent applications has grown substantially from 90,000 in 1963 to over 480,000 in 2007. See U.S. PATENT & TRADEMARK OFFICE, U.S. PATENT STATISTICS, CALENDAR YEARS 1963–2007 (2008), http://www.uspto.gov/go/taf/us_stat.pdf.

11. See ROBERT PATRICK MERGES & JOHN FITZGERALD DUFFY, PATENT LAW AND POLICY 1103 (4th ed. 2007).

12. 37 C.F.R. § 1.56(a) (2008); MERGES & DUFFY, *supra* note 11, at 49.

13. 37 C.F.R. § 1.56(a). Congress originally established the PTO in 1836 to examine patent applications. Patent Act of 1836, ch. 357, § 1, 5 Stat. 117.

14. See MERGES & DUFFY, *supra* note 11, at 49.

15. *Id.*

16. 35 U.S.C. § 284 (2006).

17. *Id.* § 283.

18. See MERGES & DUFFY, *supra* note 11, at 933.

19. *Id.* at 1104–05.

20. *Id.*

21. See Robert J. Goldman, *Evolution of the Inequitable Conduct Defense in Patent Litigation*, 7 HARV. J.L. & TECH. 37, 39 (1993).

22. 324 U.S. 806, 819 (1944).

23. *Id.*; see also Goldman, *supra* note 21, at 37. Others have described *Keystone Driller Co. v. General Excavator Co.*, 290 U.S. 240 (1933), as the first

sure of the original patentee's fraudulent behavior, including the submission of false affidavits while securing its patent, the Court denied relief.²⁴ The Court stated that "[t]hose who have applications pending with the Patent Office or who are parties to Patent Office proceedings have an uncompromising duty to report to it all facts concerning possible fraud or inequitable-ness underlying the applications at issue."²⁵ However, the *Precision* Court failed to establish a specific standard for the doctrine.²⁶ Instead, after the *Precision* decision and until the establishment of the Federal Circuit in 1982, many courts simply created their own versions of the doctrine.²⁷

B. A UNIFORM TEST FOR INEQUITABLE CONDUCT HAS FAILED TO EMERGE

The Federal Circuit's test for inequitable conduct has developed into a two-step inquiry that requires clear and convincing evidence of 1) a threshold level of materiality of omitted or false information, and 2) a threshold level of intent to deceive the PTO.²⁸ After thresholds of intent and materiality are met, the court "balance[s] them and determine[s] as a matter of law whether the scales tilt to a conclusion that inequitable conduct occurred."²⁹ Consequently, a finding of inequitable conduct infects the entire patent, not only the claims affected by the inequitable conduct.³⁰ In some instances, repercussions have extended to include related patents rendered unenforceable,

Supreme Court case dealing with inequitable conduct. *See, e.g.*, S. REP. NO. 110-259, at 59 (2008); Katherine Nolan-Stevaux, Note, *Inequitable Conduct Claims in the 21st Century: Combating the Plague*, 20 BERKELEY TECH. L.J. 147, 149 (2005).

24. *Precision Instrument*, 324 U.S. at 819.

25. *Id.* at 818. The inequitable-conduct doctrine was based on the judicial notion of preventing a party with "unclean hands" from appealing to a court for affirmative relief. *Id.* at 819.

26. *See* Goldman, *supra* note 21, at 52.

27. *Cf.* S. REP. NO. 97-275, at 2, 5-6 (1982), *reprinted in* 1982 U.S.C.C.A.N. 11, 15-16 (citing the need to reduce forum shopping and provide greater consistency in the patent field as the reasons for creating the Federal Circuit); H.R. REP. NO. 97-312, at 20-23 (1981); Goldman, *supra* note 21, at 68 ("[I]t is only a slight exaggeration to say that one could find pre-1982 decisions going both ways (i.e., finding or not finding inequitable conduct) on almost any set of facts.").

28. *J.P. Stevens & Co. v. Lex Tex Ltd.*, 747 F.2d 1553, 1559-60 (Fed. Cir. 1984).

29. *Id.* at 1560 (citing *Am. Hoist & Derrick Co. v. Sowa & Sons, Inc.*, 725 F.2d 1350, 1367 (Fed. Cir. 1984)).

30. *See id.* at 1561.

awards of attorney's fees, royalty recoveries, PTO-imposed sanctions, and state law tort claims based on unfair competition.³¹

1. Materiality Standards

Since its establishment in 1981, the Federal Circuit has embraced several materiality standards—the first element of the inequitable-conduct doctrine.³² Compared to the court's application of the materiality standard used when the doctrine was originally adopted, courts now consider less significant information to be material.³³ Initially, the three materiality standards were the objective but-for standard, the subjective but-for standard, and the but-it-may-have standard.³⁴ The objective but-for standard places no emphasis on what the actual patent examiner should have done if the information had been known.³⁵ Rather, it assumes the patent examiner should not have issued the patent but for the material information having been unknown.³⁶ The subjective but-for standard takes into account that the patent examiner would not have issued the patent if the material information had been known.³⁷ The third but-it-may-have standard considers information to be material if it may have influenced the patent examiner had it been known at the time of application.³⁸

In 1984, the Federal Circuit added to the number of standards by adopting the reasonable-examiner standard based on

31. See Kevin R. Casey, "Infectious Unenforceability": *The Extent or Reach of Inequitable Conduct on Associated Patents*, 17 AIPLA Q.J. 338, 342–54 (1989) (describing how courts have held patents-in-suit and parent applications related to the unenforceable patent also unenforceable through the concept of infectious unenforceability); see also Elizabeth Peters, *Are We 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, 1527 (2008); James Cronin, Comment, *Inequitable Conduct and the Standard of Materiality: Why the Federal Circuit Should Use the Reasonable Patent Examiner Standard*, 50 ST. LOUIS U. L.J. 1327, 1337 (2006).

32. See *J.P. Stevens*, 747 F.2d at 1559–60.

33. See Goldman, *supra* note 21, 55–62 (describing how the amount of information required by the duty of disclosure expanded from "prior art that would completely anticipate the claimed invention" to include any information that a reasonable examiner would consider important).

34. See, e.g., *Am. Hoist & Derrick*, 725 F.2d at 1367.

35. See *Plastic Container Corp. v. Cont'l Plastics of Okla., Inc.*, 607 F.2d 885, 899 (10th Cir. 1979).

36. *Id.*

37. *Id.*

38. *Id.*

PTO's Rule 56 standard of materiality.³⁹ This standard considers information material if there was "substantial likelihood that a reasonable examiner would consider it important in deciding whether to allow the application to issue as a patent."⁴⁰ The adoption of the reasonable-examiner standard "made the [inequitable-conduct] defense appear substantially easier to establish," thereby making it an easy defense for alleged infringers to exploit.⁴¹ Additionally, the Federal Circuit adopted a sliding-scale approach which allows inequitable conduct to be found for high levels of materiality with low levels of intent, and vice versa.⁴² Finally in 1992, the PTO endorsed yet another test that considers information that presents a prima facie case of unpatentability to be material.⁴³

At the time, some practitioners and judges believed materiality for patents issued before 1992 relied on the reasonable-examiner standard, while patents issued after 1992 relied on the newer prima facie standard.⁴⁴ However, in *Digital Control Inc. v. Charles Machine Works*, the Federal Circuit declared that the standard for materiality includes all prior standards, but gave no direction on when each standard applies.⁴⁵ Conse-

39. *Am. Hoist & Derrick*, 725 F.2d at 1363 (stating that the PTO's Rule 1.56(a), reasonable-examiner standard, is the starting point for determining materiality).

40. 37 C.F.R. § 1.56(a) (1988).

41. Goldman, *supra* note 21, at 70.

42. *Am. Hoist & Derrick*, 725 F.2d at 1363 ("Questions of 'materiality' and 'culpability' are often interrelated and intertwined, so that a lesser showing of the materiality of the withheld information may suffice when an intentional scheme to defraud is established, whereas a greater showing of the materiality of withheld information would necessarily create an inference that its nondisclosure was 'wrongful.'" (quoting *Digital Equip. Corp. v. Diamond*, 653 F.2d 701, 716 (1st Cir. 1981))); *see also* *Abbot Labs. v. Torpham, Inc.*, 300 F.3d 1367, 1380 (Fed. Cir. 2002) ("[T]he intent necessary to establish inequitable conduct is based on a sliding scale related to the materiality of omission." (citing *Critikon v. Becton Dickinson Vascular Access, Inc.*, 120 F.3d 1253 (Fed. Cir. 1997))); MERGES & DUFFY, *supra* note 11, at 1129 (describing the sliding scale of intent in the Federal Circuit).

43. Peters, *supra* note 31, at 1532; *see also* 37 C.F.R. § 1.56(b)(1)-(2) (2004).

44. Peters, *supra* note 31, at 1534-35 (describing the combination of two cases by the Federal Circuit to establish that the materiality standard used would be determined by what the PTO standard was when the patent was issued); *see, e.g.*, Tom Brody, *Duty to Disclose: Dayco Products v. Total Containment*, 90 J. PAT. & TRADEMARK OFF. SOC'Y 692, 693 (2008) (describing the Federal Circuit's occasional deference to the current PTO materiality standard).

45. 437 F.3d 1309, 1314-16 (Fed. Cir. 2006) (describing the evolution of the material standard and stating that even though the previous PTO Rule

quently, courts are not consistently applying the multimaterial standard approach⁴⁶ and instead, generally rely on the reasonable-examiner standard.⁴⁷ Recently, the Federal Circuit noted the doctrine has broadened “to encompass misconduct less egregious than fraud,”⁴⁸ such as improper claiming of small entity status,⁴⁹ incorrect payment of maintenance fees,⁵⁰ and false statements about searches performed.⁵¹

2. Inconsistent Application of Intent-to-Deceive Standard

In *Kingsdown Medical Consultants, Ltd. v. Hollister Inc.*, the Federal Circuit raised the level of scienter for intent to deceive—the second element of inequitable conduct.⁵² The court held that intent to deceive could not be shown by grossly negligent behavior alone.⁵³ The *Kingsdown* decision initially reduced the number of allegations of inequitable conduct until the courts turned to the sliding scale as an alternative to the stricter intent standard.

Since *Kingsdown*, Federal Circuit panels have inconsistently applied the intent standard. For instance, the *Ferring*

1.56(a) was the dominant standard applied from 1984 until 1992, it did not eliminate the prior materiality tests, and concluding that the new PTO Rule 56 was not meant to override existing case law and therefore is an additional test for materiality).

46. One implied benefit of the multiple-material standard was the possibility of using it in conjunction with the sliding-scale test, but this has not been seen. Peters, *supra* note 31, at 1537–39.

47. See *Ferring B.V. v. Barr Labs., Inc.*, 437 F.3d 1181, 1187 n.6 (Fed. Cir. 2006) (stating that the Federal Circuit continues to use the pre-1992 PTO language for the reasonable-examiner standard of materiality even though all materiality standards are available for use (citing *Digital Control, Inc. v. Charles Mach. Works*, 437 F.3d 1309, 1313–17 (Fed. Cir. 2006)).

48. *Star Scientific, Inc. v. R.J. Reynolds Tobacco Co.*, 537 F.3d 1357, 1366 (Fed. Cir. 2008).

49. *Nilssen v. Osram Sylvania, Inc.*, 504 F.3d 1223, 1231 (Fed. Cir. 2007); see also David K.S. Cornwell & Mark W. Rygiel, *How to Identify the Single Tiles of the Inequitable Conduct Mosaic*, AIPLA, Fall 2007, at 2–14, available at http://www.aipla.org/Content/ContentGroups/Speaker_Papers/Annual_Meeting_Speaker_Papers/200717/Cornwell-paper.pdf (describing their “best practices” in uncovering inequitable conduct and stringing together “benign” mistakes to create a “mosaic” to help prove the defense claims).

50. *Ulead Sys., Inc. v. Lex Computer & Mgmt. Corp.*, 351 F.3d 1139, 1146 (Fed. Cir. 2003).

51. *Gen. Electro Music Corp. v. Samick Music Corp.*, 19 F.3d 1405, 1411 (Fed. Cir. 1994).

52. 863 F.2d 867, 876 (Fed. Cir. 1988) (en banc) (“We adopt the view that a finding that particular conduct amounts to ‘gross negligence’ does not itself justify an inference of intent to deceive . . .”).

53. *Id.*

B.V. v. Barr Laboratories, Inc. panel upheld the application of a negligence standard of “knew or should have known” due to the “high materiality” of the information omitted from the patent application.⁵⁴ The same panel reiterated that summary judgment is allowed for “highly material” information if the record shows the applicant knew of the information withheld, the applicant “knew or should have known” the information was material, and the applicant lacked a credible explanation for withholding the information.⁵⁵ In sum, whether explicitly using the sliding scale or not, *Ferring* suggests that the negligence standard is applicable whenever omitted or false information is considered “highly material.”⁵⁶ This approach deviates from the higher scienter level demanded in *Kingsdown*.⁵⁷ Another Federal Circuit panel has since disagreed with the *Ferring* standard for inferring intent.

In *Star Scientific, Inc. v. R.J. Reynolds Tobacco Corp.*, the Federal Circuit refused to infer intent to deceive from the omitted information, and instead required additional evidence.⁵⁸ The court articulated that, while intent can be inferred from indirect and circumstantial evidence, it must be to a clear and convincing standard.⁵⁹ To infer intent from indirect or circumstantial evidence, the court asserted that the inference must “be the single most reasonable inference able to be drawn from the evidence.”⁶⁰ The court stated that *only* after an adequate demonstration of both materiality and intent should the district

54. 437 F.3d 1181, 1191 (Fed. Cir. 2006). The district court found that submission of affidavits by affiliates of the applicant without disclosing their relationship constituted clear and convincing evidence that the applicant intended to deceive the PTO examiner and that the information was highly material. *Id.* at 1190, 1193–94.

55. *Id.* at 1191.

56. *Id.*

57. Compare MERGES & DUFFY, *supra* note 11, at 1129 (describing the low level of intent necessary under the sliding-scale approach when there is high materiality), with *Hollister*, 863 F.2d at 876 (holding that gross negligence does not on its own justify an inference of intent).

58. See *Star Scientific, Inc. v. R.J. Reynolds Tobacco Co.*, 537 F.3d 1357, 1368–69 (Fed. Cir. 2008); Lisa A. Dolak, *Inequitable Conduct: A Flawed Doctrine Worth Saving* (2008), http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1276414# (discussing *Star Scientific*).

59. *Star Scientific*, 537 F.3d at 1366.

60. *Id.* If more than one plausible inference may be drawn from the evidence proffered by the alleged infringer, then it is insufficient for inferring an intent to deceive and a finding otherwise would be clearly erroneous. *Id.* at 1366–67 (quoting *Scanner Techs. Corp. v. ICOS Vision Sys.*, 528 F.3d 1365, 1376 (Fed. Cir. 2008)).

court consider the equities by weighing the factors or looking to the sliding scale.⁶¹

After *Star Scientific*, some practitioners believed the doctrine's intent prong had been raised back to a higher-level requirement.⁶² However, this belief was short lived.⁶³ In *Praxair, Inc. v. ATMI, Inc.*, the Federal Circuit upheld an inequitable-conduct defense after noting that the omitted prior art⁶⁴ became "highly material" from statements made to the PTO during prosecution.⁶⁵ One dissenting justice stated that he believed "the district court incorrectly conflated intent with materiality."⁶⁶ The judge was upset that intent was not considered independently from the materiality of the omitted prior art,⁶⁷ in conflict with the standard articulated in *Star Scientific*⁶⁸ and *Kingsdown*.⁶⁹ The current intent standard is inconsistently applied, allowing highly material omissions to permit inferences of intent to deceive.⁷⁰

61. *Id.* at 1367–68 (reversing the district court's finding of intent to deceive because the defendant had not carried its burden of establishing a threshold level of intent to deceive (citing *Critikon v. Becton Dickinson Vascular Access, Inc.*, 120 F.3d 1253, 1256 (Fed. Cir. 1997))).

62. Jeremy C. Lowe, *Raising Questions About Patent Deception; Critics Call for Reform of the Inequitable Conduct Doctrine*, CONN. L. TRIB., Oct. 13, 2008, at 16.

63. A month after *Star Scientific* was decided, another Federal Circuit panel appeared to reverse course in *Praxair, Inc. v. ATMI, Inc.*, 543 F.3d 1306 (Fed. Cir. 2008), stirring up more criticism and uncertainty in the application of the doctrine. Lowe, *supra* note 62.

64. Generally, prior art includes information publicly known before the filing of the patent application. See generally Daralyn J. Durie & Mark A. Lemley, *A Realistic Approach to the Obviousness of Inventions*, 50 WM. & MARY L. REV. 989, 1017 n.147 (2008) (noting that there is no statutory definition of "prior art" and explaining that it generally includes information contained in 35 U.S.C. § 102 such as prior patents and known inventions).

65. *Praxair*, 543 F.3d 1306, 1313–16 (Fed. Cir. 2008) (reiterating that "highly material" information is subject to an inference of intent if the *Ferring* standard is met finding omitted prior art highly material in the context of four statements made to the PTO during prosecution that there was no prior art similar to that which was omitted). The Federal Circuit did not allow an inference of intent arising from the same omitted prior art of another patent because it did not share the prosecution statements. *Id.* at 1318.

66. *Id.* at 1329 (Lourie, J., dissenting).

67. *Id.*

68. *Star Scientific, Inc. v. R.J. Reynolds Tobacco Co.*, 537 F.3d 1357, 1366 (Fed. Cir. 2008).

69. *Kingsdown Med. Consultants, Ltd. v. Hollister Inc.*, 863 F.2d 867, 876 (Fed. Cir. 1988) (en banc).

70. Compare *id.* (citing *M. Eagles Tool Warehouse, Inc. v. Fisher Tooling Co.*, 439 F.3d 1335, 1342–43 (Fed. Cir. 2006)) (noting that the court in *M.*

3. Consequences of the Federal Circuit's Recent Inconsistent Application of the Doctrine

The Federal Circuit's application of the inequitable-conduct doctrine since 2006 has raised the level of uncertainty for patent holders in the United States in several ways.⁷¹ First, the Federal Circuit broadened materiality to include all previous standards and information unrelated to patentability.⁷² Second, Federal Circuit panels are using inconsistent standards for inferring intent to deceive.⁷³ Even the courts are cautioning against applying the defense too lightly because the penalty remains severe.⁷⁴ Third, alleged infringers are often enticed to raise the defense given the low likelihood of having to pay damages for meritless defenses⁷⁵ and the high reward potential of having an entire patent held unenforceable.

II. IMPORTANT PATENT POLICY AND FAILED LEGISLATIVE REFORM

Due to the recent, inconsistent use of the inequitable-conduct doctrine by the Federal Circuit, there is a strong push for swift change. However, it is important to understand the policy rationales and parties involved before undertaking to "fix" the doctrine. The following sections highlight the policy ra-

Eagles found "a lack of good faith explanation of nondisclosure insufficient to infer intent to deceive the PTO"), and *Cohesive Techs., Inc. v. Waters Corp.*, 543 F.3d 1351, 1366 (Fed. Cir. 2008) (upholding a district court's decision that, based on a lack of "independent" evidence for the omitted information, there was no intent to deceive), with *Praxair*, 543 F.3d at 1313–16 (allowing the "high materiality" of the misconduct to satisfy an inference of intent without additional evidence of intent to deceive).

71. See, e.g., Petition for a Writ of Certiorari at 2–3, *Ferring B.V. v. Barr Labs., Inc.*, 549 U.S. 1015 (2006) (No. 06-372) (describing the negative impact of an inconsistent doctrine).

72. *Digital Control, Inc. v. Charles Mach. Works*, 437 F.3d 1309, 1314–16 (Fed. Cir. 2006).

73. See *supra* note 70.

74. *Star Scientific, Inc. v. R.J. Reynolds Tobacco Co.*, 537 F.3d 1357, 1366 (Fed. Cir. 2008).

75. In *Takeda Chemical Industries, Ltd. v. Mylan Laboratories, Inc.*, the Federal Circuit scolded Mylan for bringing numerous meritless inequitable-conduct claims and awarded exceptional damages to Takeda. 549 F.3d 1381, 1385, 1391 (Fed. Cir. 2008) (affirming the district court and agreeing the "inequitable conduct claim was 'always frivolous' and unsupported, as Mylan did not present any evidence that Takeda hid or misrepresented any information to the PTO" (quoting *Takeda Chem. Indus., Ltd. v. Mylan Labs., Inc.*, 459 F. Supp. 2d 227, 249 (S.D.N.Y. 2006))).

tionales for maintaining the doctrine and also identify some of the perspectives of those involved in the patent system.

A. POLICY CONSIDERATIONS INHERENT IN THE DOCTRINE OF INEQUITABLE CONDUCT

Granting patents is intended “to promote the Progress of Science and useful Arts.”⁷⁶ One notable social benefit of the patent system is the publication of the invention.⁷⁷ The public gains access to the invention in exchange for allowing the patent holder to have a monopoly and right to exclude others for the duration of the patent term.⁷⁸ The inefficiency of granting a monopoly is one of the social costs of granting patents.⁷⁹ The “far-reaching social and economic consequences of a patent” give the public a strong incentive to ensure that patents come from “backgrounds free from fraud or other inequitable conduct.”⁸⁰ Encouragement of financial investment into the research and development of patentable innovations is another

76. U.S. CONST. art. I, § 8, cl. 8.

77. See MERGES & DUFFY, *supra* note 11, at 63–64 (noting that beginning in 1999 most patent applications are published after eighteen months, allowing researchers to know what problems are already solved and to begin to improve new breakthroughs). Inherent in the idea of adding to public knowledge is that patents should not be granted for ideas or knowledge already known to the public. See 35 U.S.C. § 102(a) (2006) (“A person shall be entitled to a patent unless—(a) the invention was known or used by others in this country . . .”). Additionally, certain subject matters are seen as unfit for patentability because they are considered within the storehouse of public knowledge. Examples include naturally occurring “laws of nature, physical phenomena, and abstract ideas.” *Diamond v. Chakrabarty*, 447 U.S. 303, 309 (1980); see also § 101 (allowing patents for “any new and useful process, machine, manufacture, or composition of matter”).

78. See 35 U.S.C. § 154 (providing that patent terms generally last twenty years after the filing date which allows patent holders to exclude others from copying their invention).

79. Some economists argue that patent monopolies are socially inefficient, while others have recently argued that patents are not necessarily synonymous with monopoly because many patents have imperfect substitutes available. See WILLIAM M. LANDES & RICHARD A. POSNER, *THE ECONOMIC STRUCTURE OF INTELLECTUAL PROPERTY LAW* 372–402 (2003) (arguing that patents are not monopolies in the traditional sense and noting several counterarguments).

80. *Precision Instrument Mfg. Co. v. Auto. Maint. Mach. Co.*, 324 U.S. 806, 816 (1945); see also *Honeywell Int’l Inc. v. Universal Avionics Sys. Corp.*, 488 F.3d 982, 999 (Fed. Cir. 2007) (“Applicants for patents have a duty to prosecute patent applications in the Patent Office with candor, good faith, and honesty.”); 37 C.F.R. § 1.56(a) (2008) (describing the duty to disclose information material to patentability).

chief aim of the patent system.⁸¹ The current discrepant application of the inequitable-conduct doctrine by the Federal Circuit, combined with the doctrine's severe consequences, may stunt the strong incentives created by the ability to patent.⁸²

1. Maintaining the Inequitable-Conduct Doctrine—Lack of Adequate Alternatives

Inequitable conduct remains a problem in patent prosecution.⁸³ If the doctrine is eliminated, patents obtained through fraud or otherwise deceitful means will likely be enforceable.⁸⁴ Further, there is no ready substitute.⁸⁵ The doctrine of unclean hands fails because it generally cannot be raised by a party who is foreign to the alleged misconduct when it occurs.⁸⁶

Other alternatives for preventing misconduct during prosecution are also susceptible to criticism and are inadequate replacements for the doctrine.⁸⁷ One possibility is making the

81. *Rohm & Haas Co. v. Crystal Chem. Co.*, 722 F.2d 1556, 1571 (Fed. Cir. 1983) (“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.”).

82. There was hope after *Star Scientific* that the Federal Circuit was reining in the broadened intent prong but that hope was shattered by the later *Praxair* opinion by a different Federal Circuit panel. *Lowe*, *supra* note 62.

83. *See, e.g.*, *Applied Materials, Inc. v. Multimetrix, LLC*, No. C06-07372, 2008 WL 2892453, at *9 (N.D. Cal. July 22, 2008) (holding a patent to be unenforceable for inequitable conduct based on the submission of a signature forged after the inventor's death).

84. *Dolak*, *supra* note 58, at 6.

85. *See id.* (describing the possible alternatives and their respective shortcomings).

86. *Casey*, *supra* note 31, at 347–52 (stating that the doctrine of unclean hands includes conduct that is “unconscionable and willful,” is not an affirmative defense that can be raised by another party, but must be raised by courts in order to “protect their own integrity”); *see also*, *Keystone Driller Co. v. Gen. Excavator Co.*, 290 U.S. 240, 244–46 (1933) (describing the limitation of the unclean hands doctrine); RESTATEMENT (THIRD) OF RESTITUTION & UNJUST ENRICHMENT § 32 cmt. d (Tentative Draft No. 3, 2004) (stating that the doctrine of unclean hands “is a rule of equitable disqualification or forfeiture that is frequently asserted as a defense to liability for benefits received pursuant to illegal contracts” where “a party guilty of inequitable conduct in the underlying transaction may on that account be denied a claim based on unjust enrichment”).

87. *Dolak*, *supra* note 58, at 6–7. Limitations of current proposed alternatives include some conduct's inability to cause the patent to be invalidated, the likely failure of PTO disciplinary actions to deter all misconduct, and the high burden of proof that would act as a barrier to successful antitrust, unfair competition, fraud, and tortious interference claims. *Id.*

PTO responsible for implementing the doctrine.⁸⁸ However, adding duties to the already backlogged PTO will make enforcement less likely and therefore less of a deterrent to misconduct.⁸⁹ Additionally, eliminating the doctrine and requiring defendants to bring antitrust or common law fraud claims creates too high a burden on defendants.⁹⁰ Compared to PTO enforcement or bringing antitrust/fraud claims, the doctrine of inequitable conduct is useful because it addresses misconduct more quickly and effectively. Therefore, addressing the current state of uncertainty through modification of the doctrine, instead of elimination, is a more reasonable solution.

2. Parties Affected by Modifications of the Inequitable-Conduct Doctrine

The patent system is an interwoven network involving many parties, including patent examiners, patent practitioners (such as attorneys or patent agents who prosecute patents), inventors, businesses, and industries. Some parties form groups and lobby Congress.⁹¹ Each party discussed below is a typical player in the patent system with primary motivations to reform the doctrine.

Patent examiners are the PTO's gatekeepers and have exclusive authority to issue patents.⁹² Patent examiners⁹³ support policies that discourage litigation and focus on patent quality,⁹⁴ and support standardization of the doctrine. Patent-practitioner organizations⁹⁵ support legislation that removes

88. *Id.*

89. *Id.*

90. *Id.*

91. *See, e.g.,* Pear, *supra* note 2, at 11 (noting that the Coalition for Patent Fairness spent more than \$2.5 million on lobbyists over a fifteen-month period in 2007–08 versus a competing coalition, the Coalition for 21st Century Patent Reform, which recently paid over \$1.8 million to lobbyists).

92. United States Patent and Trademark Office, General Information Concerning Patents, Examination of Applications and Proceedings in the United States Patent and Trademark Office, <http://www.uspto.gov/web/offices/pac/doc/general/index.html#examination> (last visited Apr. 27, 2009) (“If the examiner’s decision on patentability is favorable, a patent is granted.”)

93. *See, e.g.,* Patent Office Professional Association, About Us, <http://www.popa.org/php/misc/about.php> (last visited Apr. 27, 2009).

94. Robert B. Budens, President, Patent Office Professional Association, Open Letter (Dec. 2007), <http://www.popa.org/pdf/misc/reform3-06feb2008.pdf> (describing POPA’s opposition to the proposed modifications of the patent system in the Patent Reform Act of 2007 but not stating POPA’s position on the proposed inequitable-conduct modifications).

95. *See, e.g.,* Introduction to and History of the National Association of

claims from the courts and oppose changes that would make it easier to raise the defense.⁹⁶ They are concerned that the current implementation of the doctrine reduces patent strength while increasing litigation costs, all for little or no additional benefit.⁹⁷ Patent practitioners would benefit from increased certainty from reform because it would encourage more use of the patent system.

Conversely, small businesses and inventor-entrepreneurs⁹⁸ oppose legislation that reduces the applicability of the doctrine or limits it to administration by the PTO.⁹⁹ Most small businesses and inventor-entrepreneurs view the doctrine as a valuable tool to help ensure that big businesses deal honestly with the PTO because other consequences, namely financial penalties, may not have the same effect.¹⁰⁰

Industry groups also vie for legislative attention. In 2005, the National Academy of Sciences (NAS) presented Congress with its list of proposed modifications to the current patent system.¹⁰¹ The modifications were aimed at decreasing costs and reducing patent-infringement litigation by modifying or eliminating subjective elements of litigation, including the doc-

Patent Practitioners, the NAPP, <http://www.napp.org/about> (last visited Apr. 27, 2009).

96. Letter from Ron Reardon & Louis J. Hoffman, Nat'l Ass'n of Patent Practitioners, to Sens. Harry Reid and Mitch McConnell (Dec. 27, 2007), available at <http://www.napp.org/resources/NAPP-OppTo2007SenateBill.pdf> (describing NAPP's opposition to the modifications of the Senate's version of the Patent Reform Act of 2007).

97. See generally Christopher Cotropia, *Modernizing Patent Law's Inequitable Conduct Doctrine*, 24 BERKELEY TECH. L.J. (forthcoming 2009), available at <http://repositories.cdlib.org/cgi/viewcontent.cgi?article=1047&context=bclt> (arguing that the cost and effort required when inequitable conduct is raised generally yields little benefit for the other areas of the litigation such as validity and infringement and may detract from the overall quality of the resolution).

98. See, e.g. Professional Inventors Alliance, <http://www.piausa.org> (last visited Apr. 27, 2009).

99. Professional Inventors Alliance, *Limitation of Inequitable Conduct: The PIA Viewpoint*, http://www.piausa.org/patent_reform_issues/limitation_of_inequitable_conduct (last visited Apr. 27, 2009).

100. Cf. Stephen Castle & David Jolly, *Europe Fines Microsoft \$1.3 Billion*, N.Y. TIMES, Feb. 28, 2008, http://www.nytimes.com/2008/02/28/business/worldbusiness/28msoft.html?_r=1&scp=3&sq=microsoft%20european%20fine&st=cse (describing the effects of heavy fines in antitrust law).

101. *Patent Quality Improvement: Hearing Before the Subcomm. on Courts, Internet, and Intellectual Property of the H. Comm. on the Judiciary*, 109th Cong. 133-36 (2005) [hereinafter *Patent Quality Improvements*] (statement of Richard C. Levin, President, Yale University).

trine.¹⁰² The NAS committee believed its proposals would not “substantially affect[] the principles that these aspects of the enforcement system were meant to promote,” but would instead reduce litigation by increasing the predictability of litigation outcomes.¹⁰³ Similar to the NAS, certain business industries banded together to voice their support for elimination of the doctrine.

Members of the biotechnology and pharmaceutical industries recognize the importance of patents and advocate the need for strong patent rights.¹⁰⁴ It is common for a handful of patents to represent the value of their business and only opportunities for capital financing.¹⁰⁵ Similarly, other groups in the biotechnology, pharmaceutical, and technology industries¹⁰⁶ argue that the doctrine should be reserved for the PTO because of its expertise in patent prosecution.¹⁰⁷ These groups further argue that the doctrine should ultimately be eliminated as a litigation defense because it creates too much uncertainty and decreases voluntary communications between patent practitioners and patent examiners.¹⁰⁸ Nonetheless, some generic drug manufacturers argue that the elimination of the doctrine would make it easier for brand-name manufacturers “to cheat and get away with it, easier for them to defend their patents and more difficult for us to get generic products onto the market in a timely way.”¹⁰⁹

102. *Id.* at 132.

103. *Id.* at 136.

104. *See, e.g.*, Biotechnology Industry Organization, About BIO, <http://bio.org/aboutbio> (last visited Apr. 27, 2009); Biotechnology Industry Organization, Patent Reform, <http://bio.org/ip/domestic> (last visited Apr. 27, 2009).

105. Biotechnology Industry Organization, Patent Reform, <http://bio.org/ip/domestic> (last visited Apr. 27, 2009).

106. *See, e.g.*, Patents Matter, Coalition for 21st Century Patent Reform, http://www.patentsmatter.com/about/who_we_are.php (last visited Apr. 27, 2009).

107. *See, e.g.*, BIOTECH. INDUS. ORG., THE UNENFORCEABILITY DEFENSE BASED ON INEQUITABLE CONDUCT SHOULD BE REPEALED 1, <http://bio.org/ip/domestic/inequitableconduct.pdf> (advancing instead the position that courts should not be able to hold patents unenforceable due to matters unrelated to “actual invalidity”); COALITION FOR 21ST CENTURY PATENT REFORM, POSITION ON S. 1145 (2008), http://www.patentsmatter.com/issue/pdfs/OnePager_021508.pdf.

108. *See, e.g.*, BIOTECH. INDUS. ORG., *supra* note 107; COALITION FOR 21ST CENTURY PATENT REFORM, *supra* note 107.

109. Pear, *supra* note 2 (quoting Debra Barrett, a vice president of Teva Pharmaceutical Industries, the world’s largest generic drug manufacturer).

Unlike the biotech and pharmaceutical industries, which may rely on a few patents for their survival, businesses in the high-tech industry may require hundreds of patents for a single product.¹¹⁰ Some high-tech organizations believe current patent rights are too strong and overreaching.¹¹¹ They likely support leaving the doctrine in the courts and support standardization that would make the defense easier to prove.

Any modification of the doctrine would affect the stakeholders involved in the patent system. But, by not addressing the shortcomings of the doctrine, the Federal Circuit and Congress are unintentionally destabilizing all of the parties involved.

B. MODIFICATIONS TO THE INEQUITABLE-CONDUCT DOCTRINE RECENTLY PROPOSED IN CONGRESS

Due to patentees' recent cries for alleviation from the doctrine's draconian application, Congress has repeatedly tried to reform the patent system and continues to propose modifications of the doctrine. The Patent Reform Act of 2006¹¹² sought to eliminate the defense of inequitable conduct except in cases where the alleged infringer also proved at least one claim invalid.¹¹³ Additionally, the Act barred an alleged infringer from raising an inequitable-conduct claim until the patent was found valid as a whole and infringed.¹¹⁴ Senator Hatch intro-

110. See, e.g., Ephraim Schwartz, *Patent Reform Favors High Tech Over Biotech*, INFOWORLD, Sept. 7, 2007, http://weblog.infoworld.com/realitycheck/archives/2007/09/patent_reform_f.html (discussing the attempt in the Patent Reform Act of 2007 to limit damages which would benefit high-tech companies with thousands of patents but hurt pharmaceutical companies which may rely on high damage awards to prevent others from infringing upon their one or two patents).

111. See, e.g., Matthew R. Osenga, *John W. Thompson Is Leading Candidate for Commerce Secretary*, INVENTIVE STEP, Jan. 28, 2009, <http://inventivestep.net/2009/01/28/john-w-thompson-is-leading-candidate-for-commerce-secretary> (last visited Apr. 27, 2009) (quoting the Coalition for Patent Fairness as saying that "over-broad patent grants stifle future innovators, while unjustified lawsuits that aim to extort settlements without regard to the merits of underlying patents clog the courts"). Some critics of the Coalition for Patent Fairness criticize CPF for wanting reduced patent rights so that they are able to infringe other's patents more easily. See, e.g., Gene Quinn, *Why Patent Reform Didn't Happen in 2008*, IPWATCHDOG, Dec. 28, 2008, <http://www.ipwatchdog.com/2008/12/28/coalition-for-patent-infringement/id=1160>.

112. S. 3818, 109th Cong. § 5 (2006). The Patent Reform Act of 2006 proposed to modify § 282 of the current code to limit the permitted ground for unenforceability to only cases of invalidity. *Id.*

113. *Id.*

114. *Id.*

duced the bill on behalf of himself and Senator Leahy in 2006,¹¹⁵ but it failed to pass in the Senate.¹¹⁶ After numerous hearings and testimony from those involved in the patent system, Congress considered a new bill in 2007.¹¹⁷

1. Patent Reform Act of 2007: The Reasonable-Examiner Standard and Codification of Current Case Law

The Patent Reform Act of 2007 did not substantially reduce or eliminate the inequitable-conduct defense.¹¹⁸ Instead, the Act proposed adopting the “reasonable patent examiner” standard.¹¹⁹ However, the benefit of the increased certainty from adopting a single materiality standard is limited because the reasonable-examiner standard is the broadest standard applied.¹²⁰ Therefore, the proposed change still allows much uncertainty for patent practitioners and patentees. This is unlike previous legislative proposals that adopted the narrower but-for standard of materiality.¹²¹

The Act allows intent to be inferred when it is not based solely on gross negligence of the patent owner or its representative, or on the materiality of the misconduct.¹²² This codifies the intent standard articulated in *Kingsdown*¹²³ and overrides any conflicting precedent created afterwards by *Star Scientific*¹²⁴

115. *Id.* pmbl.

116. 153 CONG. REC. S15,898-01 (daily ed. Dec. 18, 2007) (statement of Sen. Leahy).

117. *Id.*

118. See Patent Reform Act of 2007, S. 1145, 110th Cong. § 12 (2008); Patent Reform Act of 2007, H.R. 1908, 110th Cong. § 12(c) (2007). The Patent Reform Act of 2007 is seen by many to heavily favor alleged infringers or likely defendants in infringement suits due to the increased methods of holding the patent unenforceable. See, e.g., Dennis Crouch, *Patent Reform Act of 2007: Preliminary Notes and Comment Part I*, PATENTLY-O, Apr. 22, 2007, http://www.patentlyo.com/patent/2007/04/patent_reform_a_2.html.

119. S. 1145.

120. See Reardon & Hoffman, *supra* note 96.

121. See Patent Reform Act of 2006, S. 3818, 109th Cong. § 5 (2006) (adopting the requirement that a patent would have been invalid had the misconduct not occurred); Patent Reform Act of 2005, H.R. 2795, 109th Cong. § 5 (2005) (adopting a limitation on the materiality standard in § 136(d) that is essentially equivalent to the but-for materiality standard).

122. S. 3818, 109th Cong. § 5 (2006) (proposing § 298(b) intent).

123. *Kingsdown Med. Consultants, Ltd. v. Hollister, Inc.*, 863 F.2d 867, 876 (Fed. Cir. 1988) (en banc) (holding that intent to deceive could not be shown by “grossly negligent” behavior alone but that a higher level of intent was required).

124. *Star Scientific Inc. v. R.J. Reynolds Tobacco Co.*, 537 F.3d 1357, 1366 (Fed. Cir. 2008) (reiterating that materiality and intent are separate ele-

and *Praxair*.¹²⁵ Although the Act would codify *Kingsdown* and lessen some uncertainty, critics point out that it fails “to make broadly supported reforms to eliminate litigation abuse of the doctrine and gain increases in patent quality.”¹²⁶

Finally, the Act proposes alternatives for courts that find inequitable conduct to still hold parts of the patent enforceable.¹²⁷ These options include holding one or more of the claims unenforceable or holding that the patentee is only eligible for reasonable royalties instead of equitable relief such as a temporary or permanent injunction.¹²⁸ This would allow courts to implement consequences more tailored to the misconduct of the patentee.¹²⁹ Additionally, reducing the current windfall for alleged infringers from entire patent unenforceability to only reasonable royalties or limited enforceability would likely decrease the incentive for bringing questionable claims.¹³⁰ However, increasing the number of options for the court, absent more guidance, will not reduce anxiety felt by involved parties because it will only increase unpredictability.¹³¹

The bill passed the House of Representatives in September 2007, but failed to pass the Senate due to disputes regarding the proposed modification of damage awards.¹³² Senator Kyl proposed the Patent Reform Act of 2008¹³³ after opposing some parts of the Patent Reform Act of 2007.¹³⁴

ments).

125. *Praxair, Inc. v. ATMI, Inc.*, 543 F.3d 1306, 1329–30 (Fed. Cir. 2008) (Lourie, J., dissenting) (stating that the majority erred in inferring intent because it did not determine that the patentees had knowledge of the materiality of the omission and by failing to balance materiality and intent to determine if a finding of inequitable conduct was appropriate).

126. See Reardon & Hoffman, *supra* note 96 (noting that over 430 groups joined together in writing a letter of opposition to the senators that proposed the Patent Reform Act of 2007).

127. Patent Reform Act of 2007, S. 1145, 110th Cong. § 12 (2008).

128. *Id.*

129. Dolak, *supra* note 58, at 12.

130. S. REP. NO. 110-259, at 60–62 (2008) (statement of Sens. Spector and Hatch); Dolak, *supra* note 58, at 12.

131. S. REP. NO. 110-259, at 60–62.

132. See Andrew Noyes, *Leahy, Berman Patent Bills Come Under Fresh Criticism*, CONGRESSDAILY, Dec. 9, 2008, http://www.nationaljournal.com/congressdaily/print_friendly.php?ID=cdp_20081209_7028 (describing the life of the Patent Reform Act of 2007 and courts' recent decisions addressing many of the proposed modifications).

133. 154 CONG. REC. S9982 (daily ed. Sept. 27, 2008) (statement of Sen. Kyl).

134. S. REP. NO. 110-259, at 64–68 (providing the additional views on the

2. Patent Reform Act of 2008: More-Likely-Than-Not Standard, Reissue, and Administrative Proceedings

Adoption of the Patent Reform Act of 2008¹³⁵ would result in sweeping changes to the doctrine of inequitable conduct.¹³⁶ According to Senator Kyl, current practitioners either choose not to research any prior art to avoid providing it to the PTO or provide anything that could be considered relevant, without characterization.¹³⁷ By choosing to avoid researching prior art during prosecution, patent practitioners cannot be accused of withholding, thereby eliminating the possibility of applying the doctrine.¹³⁸ But practitioners still have a duty to provide any known material information.¹³⁹ Senator Kyl also argues that, by not characterizing information that is provided, patent practitioners may be flooding the PTO, but will not be found later to have misled the patent examiner.¹⁴⁰ By eliminating judicial review of the doctrine, proponents of the bill believe that patent practitioners will work with patent examiners to identify the most relevant prior art or material information for the patent at issue.¹⁴¹

The Act would require any district court that faces an inequitable-conduct claim to put the patent into reissue proceedings, which would allow the PTO to effectively strip the patent of any invalid claims.¹⁴² However, the district court would still be responsible for determining the facts of the alleged miscon-

Patent Reform Act of 2007 of Sens. Specter, Kyl, Grassley, Coburn, and Brownback, including their opposition to the proposed language of “specific contribution over the prior art”).

135. Patent Reform Act of 2008, S. 3600, 110th Cong. (2008).

136. 154 CONG. REC. S9992 (daily ed. Sept. 27, 2008) (statement of Sen. Kyl).

137. *Id.* at S9991 (quoting a patent official as saying that “the doctrine results in counterproductive behavior before the USPTO. It discourages many applicants from conducting a search and leads others to be indiscriminate in the information they submit”).

138. *Id.*

139. 37 C.F.R. § 1.56(a) (2008) (asserting that practitioners have “a duty to disclose to the Office all information known to that individual to be material to patentability as defined in this section”).

140. 154 CONG. REC. S9991 (daily ed. Sept. 27, 2008) (statement of Sen. Kyl).

141. *Id.* at S9990 (discussing a future where patent practitioners are more candid with the PTO and provide more useful information).

142. Patent Reform Act of 2008, S. 3600, 110th Cong. § 11 (2008) (proposing § 298, which would require the district court to order “reissue proceedings” after misconduct is found to be “more likely than not”).

duct.¹⁴³ The Director of the PTO would have up to one year to determine if the patent or claims were valid before otherwise terminating the reissue proceedings.¹⁴⁴

The proposed changes for the district court do not effectively address some of the problems associated with the current doctrine. First, the more-likely-than-not burden for forcing patentees into reissue proceedings may be easier for defendants to satisfy than the clear and convincing standard that is now required when raising the defense.¹⁴⁵ Defendants may use this as another tactic to increase the duration and expense of litigation. Additionally, by continuing to require the district court to make findings of fact for the PTO's reissue proceedings, there does not appear to be savings of time and effort for discovery.¹⁴⁶ One potential benefit of the proposed threshold for reissue patents is the adoption of a but-for objective standard for materiality, which requires that the evidence demonstrate that, more likely than not, the patent should not have been issued but for the misconduct of the patentee.¹⁴⁷ Even so, adopting the objective but-for standard would not add anything to the court's ability to strike claims because, under this standard, misconduct is only material if it should have prevented the patent examiner from issuing the patent. During litigation, the same information would invalidate the affected claims or patent. Therefore, there is no advantage to using the objective but-for standard because information that satisfies the but-for standard requires a court, at a minimum, to hold those claims invalid regardless of the intent of the applicant. Once a claim is

143. *Id.* (requiring the court to set out "with specificity" the findings of fact that support its order for reissue proceedings).

144. *Id.*

145. *Compare id.* (requiring a showing of "more likely than not" that misconduct occurred as to material information, such that, but for the misconduct, the patent would not have issued), *with J.P. Stevens & Co. v. Lex Tex Ltd.*, 747 F.2d 1553, 1559-60 (Fed. Cir. 1984) (describing the standard of proof for inequitable conduct as "clear and convincing evidence"). Furthermore, the 2008 act provides that if the patentee, after a motion for reissue is made, does not seek reissue within two months, the patent is still held unenforceable to the benefit of the defendant. S. 3600.

146. The NRC pointed out that one important reason to eliminate the doctrine from the purview of judicial discretion is the expensive and time-consuming discovery involved in a nonobjective inquiry. *See Patent Quality Improvement*, *supra* note 101.

147. *See* S. 3600 (requiring, in § 298(b)(1)(A), that the motion for reissue proceedings set forth the reasons why, considering the misconduct, the patent or its claims are invalid).

invalid, there is no practical consequence to holding it unenforceable because it cannot be enforced regardless.

The proposed requirement of reissue proceedings would result in additional expense and delay, a particularly problematic consequence considering the delay that already exists in the PTO.¹⁴⁸ Moreover, judges are better equipped than the PTO to deal with issues involving the doctrine because they have more experience weighing equitable considerations.¹⁴⁹

Further, the Act proposes administrative proceedings to allow complaints brought by any party, against any applicant, patentee, or even those requesting an administrative proceeding from the PTO.¹⁵⁰ The Act outlines procedures for the PTO to gather evidence such as obtaining documents and deposing witnesses for their proceedings.¹⁵¹ Findings of misconduct by the Director carry substantial sanctions, including financial penalties of \$150,000 for each act of misconduct, and up to \$10,000,000 for more egregious acts, as well as the potential for having one or more patents held unenforceable.¹⁵² The allowance of administrative proceedings that create more opportunities to hold claims unenforceable increases uncertainty for patent holders. Further, set fees do not deter misconduct unilaterally—they create significant burdens on smaller businesses or inventors while failing to deter financially established enterprises.

The Coalition for 21st Century Patent Reform has called for the new Congress to “stop, look and listen” before adopting radical new changes in the 2009 legislature.¹⁵³ Even the judiciary is questioning current proposals. Chief Judge Paul Michel

148. See, e.g., *Former PTO Heads Cite Backlog as the Highest Priority*, CONGRESSDAILY, Dec. 12, 2008, http://www.nationaljournal.com/congressdaily/cda_20081212_2311.php; Posting of Patent Hawk to Patent Prospector, <http://www.patenthawk.com/blog/2008/12/backlog.html> (Dec. 14, 2008, 12:42 PM); cf. Dolak, *supra* note 58, at 12 (suggesting that reform would lead to an overall reduction in litigation).

149. See *The Importance of Patent Reform on Small Business: Hearing Before the H. Comm. on Small Business*, 110th Cong. (2007) (statement of Kevin Kirsch, Partner, Taft, Stettinius & Hollister, LLP).

150. S. 3600 (allowing complaints to be brought if probable cause is shown and requiring the Director to decide within one year if misconduct occurred in § 299(b)).

151. *Id.* (proposing § 299(c)).

152. *Id.* (proposing § 299(b)(3)(C)). Moreover, any parties held responsible for the misconduct are jointly and severally liable for any penalties assessed by the PTO. *Id.* § 299(b)(3)(D).

153. Noyes, *supra* note 132.

of the Federal Circuit noted that recent cases have solved some of the same issues to be addressed by the legislation.¹⁵⁴ Additionally, Chief Judge Michel agreed that the PTO may have inadequate resources to handle inequitable-conduct claims¹⁵⁵ as proposed by the Patent Reform Act of 2005,¹⁵⁶ and now 2008.¹⁵⁷

Previously proposed amendments to the doctrine have failed and uncertainty continues to lurk. Elimination of the defense's draconian consequences will decrease the current incentive for raising the defense in nearly every case. Furthermore, minimum guidelines will tailor the doctrine's penalty to the misconduct. Part III recommends adopting minimum guidelines for inequitable conduct that will bring greater certainty to patent holders while still maintaining application process integrity.

III. MINIMUM GUIDELINES WITH INCREASED JUDICIAL DISCRETION BASED ON THE LEVEL OF MATERIALITY AND INTENT FOUND BY THE COURTS

There appears to be an ideological impasse between members of Congress and the patent community on whether the doctrine of inequitable conduct should be eliminated or standardized.¹⁵⁸ This rift may be part of a larger policy disagreement about whether patent rights are presently too strong or not strong enough, resulting in diverging opinions on whether the doctrine's unenforceability provision is too strong or too weak.¹⁵⁹ It may also be analogized to the debate over whether

154. *Id.*

155. *Id.* (noting Michel's concern that "the agency may not have the capacity to conduct 'mini-trials' on inequitable conduct").

156. *See* Patent Reform Act of 2005, H.R. 2795, 109th Cong. § 5 (2005) (providing that a court may determine that a patent is unenforceable).

157. *See* Patent Reform Act of 2008, S. 3600, 110th Cong. § 11 (2008) (requiring district courts to determine the nature of misconduct instead of the PTO).

158. This is indicated by the divergent legislative reform frameworks presented in recent years. The patent reform acts of 2005 and 2008 support a near elimination of the doctrine in the judicial context, unlike the 2006 and 2007 proposals, which essentially codify current judicial precedent while choosing the objective but-for and reasonable-examiner materiality standards, respectively. *See* S. 3600, 110th Cong. § 11 (2008); Patent Reform Act of 2007, S. 1145 § 12 (2007); Patent Reform Act of 2006, S. 3818, 109th Cong. § 5 (2006); Patent Reform Act of 2005, H.R. 2795, 109th Cong. § 5 (2005).

159. Generally speaking, parties dependent on one or two patents for their financial investments favor stronger patent rights whereas parties in industries with thousands of patents on single products believe patent rights are too strong and broad. *See, e.g.*, Schwartz, *supra* note 110.

criminal punishments are too weak or too strong.¹⁶⁰ In criminal law, adoption by most states and the federal government of sentencing guidelines is an attempt to provide uniform sentencing for criminal misconduct based on the act committed and the level of intent of the actor, among other factors.¹⁶¹ For example, the federal sentencing grid provides a range of sentences that a judge may impose based on the seriousness of the offense and the defendant's criminal history.¹⁶² Similar to the sentencing practices in criminal law, the following proposed guidelines support combining the level of intent and materiality found by a court with judicial discretion to tailor the consequence to the misconduct. The proposed guidelines will increase certainty for patent holders by reducing the fear that patents will be rendered entirely unenforceable, particularly when the misconduct is unrelated to patentability.

A. ADOPTION OF CONSEQUENCE GUIDELINES

Misconduct should be categorized and a tailored minimum consequence should be assigned to each category of conduct.

160. See Punishment – Theories of Punishment, <http://law.jrank.org/pages/9576/Punishment-THEORIES-PUNISHMENT.html> (last visited Apr. 27, 2009) (describing utilitarian and retributivist theories of punishment, including the basic rationales of each).

161. See Michael S. Gelacak et al., *Departures Under the Sentencing Guidelines: An Empirical and Jurisprudential Analysis*, 81 MINN. L. REV. 299, 299–301 (1996).

162. See U.S. SENTENCING GUIDELINES MANUAL app. 9 (2007).

Type of Misconduct	Materiality Standard	Intent Standard	Proposed Minimum Guideline
Related to patentability	But it may have	More than gross negligence; requires evidence separate from materiality of information	<u>Minimum guideline</u> : claim affected held unenforceable <u>Judicial discretion</u> : increase number of claims held unenforceable
Unrelated to patentability i.e. incorrect filing status	Reasonable examiner	Same as above	<u>Minimum guideline</u> : temporary, correctable unenforceability <u>Judicial discretion</u> : assess fees or sanctions
Egregious intent to deceive—individual party consequences	N/A	Egregious intent to deceive	<u>Patent practitioner</u> : order to PTO recommending investigation, sanctions, or disbarment from PTO <u>Patent owner</u> : financial penalties tailored to deter future misconduct up to a maximum penalty of patent unenforceability <u>Good-faith purchaser</u> : judicial discretion to assess no penalties for previous owners' actions

The adoption of the guidelines will reduce the windfall to an alleged infringer that occurs when courts hold the entire patent unenforceable. Additionally, the guidelines will continue to deter practitioners or applicants from engaging in dishonest behavior with the PTO. By organizing consequences based on the misconduct's level of materiality and intent, uncertainty and apprehension will decrease. Further, the proposed minimum guidelines are within the discretion of the district court judge, who is in the best position to determine the extent of the misconduct and the most equitable remedy. Only the but-it-may-have and the reasonable-examiner materiality standards should be used to judge misconduct.

1. Misconduct Related to Patentability and Unenforceable Claims

For misconduct related to patentability, the but-it-may-have standard is still important for public policy reasons.¹⁶³ Public policy requires that only valid patents should be issued and enforced.¹⁶⁴ The but-it-may-have standard encourages disclosure of information that may affect patentability, but might not cause the patent to be invalidated. This materiality standard does not remove the current incentive for practitioners to avoid researching prior art. However, it also does not increase uncertainty of patent applicants because they are already encouraged to submit information that may be considered borderline to patentability.¹⁶⁵ Once the court determines that the information may have affected patentability, the court should look to intent.

The guideline for intent would be the same as articulated in *Kingsdown*, which required more than “gross negligence.”¹⁶⁶ Only intent that is supported by other evidence would allow a court to find inequitable conduct.¹⁶⁷ Lack of any evidence to support a finding of intent to deceive by a clear and convincing standard would require the court to refrain from issuing a remedy, similar to a finding of no inequitable conduct.¹⁶⁸

The proposed guidelines would standardize the application of the materiality and intent standards. For conduct that may have affected the patent’s issuance, the significant difference between the current doctrine and the proposed minimum guideline is the doctrine’s penalty. Instead of requiring the judge to hold the entire patent unenforceable,¹⁶⁹ the guidelines

163. For example, the but-it-may-have standard encourages policing of patents and is consistent with encouraging other such methods. *See, e.g.*, John R. McNair, Note, *If Hatch Wins, Make Waxman Pay: One-Way Fee Shifting as a Substitute Incentive to Resolve Abuse of the Hatch-Waxman Act*, 2007 U. ILL. J.L. TECH. & POL’Y 119, 141–42 (proposing attorney-fee shifting to encourage policing of patents).

164. *Precision Instrument Mfg. Co. v. Auto. Maint. Mach. Co.*, 324 U.S. 806, 819 (1945) (stating that there is a “public policy against the assertion and enforcement of patent claims infected with fraud and perjury”).

165. *See, e.g.*, *LaBounty Mfg., Inc. v. U.S. Int’l Trade Comm’n*, 958 F.2d 1066, 1076 (Fed.Cir. 1992) (“Close cases should be resolved by disclosure, not unilaterally by the applicant.”).

166. *Kingsdown Med. Consultants, Ltd. v. Hollister, Inc.*, 863 F.2d 867, 876 (Fed. Cir. 1988) (en banc).

167. *Id.*

168. *See id.* at 872.

169. *See id.* at 874.

require that the judge hold only the claim affected by the misconduct unenforceable. If necessary, a judge could use his or her discretion to increase the number of claims held unenforceable.

The but-it-may-have standard should not encourage practitioners to flood or mischaracterize information to the PTO because only information that may affect patentability will be considered. Patent practitioners would be more interested in submitting everything they believe could affect their patent's issuance. By removing the requirement to hold the entire patent unenforceable, alleged infringers would no longer have an incentive to engage in costly and time consuming discovery unless the misconduct would likely result in one or more claims being invalidated. Alleged infringers already spend time and money to dig up material they believe will invalidate the claims of the patent, so this guideline will not create significant additional expense.

2. Misconduct Unrelated to Patentability and Temporary Unenforceability

The reasonable-examiner standard is important for ensuring honest, good faith interactions between applicants and the PTO, but should not be a source of permanent unenforceability for patent holders. Under the proposed guidelines, misconduct that is important but unrelated to patentability, such as incorrect filing status, failure to pay maintenance fees, or relationships with affiants, would not require the court to hold the entire patent unenforceable.

Misconduct unrelated to patentability would instead be weighed against independent evidence of intent to deceive the PTO, similar to the current application of the doctrine. Lack of clear and convincing evidence to support a finding of intent to deceive would require the court to issue no remedy for the defendant, similar to the current finding of no inequitable conduct. The largest difference between this proposed minimum guideline and the current doctrine is seen when intent is inferred from misconduct not related to patentability. Instead of holding the entire patent unenforceable, the district court would be required, at a minimum, to hold the claim or patent temporarily unenforceable until the conduct is corrected with judicial discretion to assess financial penalties or sanctions.¹⁷⁰

170. For instance, applying the proposed guidelines to the facts in *Ulead*

By removing permanent unenforceability as a mandated consequence for misconduct unrelated to patentability, alleged infringers will no longer have an incentive to engage in costly and time consuming discovery unless the misconduct may have resulted in one or more claims being invalidated. This solution for material unrelated to patentability is likely to be the largest factor in decreasing the uncertainty and risk imposed by the current application of the doctrine. Moreover, knowing that unenforceability is temporary and correctable will reduce the desirability of raising the defense in more frivolous situations.

3. Egregious Intent to Deceive and Party-Specific Consequences

Intent to deceive the PTO, which is found to be egregious by the court, but does not necessarily affect the patentability of the claims or patent, should have party-specific consequences. If the egregious behavior is committed by the patent practitioner, the court should at least issue an order to the PTO recommending investigation, sanctions, or disbarment from the PTO. These sanctions would provide an incentive for patent practitioners to continue dealing fairly and honestly with the PTO.¹⁷¹

In the event of egregious behavior by the patent owner or representative of the patent owner, the court should, at a minimum, issue an order for financial penalties equitably tailored to deter future misconduct with discretion to escalate the penalty and hold the entire patent unenforceable. The financial penalty needs to be adapted to the specific party because some parties will have no problem paying and will not be deterred by set fines. Knowing that the financial sanction will be customized incentivizes patent owners to deal fairly with the PTO. Additionally, by limiting the financial sanctions to egregious acts, the patentees also have some certainty that they will not be subject to penalties for good faith mistakes or minor acts of

Systems, Inc. v. Lex Computer & Management Corp., the misconduct unrelated to patentability (improper maintenance fees) is material under the reasonable-examiner standard and would result in temporary unenforceability until corrected, with judicial discretion to increase the penalty assessed. 351 F.3d 1139, 1146 (Fed. Cir. 2003).

171. The PTO already has disciplinary proceedings that it may use to punish, sanction, or disbar agents or attorneys that are guilty of gross misconduct. See 35 U.S.C. § 32 (2000) (outlining consequences that may be imposed by the Director for any “person, agent or attorney shown to be incompetent or disreputable, or guilty of gross misconduct, or who does not comply the [PTO’s] regulations”).

misconduct. For a good-faith purchaser of a previously obtained patent where the previous patentee displayed egregious behavior, the court may choose to not impose any financial sanctions. Allowing court discretion for good-faith purchasers allows the district court to take account of the credibility of the current patentee and make sure that patents are not sold or assigned to avoid financial sanctions. Congress or the Federal Circuit should adopt the above outlined guidelines for determining the doctrine's consequences.

B. FORA FOR CHANGE

In the last four years, the Supreme Court solved several perceived problems associated with the patent system by reversing or vacating eight Federal Circuit decisions.¹⁷² Some believe this will, or already has, created motivation for the Federal Circuit to address the remaining issues, such as the application of the doctrine of inequitable conduct.¹⁷³ The Federal Circuit sitting en banc could overrule its precedent permitting only the consequence of complete patent unenforceability.¹⁷⁴ The Federal Circuit sitting en banc could also establish proper and consistent guidelines for selecting equitable remedies for misconduct based on the level of materiality and intent found by clear and convincing evidence.¹⁷⁵ Alternatively, reform could come through future legislation. This seems unlikely due to the failure of all recent patent reform legislation.¹⁷⁶

CONCLUSION

The Federal Circuit's application of the doctrine of inequitable conduct, including the mandatory consequence of patent unenforceability, fosters uncertainty for patentees and practitioners. Patentees feel less safe enforcing their patent rights

172. Dolak, *supra* note 58, at 2.

173. *Id.* at 2 n.5 (discussing the Federal Circuit's *sua sponte* decision to hear *In re Bilski*, 264 F. App'x 896 (Fed. Cir. 2008)).

174. *See* *Newell Cos. v. Kenney Mfg. Co.*, 864 F.2d 757, 765 (Fed. Cir. 1988) ("This court has adopted the rule that prior decisions of a panel of the court are binding precedent on subsequent panels unless and until overturned *in banc*."). The court could overrule *Kingsdown*, which limited the doctrine's consequences to unenforceability of the entire patent. 863 F.2d at 877.

175. S. REP. NO. 97-275, at 2, 5-6 (1982), *reprinted in* 1982 U.S.C.C.A.N. 11, 12, 15-16 (creating the Federal Circuit, in part to increase consistency and uniformity in patent cases).

176. *See, e.g.*, S. REP. NO. 110-259 (2008) (providing debate on the Patent Reform Act of 2007, which was never approved).

against alleged infringers for fear of having their entire patent held unenforceable. Alleged infringers have almost no incentive not to raise the defense. Patent practitioners are adopting practices that affect their dealings with patent examiners and are often blamed for hindering patent quality. Prior and current legislation has proposed many different solutions, none of which have been accepted, and all of which have faced deserved criticism. The adoption of category-specific minimum guidelines will reduce the current windfall incentive of defendants while maintaining the integrity of dealings with the PTO. The minimum guidelines serve the interests of the public by preventing enforcement of invalid claims and the interests of patentees by not rendering patents unenforceable for simple acts of misconduct or omission. Furthermore, by shifting responsibility to each party for their dealings with the PTO, the court can assure that it is equitably applying the doctrine. The Federal Circuit must realize that mandatory death penalty sentences for patents are no longer appropriate for all inequitable-conduct findings.