

## Limiting the Inequitable Conduct Defense

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### ABSTRACT

Inequitable conduct is an equitable defense that prevents a patent owner from recovering for infringement. The doctrine is a judicial construct whose birth can be traced back to a trio of Supreme Court cases. The doctrine has suffered from a tortuous evolution over the years, as circuit courts have split on what constitutes its elements. The Federal Circuit has unified the doctrine but has also expanded the doctrine beyond its equitable roots. This expansion does not appear to serve the underlying policy rationales of the doctrine, such as improving patent quality. Furthermore, the enlargement of the doctrine of inequitable conduct has generated a number of unwanted side effects—most notably, the doctrine's overpleading or the "plague" of inequitable conduct charges. This article proposes limiting the inequitable conduct defense and pursuing alternative avenues to increase patent quality.

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### I. INTRODUCTION

Inequitable conduct is an equitable defense that precludes a patent owner from recovering for infringement. The doctrine of inequitable conduct is a judicial construct that is often referred to as a breach of the duty of candor and fraud on the Patent and Trademark Office (PTO).<sup>1</sup> Since its inception, the doctrine has suffered from a sporadic evolution, with circuit courts splitting as to the elements that constitute inequitable conduct.<sup>2</sup>

In 1982, Congress established the Court of Appeals for the Federal Circuit in part to bring uniformity to patent law.<sup>3</sup> While the Federal Circuit succeeded in unifying the

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<sup>1</sup> See *infra* Part II.B.

<sup>2</sup> See *infra* Part III.B.

<sup>3</sup> See S. REP. NO. 97-275, at 5 (1981), *reprinted in* 1982 U.S.C.C.A.N. 11, 15 (stating that “the establishment of the Court of Appeals for the Federal Circuit also provides a forum that will increase

doctrine of inequitable conduct, the Federal Circuit also greatly expanded the doctrine. This expansion has led to a number of unwanted side effects—most notably, in the doctrine being overplead—leading the Federal Circuit to remark that “the habit of charging inequitable conduct in almost every major patent case has become an absolute plague.”<sup>4</sup> The “plague” of inequitable conduct has negative consequences on patentees and the court system. Patentees who are wrongly accused of inequitable conduct face expensive litigation, damage to their reputation, and diversion from further innovation. The court system suffers from using resources to address these frivolous claims.

Debate regarding the inequitable conduct defense arises in several fora, including the PTO’s recent amendment to the regulation that provides guidelines for determining an element of inequitable conduct<sup>5</sup> and recent patent reform bills.<sup>6</sup> The director of the PTO believes the defense results in “counterproductive behavior” before the PTO.<sup>7</sup> In addition, several institutions have commissioned studies of the patent system, which have resulted in recommendations for reform of the doctrine of inequitable conduct.<sup>8</sup> In particular, the National Academy of Science has recommended eliminating the defense all together.<sup>9</sup>

This article argues that the underlying policy considerations of the doctrine of inequitable conduct are not well served by the Federal Circuit’s expansive take on the doctrine. Furthermore, this article highlights the unwanted side effects caused by the expansion of the doctrine of inequitable conduct. This article goes on to argue that since the inception of the doctrine of inequitable conduct, changes in patent law have rendered the doctrine less useful. In particular, this article argues that increasing patent quality, one of the primary policy reasons underlying the doctrine of inequitable conduct, is better achieved through other means than an expansive inequitable conduct defense. Therefore, this article advocates limiting the doctrine of inequitable conduct and pursuing alternative avenues for increasing patent quality.

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doctrinal stability in the field of patent law”) and 20–21 (stating the Federal Circuit was created in 1982 in order to make patent law and its enforcement uniform and consistent).

<sup>4</sup> See *Burlington Indus. v. Dayco Corp.*, 849 F.2d 1418, 1422 (Fed. Cir. 1988); Robert J. Goldman, *Evolution of the Inequitable Conduct Defense in Patent Litigation*, 7 HARV. J.L. & TECH. 37, 85–86 (1993).

<sup>5</sup> 37 C.F.R. § 1.56 (1992).

<sup>6</sup> Patent Reform Act of 2007, H.R. 1908, 110th Cong. § 12 (2007); Patent Reform Act of 2005, H.R. 2795, 109th Cong. § 136(c)(3) (2005). *Patent Act of 2005: Hearing on H.R. 2795 Before the Subcomm. on Courts, the Internet, and Intellectual Prop. of the H. Comm. on the Judiciary*, 109th Cong. (2005).

<sup>7</sup> The “all-or-nothing” result of an inequitable conduct finding understandably has a perverse effect on the actions of applicants and their attorneys with respect to “risking” a proper search in the first place. As a result, the doctrine results in a counterproductive behavior before the U.S. Patent and Trademark Office (PTO). It discourages many applicants from conducting a search and leads others to be indiscriminate in the information they submit. Jon W. Dudas, Undersecretary of Commerce for Intellectual Property and Director of the PTO, Testimony before the Committee on the Judiciary, United States Senate (June 6, 2007), available at <http://www.uspto.gov/web/offices/com/speeches/2007jun06.htm>.

<sup>8</sup> E.g., FED. TRADE COMM’N, *TO PROMOTE INNOVATION: THE PROPER BALANCE OF COMPETITION AND PATENT LAW AND POLICY* 11–13 (2003), <http://www.ftc.gov/os/2003/10/innovationrpt.pdf>.

<sup>9</sup> COMM. ON INTELLECTUAL PROP. RIGHTS IN THE KNOWLEDGE-BASED ECON., NAT’L RESEARCH COUNCIL OF THE NAT’L ACADEMIES, *A PATENT SYSTEM FOR THE 21ST CENTURY* 123 (Stephen A. Merrill et al., eds., 2004).

This article proceeds in four sections: Part II provides a brief patent primer and then summarizes the origin of the inequitable conduct defense and the current state of the law. I discuss whether the Federal Circuit's expansion of the doctrine is supported from a policy perspective and then present the unwanted side effects of an expansive doctrine in Part III. Part IV presents my solution to the inequitable conduct problem—raising the current standards of inequitable conduct and imposing a system of lesser remedies for other wrongdoings. Finally, Part V addresses counterarguments to limiting the doctrine of inequitable conduct, argues that alternative avenues to ensure patent quality should be pursued, and argues that changes in the patent system have rendered the duty of candor less effective.

## II. PATENT PRIMER AND ORIGIN OF INEQUITABLE CONDUCT

### A. Patent Law Primer

A patent is a government grant that gives the patentee “the right to exclude others from making, using, offering for sale, or selling” the patented invention.<sup>10</sup> The intellectual property clause of the Constitution articulates the most important rationale for the patent system: “[t]o promote the Progress of Science and useful Arts.”<sup>11</sup> The government grants exclusive rights in order to create financial incentives for the creation, development, and commercialization of valuable inventions. In particular, these rights encourage innovation in areas where a competitor could easily copy or reverse engineer the invention, drive down the price, and thereby prevent the patentee from receiving the full financial reward of her invention.<sup>12</sup>

A patentee receives these exclusive rights in exchange for the public disclosure of certain details of an invention that is new,<sup>13</sup> nonobvious,<sup>14</sup> and useful.<sup>15</sup> This disclosure requirement reveals a secondary purpose of the patent system: to add knowledge of new technologies and innovations to the public domain.<sup>16</sup> To achieve this goal, patent applicants must provide a full and clear description of their invention, including the exact terms of its manufacture and use, in the patent specification.<sup>17</sup> Requiring this *quid pro quo* from the patentee produces several benefits for the public, including reduction of duplicative research and encouragement of further innovation.

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<sup>10</sup> 35 U.S.C. § 154(a)(1) (2000).

<sup>11</sup> U.S. CONST. art. I, § 8, cl. 8.

<sup>12</sup> See, e.g., WILLIAM M. LANDES & RICHARD A. POSNER, *THE ECONOMIC STRUCTURE OF INTELLECTUAL PROPERTY LAW* 294 (2003); STEVEN SHAVELL, *FOUNDATIONS OF ECONOMIC ANALYSIS OF LAW* 138 (2004).

<sup>13</sup> 35 U.S.C. § 102 (2000).

<sup>14</sup> *Id.* § 103.

<sup>15</sup> *Id.* § 101.

<sup>16</sup> See, e.g., LANDES & POSNER, *supra* note 12, at 329; A PATENT SYSTEM FOR THE 21ST CENTURY, *supra* note 9, at 41.

<sup>17</sup> 35 U.S.C. § 112 (2000).

At the end of the patent specification, an inventor must provide one or more claims that distinctly identify what the applicant regards as the invention.<sup>18</sup> A claim, unlike the body of the specification, is a description designed to notify the public of precisely what the patent covers and what it does not cover. A claim is analogous to a deed or other instrument that in the context of real property, sets the “metes and bounds” of an owner’s right to exclude.<sup>19</sup>

Patent infringement occurs when someone other than the right holder uses the subject matter claimed in a patent without the owner’s approval.<sup>20</sup> There are several equitable defenses that preclude a patent owner from recovering for infringement, including inequitable conduct.

### B. Origin of Inequitable Conduct

Inequitable conduct is a judge-made doctrine that can be traced back to a trio of Supreme Court cases that held that the unclean hands of the patentees rendered their patents unenforceable.<sup>21</sup> In all three cases, the plaintiffs’ actions constituted common law fraud. The elements of common law fraud are (i) misrepresentation of a material fact, (ii) knowledge or belief that the information is false, (iii) justifiable reliance on the misrepresentation, and (iv) injury to the party deceived.<sup>22</sup>

In *Keystone Driller Co. v. General Excavator Co.*,<sup>23</sup> the plaintiff learned of a prior, public use of his claimed invention before initiating a patent infringement lawsuit.<sup>24</sup> After being advised that this prior use could invalidate his patent, the plaintiff prepared an affidavit stating that the prior use was merely an abandoned experiment, which the prior user signed in exchange for “valuable consideration.”<sup>25</sup> The plaintiff’s actions were equally deceitful in *Hazel-Atlas Glass Co. v. Hartford-Empire Co.*,<sup>26</sup> wherein the plaintiff fabricated a journal article stating that its invention was a “remarkable advance in the art”<sup>27</sup> in order to overcome a PTO rejection.<sup>28</sup> Finally, in *Precision Instrument Manufacturing, Co. v. Automotive Maintenance Machinery Co.*,<sup>29</sup> the plaintiff, who discovered information that invalidated an adversary’s patent application during an interference proceeding chose to use the information to obtain a favorable settlement agreement instead of disclosing it to the PTO. In all of these cases, the plaintiffs made

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<sup>18</sup> *Id.*

<sup>19</sup> ROBERT P. MERGES & JOHN F. DUFFY, PATENT LAW AND POLICY: CASES AND MATERIAL 25 (3d ed. 2002).

<sup>20</sup> See 35 U.S.C. § 271 (2000) (defining patent infringement).

<sup>21</sup> For a detailed historical evolution of the doctrine of inequitable conduct, see Robert J. Goldman, *Evolution of the Inequitable Conduct Defense in Patent Litigation*, 7 HARV. J.L. & TECH. 37 (1993).

<sup>22</sup> See, e.g., W. PAGE KEETON ET AL., PROSSER AND KEETON ON THE LAW OF TORTS 205–08 (5th ed. 1984).

<sup>23</sup> 290 U.S. 240 (1933).

<sup>24</sup> *Id.* at 243.

<sup>25</sup> *Id.*

<sup>26</sup> 322 U.S. 238 (1944).

<sup>27</sup> *Id.* at 240.

<sup>28</sup> *Id.*

<sup>29</sup> 324 U.S. 806 (1945).

misrepresentations of a material fact with the knowledge that the information was false. The plaintiffs also knowingly asserted an invalid patent in an infringement suit. The Supreme Court, in each case, held that the plaintiff's unclean hands rendered the patent unenforceable.<sup>30</sup>

### C. Jurisprudence Today

The Federal Circuit has greatly expanded the doctrine of inequitable conduct from its equitable roots. Currently, a finding of inequitable conduct is based on a two-step test: (1) whether the applicant misrepresented or did not provide the PTO with material information and (2) whether the applicant did so with intent to deceive the PTO.<sup>31</sup> Once the threshold level of these two elements is met,<sup>32</sup> they are then balanced;<sup>33</sup> when misrepresentation or withheld information is highly material, a lesser quantum of proof is needed to establish intent.<sup>34</sup> Conversely, when the information in question is less material, a greater proof of intent is needed. Inequitable conduct must be proved by clear and convincing evidence.<sup>35</sup> A district court's determination of inequitable conduct is reviewed for abuse of discretion, while its underlying factual findings are reviewed for clear error.<sup>36</sup>

#### 1. Materiality

Historically, there have been four different standards of materiality with respect to inequitable conduct.<sup>37</sup> First, the objective "but-for" standard examines whether the misrepresentation was so material that, but for the misrepresentation, the patent would have not issued.<sup>38</sup> Second, the subjective but-for standard probes whether the misrepresentation was so material that it caused the examiner to issue the patent when she would not have done so otherwise.<sup>39</sup> Third, the "but-it-may-have-been" standard endorses an inquiry into whether the relevant facts "might reasonably have affected" a PTO examiner's determination of patentability.<sup>40</sup> Fourth is PTO Rule 1.56(a) (Rule 56), which, prior to 1992, required "a substantial likelihood that a reasonable examiner would consider it important in deciding whether to allow the application to issue as a patent."<sup>41</sup> The Federal Circuit seems to have endorsed the preamendment Rule 56 as a good starting point for materiality analysis, noting that it reflects how an applicant should conduct

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<sup>30</sup> *Precision Instrument Mfg.*, 324 U.S. at 819; *Hazel-Atlas Glass Co.*, 322 U.S. at 250; *Keystone Driller Co. v. General Excavator Co.*, 290 U.S. 240, 245–47.

<sup>31</sup> *J. P. Stevens & Co. v. Lex Tex Ltd.*, 747 F.2d 1553, 1559 (Fed. Cir. 1984).

<sup>32</sup> *Molins PLC v. Textron, Inc.*, 48 F.3d 1172, 1178 (Fed. Cir. 1995).

<sup>33</sup> *Halliburton Co. v. Shlumberger Tech. Corp.*, 925 F.2d 1435, 1339 (Fed. Cir. 1991).

<sup>34</sup> *Akzo N.V. v. U.S. Int'l Trade Comm'n*, 808 F.2d 1471, 1481–82 (Fed. Cir. 1986).

<sup>35</sup> *J. P. Stevens & Co.*, 747 F.2d at 1559.

<sup>36</sup> *Kingsdown Medical Consultants, Ltd. v. Hollister, Inc.*, 863 F.2d 867, 876 (Fed. Cir. 1988).

<sup>37</sup> *American Hoist & Derrick Co. v. Sowa & Sons, Inc.*, 725 F.2d 1350, 1362 (Fed. Cir. 1984).

<sup>38</sup> *Swift Chemical Co. v. Usamex Fertilizers, Inc.*, 197 U.S.P.Q. (BNA) 10, 66 (E.D. La. 1977).

<sup>39</sup> *Waterman-Bic Pen Corp. v. W. A. Sheaffer Pen Co.*, 267 F. Supp. 849, 856 (D. Del. 1967).

<sup>40</sup> *Gemveto Jewelry Co. v. Lambert Bros.*, 542 F. Supp. 933, 939–40 (S.D.N.Y. 1982).

<sup>41</sup> 37 C.F.R. § 1.56(a) (1977). This rule was effective between 1977 and 1992 and became known as the reasonable-examiner standard. The reasonable-examiner standard did not require that but for the misconduct, the patent would not have issued. *American Hoist & Derrick Co.*, 725 F.2d at 1362–63.

herself before the PTO.<sup>42</sup> Even though the Federal Circuit remarked that Rule 56 encompassed the other materiality standards, the Federal Circuit still declined to be bound to any one standard, given that materiality and intent are often interwoven.<sup>43</sup>

In 1992, Rule 56 was amended to address criticism of the perceived lack of clarity in the standard and to decrease the frequency with which inequitable conduct is asserted as a defense in patent litigation.<sup>44</sup> New Rule 56 states,

Under this section, information is material to patentability when it is not cumulative to information already of record, or being made of record in the application, and

- (1) It establishes, by itself or in combination with other information, a prima facie case of unpatentability of a claim; or
- (2) It refutes, or is inconsistent with, a position the applicant takes in:
  - (i) Opposing an argument of unpatentability relied on by the Office, or
  - (ii) Asserting an argument of patentability.

A prima facie case of unpatentability is established when the information compels a conclusion that a claim is unpatentable under the preponderance of evidence, burden-of-proof standard, giving each term in the claim its broadest reasonable construction consistent with the specification, and before any consideration is given to evidence which may be submitted in an attempt to establish a contrary conclusion of patentability.<sup>45</sup>

Initially, it was unclear whether new Rule 56 substantively changed the materiality standard or only clarified the pre-1992 standard. The Federal Circuit remarked that the post-1992 version arguably narrowed the standard of materiality<sup>46</sup> but, nonetheless, did not “constitute a significant substantive break with the previous standard.”<sup>47</sup> Similar to its stance before the new Rule 56, the Federal Circuit has declined to be bound to solely one standard of materiality, citing the interrelatedness of materiality and intent.<sup>48</sup>

## 2. Intent to Deceive

Just as the standard of materiality has evolved overtime, so too has the intent standard of inequitable conduct. Inequitable conduct has always required proof of an intentional act; however, recognizing the difficulties associated with proving fraudulent

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<sup>42</sup> *American Hoist & Derrick Co.*, 725 F.2d at 1363.

<sup>43</sup> *Id.*

<sup>44</sup> Duty of Disclosure, 57 Fed. Reg. 2021, 2023 (Jan. 17, 1992).

<sup>45</sup> 37 C.F.R. § 1.56(b) (2004).

<sup>46</sup> *Digital Control, Inc. v. Charles Mach. Works*, 437 F.3d 1309, 1314 (Fed. Cir. 2006).

<sup>47</sup> *Hoffman-La Roche, Inc. v. Promega Corp.*, 323 F.3d 1354, 1368 n.2 (Fed. Cir. 2003).

<sup>48</sup> *Digital Control*, 437 F.3d at 1315.

intent, some courts have held that gross negligence supported the requisite intent to deceive.<sup>49</sup> The Federal Circuit was no different and held shortly after its inception<sup>50</sup> that “[s]tatements made with gross negligence as to their truth may establish such intent.”<sup>51</sup> Litigants took notice of the gross negligence standard and began pleading the inequitable conduct defense in patent infringement cases at a frenzied pace. As the number of frivolous allegations skyrocketed, Judge Phillip Nicholas pronounced that “the habit of charging inequitable conduct in almost every major patent case has become an absolute plague.”<sup>52</sup> As a result, the Federal Circuit began to retreat from the more expansive definition of intent in 1987 when it remarked that evidence of gross negligence without evidence of no good faith is insufficient to establish intent to deceive.<sup>53</sup> In 1988, in *Kingsdown Medical Consultants, Ltd. v. Hollister, Inc.*, the Federal Circuit held unanimously en banc that a finding of gross negligence did not justify an inference of intent to deceive.<sup>54</sup> The court stated that gross negligence must be viewed “in light of all the evidence” of a case and “must indicate sufficient culpability to require a finding of intent to deceive.”<sup>55</sup> However, the Federal Circuit appears to have departed from the *Kingsdown* standards.<sup>56</sup> In a series of opinions, the Federal Circuit has relied on what the applicant should have known to arrive at the conclusion of intent to deceive.<sup>57</sup> Several judges on the Federal Circuit have taken issue with this more lenient intent standard.<sup>58</sup>

<sup>49</sup> See, e.g., *Digital Equip. Corp. v. Diamond*, 653 F.2d 701, 709 (1st Cir. 1981); *True Temper Corp. v. CF&I Steel Corp.*, 601 F.2d 495, 502 (10th Cir. 1979); *Ashlow Ltd. v. Morgan Const. Co.*, 213 U.S.P.Q. 671, 697 (D.S.C. 1982); *CMI Corp. v. Barber-Greene Co.*, 214 U.S.P.Q. 690, 695 (N.D. Ill. 1981); *In re Altenpohl*, 198 U.S.P.Q. 289, 310 (Comm’r Patents and Trademarks 1976).

<sup>50</sup> The Federal Circuit was founded in 1982. 28 U.S.C. § 1295 (2000).

<sup>51</sup> *Kansas Jack, Inc. v. Kuhn*, 719 F.2d 1144, 1151 (Fed. Cir. 1983). The Federal Circuit continued to hold that gross negligence was sufficient to establish intent in the defense of inequitable conduct. See, e.g., *J. P. Stevens & Co., Inc. v. Lex Tex, Ltd., Inc.*, 747 F.2d 1553, 1560 (Fed. Cir. 1984) (“Proof of deliberate scheming is not needed; gross negligence is sufficient.”).

<sup>52</sup> *Burlington Indus., Inc. v. Dayco Corp.*, 849 F.2d 1418, 1422 (Fed. Cir. 1988).

<sup>53</sup> *FMC Corp. v. Manitowoc Co.*, 835 F.2d 1441, 1415 n.9 (Fed. Cir. 1987).

<sup>54</sup> 863 F.2d 867, 876 (Fed. Cir. 1988).

<sup>55</sup> *Id.*

<sup>56</sup> See Lynn C. Tyler, *Kingsdown Fifteen Years Later: What Does It Take to Prove Inequitable Conduct?*, 13 Fed. Cir. B.J. 267, 276–78 (2004) (discussing the resurgence of Federal Circuit decisions that rely on precedent explicitly overruled by *Kingsdown*); James E. Hanft et al., *The Return of the Inequitable Conduct Plague: When “I Did Not Know” Unexpectedly Becomes “You Should Have Known,”* 19 NO. 2 Intell. Prop. & Tech. L.J.1 (2007).

<sup>57</sup> See *Cargill Inc. v. Canbra Foods Ltd.*, 476 F.3d 1359, 1367–68 (Fed. Cir. 2007) (patentee should have know of the materiality of the undisclosed test data); *Ferring BV v. Barr Labs. Inc.*, 437 F.3d 1181, 1191–92 (Fed. Cir. 2006) (patentee should have known undisclosed relationships of affiants to assignee company was material); *Bruno Indep. Living Aids Inc. v. Acorn Mobility Services Ltd.*, 394 F.3d 1348, 1351 (Fed. Cir. 2005) (patentee should have known prior art, which was submitted to the FDA in market approval, was material).

<sup>58</sup> Most recently, Judge Rader opined, “[T]he judicial process has too often emphasized materiality almost to the exclusion of any analysis of the lofty intent requirement for inequitable conduct. Merging intent and materiality at levels far below the *Kingsdown* rule has revived the inequitable conduct tactic.” *Aventis Pharma S.A. v. Amphastar Pharms., Inc.*, 525 F.3d 1334, 1350 (Fed. Cir. 2008) (Rader, J., dissenting). Judge Newman, in a ten-page dissent in *Ferring, B.V. v. Barr Labs., Inc.*, 437 F.3d 1181, 1196-97 (Fed Cir. 2006), opined, “The panel majority, steeped in adverse inferences, holds that good faith is irrelevant and presumes bad faith. Thus the court resurrects the plague of the past, ignoring the . . . requirements of clear and convincing evidence of a misrepresentation or omission material to patentability, made intentionally and for the purpose of deception.”



While the two elements of inequitable conduct are in some state of flux, it is clear that inequitable conduct includes more activity than common law fraud; the latter requires (i) misrepresentation of a material fact, (ii) knowledge or belief that the information is false, (iii) justifiable reliance on the misrepresentation, and (iv) injury to the party deceived.<sup>59</sup>

### 3. Policy Reasons for Inequitable Conduct

There are at least two policy reasons underlying the doctrine of inequitable conduct. To better understand these policy considerations, I will begin with a brief description of the U.S. patent system. The U.S. patent system relies on the examiner and the applicant to determine whether an invention is patentable.<sup>60</sup> The examiner is required to conduct a prior-art search to aid in the determination of whether an invention is sufficiently new<sup>61</sup> and nonobvious<sup>62</sup> to qualify for patent protection. Prior art refers to information in the public domain; examples include published patents, scientific articles, and doctoral theses.<sup>63</sup> However, even after an examiner completes a prior-art search, the applicant may know more about her particular field of invention than the examiner. Therefore, the United States imposes on every individual associated with the filing and prosecution of a patent application a duty of candor and good faith.<sup>64</sup> This duty extends to the patent applicant and her representatives, such as attorneys and patent agents that assist in the prosecution or preparation of the patent.<sup>65</sup> More specifically, the duty of candor includes the duty to disclose any information that is material to the patentability of the invention.<sup>66</sup>

The first policy reason behind the doctrine of inequitable conduct is related to moral considerations or, more specifically, to deterrence of dishonest conduct before the PTO. The process of obtaining a patent has been analogized to a contract between the government and the patent applicant.<sup>67</sup> The consideration is the patentee's disclosure of a patented invention to the public. In return for this consideration, the government grants the patentee the "the right to exclude others from making, using, offering for sale, or selling" the patented invention for a period of twenty years.<sup>68</sup> Just as fraud at the formation of a contract can render the contract void or voidable,<sup>69</sup> inequitable conduct

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<sup>59</sup> See, e.g., KEETON ET AL., *supra* note 22, at 105–10.

<sup>60</sup> While the current U.S. patent system does not have such proceedings, the 2005 Patent Act proposed adding an opposition system, in part, to decrease the number of invalid patents issued by the PTO. H.R. 2795, 109th Cong. (2005).

<sup>61</sup> 35 U.S.C. § 102 (2000).

<sup>62</sup> *Id.* § 103.

<sup>63</sup> 35 U.S.C. §§ 102, 103 (2006).

<sup>64</sup> 37 C.F.R. § 1.56(a) (2006).

<sup>65</sup> 37 C.F.R. § 1.56(c) (2006).

<sup>66</sup> 37 C.F.R. § 1.56(a) (2006).

<sup>67</sup> See *Markman v. Westview Instruments, Inc.*, 52 F.3d 967, 984–85 (Fed. Cir. 1995).

<sup>68</sup> 35 U.S.C. §§ 154(a)(1), 154(a)(2) (2000).

<sup>69</sup> Contract law draws a distinction between fraud that goes to the inducement and fraud that goes to the execution (or factum) of the contract. The former involves inducing a person to assent to do a particular act that she would not have done but for the misrepresentation and renders the contract voidable

against the PTO renders the patent unenforceable.<sup>70</sup> There is a belief that individuals should not be able to improperly profit from the system—individuals are expected to bargain in good faith. Courts have cited the prevention of unfairness in holding contracts void or voidable because of fraud.<sup>71</sup> However, the unfairness considerations are even more attenuated with respect to a patent than an ordinary contract as a patent is almost always dealing with a public interest. A grant from the government, especially one that bestows exclusive rights, should be valid only as long as the patentee did not commit fraud during the process of obtaining that grant. As the Court noted in *Precision*,

A patent by its very nature is affected with a public interest. . . . [It] is an exception to the general rule against monopolies and to the right to access to a free and open market. The far-reaching social and economic consequences of a patent, therefore, give the public a paramount interest in seeing the patent monopolies spring from backgrounds free from fraud . . . .<sup>72</sup>

Therefore, the first policy reason underlying the doctrine of inequitable conduct is of moral or ethical concerns—the desire to deter dishonest conduct before the PTO.

The second policy reason is related to the duty of candor and good faith. The duty of candor and good faith requires the applicant to provide the PTO with the most pertinent information, so that the examiner is in the best position to determine the patentability of an invention. This duty is in a sense an instrumental goal—the real aim of this duty is to increase patent quality. The duty of candor and good faith is especially important when the informational asymmetry between the examiner and the applicant is most acute, for example, when patents are directed toward emerging fields of technology or subject matter that has recently been held to be protectable.<sup>73</sup> This asymmetry is further compounded by the fact that in the past decade, the number of patent filings has

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at the option of the defrauded party. E. ALLAN FARNSWORTH, *CONTRACTS* 236 (4th ed. 2004). The latter involves inducing a person to believe that the act that she has done is something different from what it actually is. *Id.* Fraud in the factum prevents the inception of the contract and makes the contract absolutely void. *Id.*

<sup>70</sup> The difference between fraud in factum and fraud in inducement is evident with respect to good faith third-party purchasers, who usually take property free of claims of fraud that go to inducement but not fraud that goes to factum. *Id.* at 236–37. It would appear that fraud against the PTO is most similar to fraud in inducement, as the PTO is cognizant that it is granting a patent—it is the terms of the patent grant that are misrepresented. However, courts have held that good faith purchasers of patents that have been tainted by inequitable conduct are also unenforceable. *See* A.B. Dick Co. v. Burroughs Corp., 798 F.2d 1392 (Fed. Cir. 1986). This disparity is a result of the significant distinction between an ordinary contract and a patent—a patent almost always is affected with public interest.

<sup>71</sup> FARNSWORTH, *supra* note 69, at 218–19.

<sup>72</sup> *Precision Instrument Mfg. Co. v. Auto. Maint. Mach. Co.*, 324 U.S. 806, 816 (1945).

<sup>73</sup> The PTO long assumed that business methods did not constitute patentable subject matter. *See* *Hotel Sec. Checking Co. v. Lorraine Co.*, 160 F. 467, 469 (2d Cir. 1908) (noting that methods of doing business are abstract ideas). When the Federal Circuit held otherwise in *State Street Bank & Trust Co. v. Signature Fin. Group, Inc.*, 149 F.3d 1368 (Fed. Cir. 1998), the number of applications and PTO grants skyrocketed. It is not surprising that a number of recently granted business-method patents seem extremely broad, given the limited experience and resources of PTO. To correct for these deficiencies, the PTO enacted a second-look program for all business-method patents. *See, e.g.*, Linda E. Alcorn, *Pursuing Business Method Patents in the US Patent and Trademark Office*, 20 *COMPUTER & INTERNET LAW* 27, 30 (2003) (noting a large reduction in business method patents issues after institution of a second look procedure within the PTO).

risen dramatically but the number of examiners per patent granted has decreased by approximately 20 percent.<sup>74</sup> The doctrine of inequitable conduct provides the applicant with a powerful incentive to comply with his duty of disclosure and therefore to help to ensure that patents issued by the PTO are of high quality.

#### 4. Consequences of Inequitable Conduct

The consequences of being found liable for inequitable conduct are severe, as the doctrine was first developed to deter fraud against the PTO.<sup>75</sup> The entire patent, not just the claims infected by the wrongdoing, is rendered unenforceable.<sup>76</sup> The court may find that all claims that eventually arise from a related application are also unenforceable.<sup>77</sup> A finding of inequitable conduct has the potential to render unenforceable a substantial portion of a company's patent portfolio,<sup>78</sup> as approximately a quarter of all patents that are granted assert priority to a previously filed application and over half of the patents litigated are based on continuation applications.<sup>79</sup> In addition, courts have repeatedly held that inequitable conduct constitutes an "exceptional case," and consequently, attorneys' fees may be awarded under § 285 of the Patent Act.<sup>80</sup> Finally, the defendant may be subject to antitrust claims.<sup>81</sup>

### III. REASONS TO LIMIT THE INEQUITABLE CONDUCT DEFENSE

In this section, I begin by discussing what fueled the Federal Circuit's expansion of the doctrine of inequitable conduct and whether this expansion serves the policy rationales underlying the doctrine. I then present the unwanted side effects that the expansive doctrine of inequitable conduct has generated.

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<sup>74</sup> A PATENT SYSTEM FOR THE 21ST CENTURY, *supra* note 9.

<sup>75</sup> See *supra* notes 21–30 and accompanying text.

<sup>76</sup> *Lummus Indus. v. D.M. & E. Corp.*, 862 F.2d 267, 274 (Fed. Cir. 1988) ("The principle is well settled that if inequitable conduct is established as to any claim, all claims of the patent are rendered unenforceable.").

<sup>77</sup> See *Consol. Aluminum Corp. v. Foseco Int'l Ltd.*, 910 F.2d 804, 809 (Fed. Cir. 1990) (holding several related patents unenforceable because of inequitable conduct).

<sup>78</sup> Mark A. Lemley & Kimberly A. Moore, *Ending Abuse of Patent Continuations*, 84 B.U. L. REV. 63, 65 (2004) (noting the fact the practice of filing continuations has become so excessive that some commentators have championed abolishing the practice all together).

<sup>79</sup> *Id.* at 69–70.

<sup>80</sup> *Brasseler, U.S.A. I, L.P. v. Stryker Sales Corp.*, 267 F.3d 1370, 1380 (Fed. Cir. 2001) (noting that a finding of inequitable conduct makes a case "exceptional" and thus may lead to an award of attorney fees); See also *Monolith Portland Midwest Co. v. Kaiser Aluminum & Chem. Corp.*, 407 F.2d 288, 294 (9th Cir. 1969) ("The party who succeeds in invalidating the unlawful patent performs a valuable public service. It is appropriate under such circumstances to reward the prevailing party by giving him attorney's fees for his efforts. . . .").

<sup>81</sup> See *Walker Process Equip., Inc. v. Food Mach. & Chem. Corp.*, 382 U.S. 172, 178 (1965) (holding that the maintenance and enforcement of a patent obtained by fraud on the Patent Office may be the basis of an action under § 2 of the Sherman Act and therefore subject to a treble-damage claim by the injured party under § 4 of the Clayton Act).

### A. Federal Circuit's Expansion

The Federal Circuit has substantially enlarged the scope of inequitable conduct jurisprudence from its equitable roots, defined by the Supreme Court precedent. To gain an understanding of why the doctrine has expanded, it is helpful to return to the primary policy reasons underlying the doctrine. First, the expansion of the doctrine of inequitable conduct could be fueled by the Federal Circuit's desire to increase patent quality. Congress established the Federal Circuit in 1982 to bring uniformity to patent law and to end forum shopping associated with patent litigation.<sup>82</sup> The Federal Circuit seems to have achieved these goals, but the Federal Circuit has also made it easier for patent applicants to qualify for a patent by easing the standards of patentability.<sup>83</sup> Shortly after the Federal Circuit's inception, the number of patent applications filed rose dramatically.<sup>84</sup> It followed that the Federal Circuit, out of concern for patent quality, broadened the doctrine of inequitable conduct. By enlarging the scope of the inequitable conduct defense, the Federal Circuit is attempting to force the patentee to disclose more information at an earlier stage to the PTO. The more information the PTO has, the better position it is in to determine whether a patent should be issued. Theoretically, if the PTO had perfect information, no issued patent would ever be invalidated by a court. However, the Federal Circuit's expansion of the doctrine of inequitable conduct has not led to a dramatic increase in the quality of patents.<sup>85</sup> Furthermore, as I argue in Section IV, there are better ways to increase patent quality than expanding the doctrine of inequitable conduct.

Alternatively, the Federal Circuit's expansion could have been fueled by fairness concerns over the granting of patents to individuals that commit fraud on the PTO and the desire to deter such dishonest dealings. In *Rohm & Haas Co. v. Crystal Chemical Co.*,<sup>86</sup> one of the few opinions in which the Federal Circuit discusses the policy rationales behind the doctrine, the court remarked,

Surely, a very important policy consideration [of the inequitable conduct doctrine] is to discourage all manner of dishonest conduct in dealing with the PTO. At the same time, the basic policy underlying the patent system is to encourage the disclosure of inventions through issuance of patents . . . [and] to stimulate the investment of risk capital in the commercialization of useful patentable inventions . . . . [W]e are faced with questions of both socioeconomic policy on the one hand, and morals or ethics on the other. We think we should not so emphasize either category as to forget the other.<sup>87</sup>

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<sup>82</sup> See H.R. REP. NO. 97-312, at 20–21 (1981), *reprinted in* 1982 U.S.C.C.A.N. 11, 30–31 (stating the Federal Circuit was created in 1982 to make patent law and its enforcement uniform and consistent); *see also supra* note 3.

<sup>83</sup> *See generally* Christopher A. Cotropia, 2006 BYU L. REV. 1517, 1518 (2006) (summarizing criticism of the Federal Circuit's nonobviousness jurisprudence as one cause of the patent-quality problem).

<sup>84</sup> ADAM B. JAFFE & JOSH LERNER, INNOVATION AND ITS DISCONTENTS 12 (2004).

<sup>85</sup> *Id.* at 34, 171.

<sup>86</sup> 722 F.2d. 1556 (Fed. Cir. 1983).

<sup>87</sup> *Id.* at 1571.

If concerns of unfairness and deterrence are behind the Federal Circuit's expansion, then it would seem that the Federal Circuit should require the defendant to have knowledge of the materiality of the withheld information and the specific intent to withhold the information to defraud the PTO. However, the Federal Circuit has held patents unenforceable because the patentee should have known the withheld information was material.<sup>88</sup> If the defendant did not have the specific intent to defraud the PTO, because the defendant did not know of the materiality of the undisclosed information, then a finding of inequitable conduct does little to curb dishonest conduct. It is not clear that the inequitable conduct doctrine is serving as a good deterrent to unfair actions. One recent study has shown that in the overwhelming majority (89 percent) of cases finding inequitable conduct, the claims at issue were also found invalid.<sup>89</sup> In these cases, the invalidity of the patent itself should serve as a deterrent from withholding information from the PTO. While the inequitable conduct doctrine may serve as a deterrent in some of the 11 percent of cases in which a patent would have been found valid, it is not clear that deterrence or unfairness concerns for these limited number of cases outweighs the number of unwanted side effects generated by the expansive doctrine.

Driven by either policy, reason, or a mixture thereof, the Federal Circuit has latched on to the approach of expanding the doctrine of inequitable conduct and pursued it with enthusiasm. U.S. patent law is filled with a plethora of mental states,<sup>90</sup> and the Federal Circuit precedent has made clear that each mental state can be challenged by an inequitable conduct defense. Allegations of inequitable conduct extend from the time prior to filing the application until the time the patent is issued. Early inequitable conduct jurisprudence fell into two major categories: failure to disclose prior art and affirmative misstatements in affidavits or argument.<sup>91</sup> As inequitable conduct jurisprudence has expanded, lawyers have taken notice. Recent examples of alleged inequitable conduct include (i) failure to comply with the National Institutes of Health guidelines,<sup>92</sup> (ii) incorrect citation of a case,<sup>93</sup> (iii) alleged misrepresentation of hypothetical examples as

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<sup>88</sup> See *Cargill Inc. v. Canbra Foods Ltd.*, 476 F.3d 1359, 1367–68 (Fed. Cir. 2007) (patentee should have known of the materiality of the undisclosed test data); *Ferring BV v. Barr Labs., Inc.*, 437 F.3d 1181, 1191–92 (Fed. Cir. 2006) (patentee should have known undisclosed relationships of affiants to assignee company was material); *Bruno Indep. Living Aids Inc. v. Acorn Mobility Services Ltd.*, 394 F.3d 1348, 1351 (Fed. Cir. 2005) (patentee should have known prior art, which was submitted to the FDA in market approval, was material).

<sup>89</sup> Katherine Nolan-Stevaux, *Inequitable Conduct Claims in the 21st Century: Combating the Plague*, 20 BERKELEY TECH. L.J. 147, 163 (2005).

<sup>90</sup> See Symposium, *Intellectual Property Litigations in the 21st Century: Do We Really Need So Many Mental and Emotional States in United States Patent Law?*, 8 TEX. INTEL. PROP. L.J. 279 (2000) (noting that U.S. patent law has more mental states than other countries).

<sup>91</sup> See Irving Kayton et al., *Fraud in Patent Procurement: Genuine and Sham Charges*, 43 GEO. WASH. L. REV. 1, 56 (1974) (“[T]he majority of [inequitable conduct] cases involve either alleged misrepresentation in withholding art or misleading the examiner in argument or by affidavit.”).

<sup>92</sup> *Regents of Univ. of Cal. v. Eli Lilly & Co.*, 119 F.3d 1559, 1571 (Fed. Cir. 1997) (reversing district court judgment of unenforceability based on applicants' use of NIH-uncertified plasmid in experimental work and misrepresentation that they had used a certified plasmid in the patent application examples).

<sup>93</sup> *Destron/IDI, Inc. v. Electronic Identification Devices, Ltd.*, No. 98–1242, 1999 WL 37614, at \*2 (Fed. Cir. Jan. 26, 1999) (refusing to override district court judgment that the patentee's explanation for the mis-citation was reasonable).

working examples,<sup>94</sup> (iv) failure to resubmit a prior art drawing during prosecution of divisional application,<sup>95</sup> (v) failure to disclose relationship between declarant and assignee during patent prosecution,<sup>96</sup> and (vi) improperly claiming small entity status.<sup>97</sup>

## B. Unwanted Side Effects

While the enlargement of the inequitable conduct doctrine does not seem to be serving the doctrine's underlying policy rationales, the expansion of the doctrine has also led to a number of unwanted side effects. In this subsection, I explore the problems that the Federal Circuit's enthusiasm has generated and reasons to limit the doctrine.

The most salient reason to limit the defense of inequitable conduct is to curb the number of frivolous allegations. The frequency with which the defense is raised has caused the Federal Circuit to admonish, "'Inequitable conduct' is not, or should not be, a magic incantation to be asserted against every patentee."<sup>98</sup> A 1998 American Intellectual Property Law Association study estimated that 80 percent of cases included inequitable conduct charges, and only a small percentage of these charges is sustained.<sup>99</sup> A recent study has found that the inequitable conduct defense was raised in 35 percent of all reported patent opinions in 2004.<sup>100</sup> Furthermore, another study has shown that from 1995 to 2004, courts granted summary judgment for the patentees in 42 percent of summary judgment motions on inequitable conduct.<sup>101</sup> Therefore, it appears that inequitable conduct is frequently raised when courts find no evidence of any wrongdoing.

The overpleading of the doctrine is especially troublesome because defending against a claim of inequitable conduct is costly. It is difficult to prove a subjective element of a claim. Courts recognizing the difficulty with respect to proving intent from direct evidence often infer intent from circumstantial evidence. As such, the cost of discovery for defending against inequitable conduct can substantially raise the cost of

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<sup>94</sup> *Regents of Univ. of Cal.*, 119 F.3d at 1570 (reversing district court determination that Lilly's specific mischaracterization of experimental work was material).

<sup>95</sup> *ATD Corp. v. Lydall, Inc.* 159 F.3d 534, 547 (Fed. Cir. 1998) (relying on Manual of Patent Examining Procedure § 609 to reject defendant's contention that applicant was obligated to submit drawing of record in parent during prosecution of divisional).

<sup>96</sup> *Ferring B.V. v. Barr Labs., Inc.*, 437 F.3d 1181, 1194 (Fed. Cir. 2006) (upholding unenforceability of patents because of failure to disclose relationship between declarant and assignee during patent prosecution).

<sup>97</sup> *Nilssen v. Osram Sylvania, Inc.*, 504 F.3d 1223, 1233 (Fed. Cir. 2007) (upholding unenforceability of patents in part, because patentee, who had entered into a license agreement with a company that had over 500 employees, made several improper small entity maintenance fee payments to the PTO).

<sup>98</sup> *FMC Corp. v. Manitowoc Co.*, 835 F.2d 1411, 1415 (Fed. Cir. 1987).

<sup>99</sup> Committee Position Paper, *The Doctrine of Inequitable Conduct and the Duty of Candor in Patent Prosecution: Its Current Adverse Impact on the Operation of the United States Patent System*, 16 AIPLA Q.J. 74 (1988).

<sup>100</sup> Kevin Mack, Note, *Reforming Inequitable Conduct to Improve Patent Quality: Cleansing Unclean Hands*, 21 BERKELEY TECH. L.J. 147, 156 (2006).

<sup>101</sup> Katherine Nolan-Stevaux, Note, *Inequitable Conduct Claims in the 21st Century: Combating the Plague*, 20 BERKELEY TECH. L.J. 147, 161 (2005).

litigation, which already now averages over 4 million dollars per trial.<sup>102</sup> In fact, a study by the National Academy of Science recommended eliminating inequitable conduct defense, listing it as one of three subjective factors contributing to high litigation expenses.<sup>103</sup>

In addition, the frequency of frivolous allegations also gives rise to the suspicion that inequitable conduct is being raised to force small entities to settle under duress. A single inventor or small business cannot afford to defend against an inequitable conduct allegation and may find it more beneficial to settle before the costs of litigation exceed their capabilities of paying. Although the cost of litigation can be offset by using contingent-fee lawyers, the unpredictable nature of inequitable conduct cases will influence the lawyer's risk assessment. Contingent-fee lawyers do not recoup their litigation expenses if they lose at trial; therefore, they are likely to settle all but the strongest cases.<sup>104</sup> As described below, the doctrine of inequitable conduct does not generally lend itself to simple bright-line rules. The amorphous standards of inequitable conduct increase the risk of winning an inequitable conduct claim and concomitantly increase the likelihood of settlement. The expansion of the inequitable conduct defense has resulted in further blurring the contours of the doctrine. As such, the judgments required by practitioners and applicants are becoming increasingly more difficult.

The amorphous standards of inequitable conduct are partially due to its fact-specific nature. While the Federal Circuit has brought much needed unity to the doctrine,<sup>105</sup> it is still extremely difficult to predict the finding for any given fact scenario. Prior to the advent of the Federal Circuit, it was not uncommon for different courts to come to different conclusions on substantially the same facts.<sup>106</sup> Even after the

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<sup>102</sup> Patent litigation costs on average \$4 million per side from complaint through trial. AM. INTELLECTUAL PROP. LAW ASS'N, REPORT OF THE ECONOMIC SURVEY 21–22 (2003).

<sup>103</sup> A PATENT SYSTEM FOR THE 21ST CENTURY, *supra* note 9 at 121–23. The study also recommended eliminating the best-mode requirement and willful infringement.

<sup>104</sup> Kimberly A. Moore, *Populism and Patents*, 82 NYU L. REV. 69, 86 (2007).

<sup>105</sup> Prior to the Federal Circuit there was a circuit split with respect to the standard of materiality and intent. With respect to materiality, at least three circuits have applied the subjective “but-for” test. *See* *Skil Corp. v. Lucerne Prods., Inc.*, 684 F.2d 346, 350 (6th Cir. 1982); *Pfizer, Inc. v. Int'l Rectifier Corp.*, 685 F.2d 357, 359 (9th Cir. 1982); *Plastic Container Corp. v. Cont'l Plastics*, 607 F.2d 885, 900 (10th Cir. 1979). Other circuits have adopted the “but-it-may-have-been” standard. *See* *CMI Corp. v. Barber-Greene Co.*, 683 F.2d 1061, 1066 (7th Cir. 1982); *Timely Prods. Corp. v. Arron*, 523 F.2d 288, 297–98 (2d Cir. 1975); *Monsanto Co. v. Rohm & Haas Co.*, 456 F.2d 592, 600 (3d Cir. 1972); *Trio Process Corp. v. L. Goldstein's Sons, Inc.*, 461 F.2d 66, 73 (3d Cir. 1972). With respect to intent, some circuits required that the patentee had knowingly and intentionally misled the Patent Office, while other circuits held only that a showing of gross negligence was sufficient. *Compare* *Scott Paper Co. v. Fort Howard Paper Co.*, 432 F.2d 1198, 1204 (7th Cir. 1970) (“Unclean hands can be asserted only if there has been a deliberate misrepresentation in the [PTO].”), *with* *Delong Corp. v. Raymond Int'l, Inc.*, 622 F.2d 1135, 1146 (3d Cir. 1980) (stating inequitable conduct requires at least a finding of “gross negligence”).

<sup>106</sup> A district court for the Eastern District of Pennsylvania held that representation in an affidavit before the PTO consisted of intentional misrepresentation and invalidated the patent as a consequence, *Monsanto Co. v. Rohm & Haas Co.*, 312 F. Supp. 778 (E.D. Pa. 1970), while a district court for the Southern District of Texas held the same patent valid, characterizing the same affidavit as the applicants “putting their best foot forward.” *Monsanto Co. v. Dawson Chem. Co.*, 312 F. Supp. 452, 463 (S.D. Tex. 1970).

establishment of the Federal Circuit, district courts have struggled to consistently apply the doctrine. For example, after one district court held a patent unenforceable due to inequitable conduct, three other district courts upheld the exact same patent's validity.<sup>107</sup> The Federal Circuit itself has struggled for consistency. For example, in *Purdue Pharma L.P. v. Endo Pharmaceuticals Inc.*,<sup>108</sup> the same three-panel body granted a rehearing seven months after deciding the first case and reversed itself.<sup>109</sup>

In summary, the expansion of the doctrine of inequitable conduct has led to some unwanted side effects. The doctrine is overpleaded, which is especially troublesome because its subjective element substantially raises the cost of patent litigation. The expansion of inequitable conduct defense has also resulted in a further blurring the boundaries of the doctrine.

#### IV. REFORMING THE SYSTEM

I propose limiting the current inequitable conduct jurisprudence and providing a second tier of remedies for less offensive behavior. Inequitable conduct would be limited to cover only common law fraud. The defendant must have (i) failed to disclose or misrepresented material information with an intent to deceive and (ii) known of the materiality of the information not disclosed or misrepresented. My proposed heightened standard for inequitable conduct requires the defendant to have culpability not only with the intent to deceive but also with respect to the materiality of the omission or misrepresentation. This standard differs from the current inequitable conduct jurisprudence, as it abandons the Federal Circuit's weighing of intent and materiality—a defendant must meet each bar, and the materiality of the omission or misrepresentation has no effect on whether the defendant has the prerequisite intent. Also, in contrast to the current jurisprudence, this heightened standard allows the subjective good faith of the accused to avert a finding of inequitable conduct.<sup>110</sup>

Behavior that does not reach this new heightened standard would be redressed under a second tier of remedies. The second tier of remedies would redress two types of defendants: those who did not have the culpability to deceive and those who did not know the materiality of the information misrepresented or withheld. More specifically, the second tier would address (i) negligently or recklessly failing to disclose or misrepresenting material information that the defendant knew was material and (ii)

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<sup>107</sup> Compare *Imperial Chem. Indus., PLC v. Barr Labs., Inc.*, 795 F. Supp. 619, 626–27 (S.D.N.Y. 1992) (holding Zeneca's patent unenforceable), with *Zeneca Ltd. v. Novapharm Ltd.*, No. 96–1364, 1997 WL 168318, at \*2–\*4 (Fed. Cir. Apr. 10, 1997) (affirming United States District Court for the District of Maryland's decision that Zeneca's patent was valid), *Zeneca Ltd. v. Pharmachemie B.V.*, 2000 WL 34335805, at \*15 (D. Mass. Sept. 11, 2000) (finding Zeneca's patent was valid), and *AstraZeneca UK Ltd. v. Mylan Pharms., Inc.*, No. 00–2239, slip op. at 2–3 (W.D. Pa. Nov. 30, 2000) (same).

<sup>108</sup> 438 F.3d 1123 (Fed. Cir. 2006).

<sup>109</sup> Compare *Purdue Pharma L.P. v. Endo Pharms. Inc.*, 410 F.3d 690, 701 (Fed. Cir. 2005) (upholding the district court's judgment of unenforceability due to inequitable conduct), with *Purdue Pharma L.P. v. Endo Pharms. Inc.*, 438 F.3d 1123, 1137 (Fed. Cir. 2006) (vacating district's judgment of unenforceability due to inequitable conduct).

<sup>110</sup> *Am. Hoist & Derrick Co. v. Sowa & Sons, Inc.* 725 F.2d 1350, 1363 (Fed. Cir. 1984).



knowingly failing to disclose or misrepresenting material information that the defendant did not know was material (a subjective good faith defense).

### A. Limiting Inequitable Conduct to Common Law Fraud

Limiting the inequitable conduct defense to common law fraud will help solve the problems associated with an expansive inequitable conduct doctrine. Limiting the doctrine will decrease pleading of inequitable conduct for two reasons. First, common law fraud is infrequent. Common law fraud covers less behavior than the current doctrine of inequitable conduct. The latter weighs and balances materiality, whereas the former requires materiality and intent to survive on their own merits.<sup>111</sup> Second, as the standards for materiality and intent are brightened, the inequitable conduct jurisprudence will become more predictable. With firmer standards, inequitable conduct will not be raised as frequently, because lawyers have a better sense of when these claims will be successful and when they will not. The current train of thought, that lawyers should always plead inequitable conduct because you never know what will happen, would be minimized.

In addition, limiting inequitable conduct to common law fraud will place the inequitable conduct jurisprudence within Supreme Court precedent. The Supreme Court has condemned the following behavior: (i) a defendant who bribed a third party to sign an affidavit that the defendant knew was false in order to overcome invalidating prior use;<sup>112</sup> (ii) a defendant, struggling to overcome a PTO rejection, who wrote an article lauding its own invention and then actively sought out a third party to represent itself as the author;<sup>113</sup> and (iii) a defendant who became aware of information that would invalidate the adversary's patent application during an interference proceeding but chose to use the information to obtain a favorable settlement agreement instead of disclosing the information to the PTO.<sup>114</sup> In all three situations, the defendant withheld material information with intent to deceive the PTO and knew that the information withheld was material.

This egregious type of behavior is in sharp contrast to the conduct that the Federal Circuit has recently condemned. For example, in *Ferring B.V. v. Barr Labs.*, the Federal Circuit affirmed summary judgment of inequitable conduct based solely on the applicant's failure to disclose that individuals who submitted declarations in support of the patentability of the claims had affiliations with the assignee of the application.<sup>115</sup> One of the declarants had been a paid consultant, one had been a past employee of the assignee, but the third was simply a researcher who had assisted his employer in a clinical

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<sup>111</sup> See *Dippin' Dots, Inc. v. Mosey*, 476 F.3d 1337, 1346 (Fed. Cir. 2007) (holding the patent unenforceable due to inequitable conduct but also finding that elements of common law fraud were not met).

<sup>112</sup> *Keystone Driller Co. v. Gen. Excavator Co.*, 290 U.S. 240 (1933); *Precision Instrument Mfg. Co. v. Auto. Maint. Mach. Co.*, 324 U.S. 806 (1945).

<sup>113</sup> *Hazel-Atlas Glass Co. v. Hartford-Empire Co.*, 322 U.S. 238 (1944); *Precision Instrument Mfg. Co.*, 324 U.S. 806.

<sup>114</sup> *Precision Instrument Mfg. Co.*, 324 U.S. 806.

<sup>115</sup> 437 F.3d 1181, 1194 (Fed. Cir. 2006).

trial in which his employer had received some funding.<sup>116</sup> The Federal Circuit found that the failure to disclose each of these relationships was material.<sup>117</sup> The Federal Circuit did not address whether the one declaration, in which the applicant had absolutely no relationship with Ferring at any time, would have been sufficient to overcome the PTO objection.<sup>118</sup> Furthermore, the court held that an inference of intent can be found when the patentee fails to show a “credible explanation” for the patentee’s deception of the PTO.<sup>119</sup>

Finally, the unforgiving remedies that accompany a successful charge of inequitable conduct are more palatable when the culpability of the defendant with respect to both the intent to deceive and the knowledge of the materiality of the withheld or misrepresented information can be proven. The doctrine was originally created to deal with fraud against the PTO. As the doctrine has expanded, the penalties associated with a finding of inequitable conduct have become draconian.

### **B. Second Tier of Lesser Remedies for Less Offensive Behavior**

While common law fraud will fall under an inequitable conduct defense, less offensive behavior will be subject to a lesser remedy that will not automatically result in the invalidity of the patent, the possibility of attorneys’ fees, the possibility of invalidating related patents, and the possibility of antitrust liability.<sup>120</sup> By having a two-tiered system, judges are able to redress behavior on a sliding scale. This second tier will include (i) negligently or recklessly failing to disclose or misrepresenting material information that the defendant knew was material and (ii) knowingly failing to disclose or misrepresent material information that the defendant did not know was material.

Even though the doctrine of inequitable conduct will be limited, the validity of the patent will still turn on the information that was omitted or misrepresented. One recent study has shown that in the overwhelming majority (89 percent) of cases in which inequitable conduct was found, the claims at issue were also found invalid.<sup>121</sup> While the author of the study acknowledges that her data set was limited,<sup>122</sup> her data nonetheless suggest that in the vast majority of cases in which inequitable conduct is found, the doctrine results only in enlarging the possibility of remedies because the patent at issue will be found invalid anyway. Therefore, the 11 percent of cases in which inequitable conduct was found, and the claims at issue were still valid, would pose the greatest concern to any proposal that limits the doctrine of inequitable conduct. These cases would likely fall under the second tier of my proposed solution because the questionable conduct did not meet the elements of common law fraud (the information withheld or misrepresented was not likely material, because the patent was not invalidated). The

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<sup>116</sup> *Id.* at 1189.

<sup>117</sup> *Id.* at 1190.

<sup>118</sup> *Id.* at 1198 (Newman, J., dissenting).

<sup>119</sup> *Id.* at 1191.

<sup>120</sup> *See supra* Part II.C.4.

<sup>121</sup> Nolan-Stevaux, *supra* note 89 at 163.

<sup>122</sup> *Id.*

second tier of my proposal does, however, ensure that this behavior is remedied, albeit not at the same level of the more offensive, common law fraud violations.

The type of remedy available should be sufficient to deter the type of misconduct found. In all cases, the courts are the decision-making authority, with respect to both whether a violation has been found and what remedy is appropriate. It is helpful to divide the misconduct not rising to the level of common law fraud into two categories: those wrongdoings that are analogous to violations of litigation norms and those that are analogous to violations of norms of science. I will begin with a discussion of the latter and then move to the former.

### 1. Violations of Norms of Science

Violations of norms of science include research misconduct, or conduct that is considered unacceptable or improper in a research setting. The most blatant example of research misconduct is the report of experiments that were never conducted or calculations that were never made. However, violations of the norms of science also include subtler misconduct including the manipulation of data to support a particular hypothesis.<sup>123</sup> A researcher may also partake in selective data reporting—publishing true observations but deliberately omitting data points that do not support the hypothesis.<sup>124</sup> This was similar to the fact pattern at issue in *Cargill, Inc. v. Canbra Goods, Ltd.*,<sup>125</sup> wherein the Federal Circuit affirmed a finding of unenforceability due to inequitable conduct based on certain test data being withheld. However, in many instances in which a patentee fabricates, manipulates, or deliberately omits data, the patent will be rendered unenforceable because the patentee (i) knowingly misrepresented material information with intent to deceive and (ii) knew the misrepresented information was material. In almost all of the above examples, the patentee or assignee, not the lawyer, is the culpable individual.

Another example that would violate the norms of science is negligent misrepresentation of prior art or the misrepresentation of nonmaterial prior art. These misrepresentations can occur in an oath, in an affidavit, or in arguments before the patent examiner. This type of misconduct can involve both the patentee and the lawyer. However, it is more likely that the misrepresentations made by the patentee or assignee were committed with the prerequisite intent sufficient for common law fraud. A lawyer is usually not as knowledgeable in the field as her client; therefore, it is more likely that her misrepresentations were out of negligence than deceptive intent.

Finally, situations where the oath or declaration as the original inventor could not have been made should also be redressed under this approach. This can occur when the inventorship was negligently listed incorrectly as a result of misjoinder of inventors or

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<sup>123</sup> See Harriet Zuckerman, *Deviant Behavior and Social Control*, in SCIENCE IN DEVIANCE AND SOCIAL CHANGE 87, 116 (Edward Sagarin, ed., 1977).

<sup>124</sup> *Id.*

<sup>125</sup> 476 F.3d 1359, 1368 (Fed. Cir. 2007).

nonjoinder of inventors.<sup>126</sup> This violation is most closely analogous to scientific article publications in which senior scientists claim authorship of articles to which they made little, if any, contribution.<sup>127</sup> In addition, patentees who negligently fail to cite prior art that invalidates the patent violate the norms of science. Scientific publications should always make incremental advances of science; there is no merit in publishing repetitive research. If the prior art teaches the invention, then the invention is not novel, the invention does not meet the requirements for patenting, and the patentee is not the original inventor.

The remedy should scale with the wrongdoing that is unearthed. Remedies for violations of the norms of science should take on a variety of forms and may depend on whether the attorney or applicant committed the wrongdoing. If the applicant committed the offensive behavior, remedies may include monetary damages, requiring the applicant to provide more background material in outstanding or future patent applications, or, if the applicant is receiving federal grant money, notification of the appropriate funding agency. In addition, the court may notify agencies that monitor research misconduct, such as the National Institutes of Health's Office of Research Integrity<sup>128</sup> or National Science Foundation's Office of Inspector.<sup>129</sup> Alternatively, if the lawyer committed the offensive behavior, remedies may include sanctioning an attorney, sanctioning the firm for which the attorney is employee, and/or notifying the bar association of the attorney's misconduct.

In addition to scaling the remedy with the wrongdoing, violations that do not also invalidate the patent (i.e., violations where the patentee withheld or misrepresented information that does not invalidate the patent) should be taken into account when determining the remedy for patent infringement. The Supreme Court recently abolished the general rule that a permanent injunction should follow a finding of infringement of a valid patent.<sup>130</sup> The Supreme Court held that the traditional four-part test with respect to permanent injunctions must be used. A plaintiff must demonstrate (i) that it has suffered an irreparable injury; (ii) that remedies available at law, such as monetary damages, are

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<sup>126</sup> Failing to name an inventor or naming one incorrectly, if committed with deceptive intent, can render a patent invalid. In addition, failing to name an inventor can place into question the patent owner's ability to enforce the patent or to transfer rights in the patent to others. *See Ethicon v. U.S. Surgical* 135 F.3d 1456, 1458 (Fed. Cir. 1998) (holding that the license obtained by U.S. Surgical from a coinventor who was not originally named on the patent defeated the suit for patent infringement, since U.S. Surgical had obtained a legal right to practice the patent).

<sup>127</sup> This practice endangers the quality of journal articles, an issue similar to patent quality, as it blurs accountability. *See generally* Drummond Rennie, Veronica Yank, & Linda Emanuel, *When Authorship Fails: A Proposal to Make Contributors Accountable*, 278 JAMA 579 (1997) (discussing accountability problems of authorship in scientific research); Sandip H. Patel, Note, *Graduate Students' Ownership and Attribution Rights in Intellectual Property*, 71 IND. L.J. 481, (1996) (discussing legal theories for recognizing graduate students' rights to credit for their work).

<sup>128</sup> The Office of Research Integrity promotes integrity in biomedical and behavioral research supported by the U.S. Public Health Service. *See* 42 C.F.R. § 50.102 (1992); Statement of Organization, Functions and Delegations of Authority, Action Notice, 57 Fed. Reg. 24,262 (1992).

<sup>129</sup> The Office of Inspector General, among other things, prevents, detects, and handles cases involving research misconduct. *See* 45 C.F.R. § 689.4(a) (2008).

<sup>130</sup> *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 393–94 (2006).

inadequate to compensate for that injury; (iii) that considering the balance of hardships between the plaintiff and the defendant, a remedy in equity is warranted; and (iv) that the public interest would not be disserved by a permanent injunction.<sup>131</sup> Therefore, courts should take into account the fact that the plaintiff committed this lesser offense when balancing the hardships between the plaintiff and the defendant. More specifically, the fact that the defendant violated the norms of science should weigh against issuing a permanent injunction.

## 2. Violations of Norms of Litigation

The second type of misconduct includes violations of litigation norms. Lawyers face sanctions under Rule 11 when they (i) file a frivolous suit or document, (ii) file a document or lawsuit for an improper purpose, or (iii) needlessly increase the cost or length of litigation.<sup>132</sup> But lawyers and clients face sanctions when they inaccurately state the law or facts.<sup>133</sup> A patentee or lawyer who negligently or recklessly fails to disclose prior use, prior sales, or prior publication that would invalidate the patent should also be sanctioned.<sup>134</sup> Failure to disclose these facts is similar to a lawyer negligently misstating the facts. The sanctions should be more punitive for violations that could not easily be found by third parties, as it is these violations that need the most deterrence. For instance, a patentee who fails to disclose a prior use or sale to the PTO during prosecution should receive a larger penalty than a patentee whose misstatements of facts could be more easily unearthed by a third party, such as the negligent failure to disclose a printed publication of the invention that arguably violated the duty of candor. These types of misrepresentations can occur in affidavits, oaths, or arguments before the patent examiner.

Lawyers also receive sanctions for using tainted witnesses during litigation. Therefore, failing to disclose a relationship between a scientist signing an affidavit and the assignee, as in the *Ferring* case, would fall under this category.<sup>135</sup> Another violation of litigation norms is purposeful delay of trial. An example of this type of misconduct would be a patentee or lawyer that buried the relevant prior art submitted to the patent examiner by submitting voluminous irrelevant prior art to the PTO. Again, this conduct would fall only under the second tier of violations if the lawyer or patentee conduct did not meet the requirements of common law fraud.

Similar to remedies for violations of the norms of science, remedies for violations of litigation norms should also take a variety of forms. Such remedies range from monetary damages for the least offensive behavior to permanent injunctions in the case of

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<sup>131</sup> *Id.* at 391.

<sup>132</sup> FED. R. CIV. P. 11.

<sup>133</sup> *In re Gershater*, 256 Kan. 512, 517–18 (1994) (imposing one-year suspension on lawyer who misrepresented facts to court and opposing counsel).

<sup>134</sup> 35 U.S.C. § 102(b) (2000) (“No patent if . . . the invention was patented or described in a printed publication in this or a foreign country or in public use or on sale in this country more than one year prior to the date of the application for the patent in the United States.”).

<sup>135</sup> *See supra* Part III.A.

more egregious behavior. The courts should be able to turn to current remedies for violations of litigation norms to guide their determination of the appropriate remedy in the patent context, particularly with respect to imposing sanctions on the lawyer. However, not all violations will map perfectly onto the patent context.

## V. COUNTERARGUMENTS AND ALTERNATIVE AVENUES TO ENSURE PATENT QUALITY

I begin this section by addressing counterarguments to limiting the inequitable conduct defense, and then I argue that the current patent system employs other methods to ensure patent quality that do not implicate the negative consequences discussed in Part III. Next, I argue that changes in filing practices have made the duty of candor a less effective means of increasing patent quality, as evidenced by the PTO's repeated proposals to alter current disclosure requirements. Finally, I conclude with several suggested reforms to the patent system that would increase applicants' motivation to disclose information to the PTO, thereby enhancing overall patent quality.

### A. Counterarguments

It is important to keep in mind the policy considerations underlying the doctrine of inequitable conduct and to determine whether limiting the doctrine to cover only common law fraud will thwart these policies. As discussed above, there are two primary policy considerations underlying the doctrine of inequitable conduct: (i) to deter dishonest dealings with the PTO and (ii) to encourage the patent applicant to comply with the duty to disclose in order to ensure that the PTO issues only high-quality patents.

At least one commentator has expressed concern that the elimination of the inequitable conduct defense sends a signal that lying or committing fraud on the patent office constitutes acceptable behavior.<sup>136</sup> This concern really stems from the first policy consideration for inequitable conduct listed above—patentees that commit fraud against the PTO should not receive a government-issued patent. There are several responses to this argument. I am not proposing that the doctrine of inequitable conduct be completely eliminated. Rather, I suggest that it be limited only to claims that satisfy common law fraud requirements, thus ensuring that fraudulently obtained patents are not enforced. In addition, behavior that does rise to the level of fraud would still be actionable, although the remedy would be less severe than those currently available under the doctrine of inequitable conduct. Furthermore, most other countries do not have a private remedy for deception of the PTO. In fact, the only other country that has adopted such a remedy is Germany, which enacted a statutory provision allowing the PTO to request that the applicant truthfully disclose the state of the art.<sup>137</sup> It is generally believed that patent invalidity is a sufficient remedy.

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<sup>136</sup> See Symposium, *Edited & Excerpted Transcript of the Symposium on Ideas Into Action: Implementing Reform of the Patent System*, 19 BERKELEY TECH. L.J. 1053, 1118 (2004) (stating Mark Lemley's concerns that eliminating inequitable conduct may send the wrong message to patent applicants).

<sup>137</sup> Symposium, *supra* note 90, at 292.

Furthermore, some commentators have argued that limiting or eliminating the inequitable conduct defense would diminish its “quality control” effect on all patents.<sup>138</sup> It seems that these commentators are most concerned about valid patents that are rendered unenforceable by inequitable conduct. There is evidence, however, that a valid patent is rarely held unenforceable—the vast majority of cases suggest that when an inequitable conduct defense succeeds, the patent is also invalidated.<sup>139</sup> Under my proposal, if the patentee’s conduct fell under common law fraud, then the remedies of inequitable conduct would be available. If, however, the patentee’s conduct did not reach this level, then the assignee, the patentee, and/or her attorney would be subject to a lesser remedy that is tailored to the type of wrongdoing.

Moreover, it is not clear that those cases in which a valid patent is rendered unenforceable have a strong deterrent effect. Thus, it is unclear whether these cases serve the purpose of increasing patent quality control. For example, in *Purdue Pharma Ltd. Partnership v. Endo Pharmaceuticals Inc.*,<sup>140</sup> the plaintiff, Purdue Pharma (Purdue), claimed a formulation of controlled-released oxycodone that managed pain in 90 percent of patients.<sup>141</sup> Although the district court held that the patents covering the formulation were valid, Endo Pharmaceuticals contended that Purdue misrepresented the material fact that it “surprisingly discovered” that the controlled range at which oxycodone was effective was half of that in other formulations.<sup>142</sup> The district court found that Purdue omitted the material fact that its discovery of the claimed invention’s analgesic relief at a reduced dosage was based on Dr. Kaiko’s insight and not on experimental studies.<sup>143</sup> Furthermore, the district court found that Purdue had the intent to deceive based on the record as a whole.<sup>144</sup> Given that the “surprising discovery” was essential to the issuance of the patents-in-suit, as well as the fact that Purdue was unable to prove at trial that it relied on anything other than Dr. Kaiko’s insight in making the discovery, the Federal Circuit affirmed the district court finding that the material misrepresentations were serious enough to warrant rendering the patents-in-suit unenforceable.

Under my proposal, the patent would be held valid and Purdue would face a lesser remedy than unenforceability of its patent so long as Purdue’s behavior did not rise to common law fraud. As to the policy concerns regarding the deterrent effect of the inequitable conduct doctrine, it is not clear that allowing Purdue to enforce its patent would have produced an incentive to mislead the PTO. Dr. Kaiko, a trained scientist, was able to use his experience to look at the molecular structure of oxycodone and correctly intuit that a decreased dosage range would be sufficient. The patent would be valid only if the intuitions of the patentee are correct. For example, if Dr. Kaiko had determined that oxycodone would have shown three times the decrease in dosage range, the patent would have been held invalid because the drug did not have that stated

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<sup>138</sup> See Symposium, *supra* note 136; Nolan-Stevaux, *supra* note 89, at 167 (arguing that monopoly right should only be granted to deserving parties).

<sup>139</sup> See *supra* note 121 and accompanying text.

<sup>140</sup> 70 U.S.P.Q.2d (BNA) 1185 (S.D.N.Y. 2004).

<sup>141</sup> *Id.* at 1194.

<sup>142</sup> *Id.* at 1204.

<sup>143</sup> *Id.* at 1205.

<sup>144</sup> *Id.*

efficacy. Therefore, corporations have little incentive to state increased efficacy until they are able to prove their claims—if they are wrong, their patents are invalid.

## B. Alternative Avenues to Ensure Patent Quality

Since the Supreme Court laid the foundations of the doctrine of inequitable conduct, Congress and the PTO have added a number of safeguards to increase patent quality.<sup>145</sup> These additional safeguards provide yet another reason that the doctrine of inequitable conduct should be limited. While the patent application is still pending, a third party can influence the examiner's decision on whether the patent should issue. Most pending applications are now published promptly after eighteen months from the earliest filing date,<sup>146</sup> allowing third parties to review patent applications that have been submitted to the PTO but have not yet been granted. Third parties can also access pending prosecution papers<sup>147</sup> and have the ability to submit material information during the patent's examination by the PTO.<sup>148</sup>

Second, even after a patent has been granted, a challenger has the ability to weed out invalid patents through the *ex parte* and *inter partes* reexamination procedures. The *ex parte* reexamination proceedings, established in 1980,<sup>149</sup> allow a third party to request a reexamination of any patent by filing a written request with the PTO and by submitting prior art that raises a substantial new question of patentability.<sup>150</sup> However, due to concern for patent-holder harassment<sup>151</sup> and the conclusion that most patents are invalidated by prior art,<sup>152</sup> third parties were limited to challenging patents only “on the basis of patents or printed publications,”<sup>153</sup> and the third party's role was severely limited.<sup>154</sup> Eventually the third party's role was substantially enlarged by the establishment of the *inter partes* reexamination procedure in 1999.<sup>155</sup>

<sup>145</sup> A PATENT SYSTEM FOR THE 21ST CENTURY, *supra* note 9 at 122–23.

<sup>146</sup> 35 U.S.C. § 122 (2006).

<sup>147</sup> The PTO maintains a Web site that allows the public to search for all documents associated with the prosecution of published patent applications; <http://portal.uspto.gov/external/portal/pair>.

<sup>148</sup> See 37 C.F.R. § 1.99 (2008) (defining requirements of third-party submissions).

<sup>149</sup> Act to Amend the Patent and Trademark Laws, Pub. L. No. 96–517, 94 Stat. 3015 (1980) (codified at 35 U.S.C. §§ 301–307).

<sup>150</sup> See 35 U.S.C. § 302 (2006).

<sup>151</sup> See Joseph Farrell & Robert P. Merges, *Incentives to Challenge and Defend Patents: Why Litigation Won't Reliably Fix Patent Office Errors and Why Administrative Patent Review Might Help*, 19 BERKELEY TECH. L.J. 943, 965 (2004) (referencing H.R. Rep. No. 96–1307, 4 (1980), *reprinted in* 1980 U.S.C.C.A.N. 6460, 6463 (1980); *see also* N. Thane Bauz, *Reanimating U.S. Patent Reexamination: Recommendations for Change Based upon a Comparative Study of German Law*, 27 CREIGHTON L. REV. 945, 947–48 (noting Congress' worry that the proposed procedure would make “PTO reexamination . . . a first hurdle and undoubtedly not the last hurdle for the patent owner”).

<sup>152</sup> GLORIA K. KOENIG, PATENT INVALIDITY: A STATISTICAL AND SUBSTANTIVE ANALYSIS § 5.05[4] (rev. ed. 1980) (estimating that courts invalidated up to 75 percent of all challenged patents based on prior art not considered by the PTO during the patent's application process).

<sup>153</sup> 37 C.F.R. § 1.552 (2006).

<sup>154</sup> The requestor is not allowed to provide the PTO with written arguments with respect to its submitted prior art.

<sup>155</sup> Act of Nov. 29, 1999, Pub. L. No. 106–113, 113 Stat. 1501(2002) (codified in sequence beginning at 35 U.S.C. § 311). Under this act, a challenger can file written comments addressing the issues raised by the action. 35 U.S.C. § 314.



Third, in 2006, the PTO announced that it will implement a new Peer to Patent Project: Community Patent Review System, starting in 2007.<sup>156</sup> A select number of applications will be immediately published on a Web site (before the mandatory eighteen months), and the general public will have the opportunity to identify prior art and vote on its relevance to the pending application.<sup>157</sup> The examiner will then have the option to utilize the public input, along with her own search results.<sup>158</sup> As of the summer of 2008, several companies have volunteered their applications, including General Electric, Hewlett Packard, IBM, Intel, Microsoft, and Oracle.<sup>159</sup> If this program proves to be successful, it will result in an increase in the quality of patents that are being issued by the PTO.<sup>160</sup>

### C. The Decreased Efficiency of the Duty of Disclosure

In addition to congressional and PTO changes, patent applicants are systematically filing patent applications at earlier stages in their research. Although the duty of candor was created, in part, because of the belief that the applicant will always know more about an invention than the examiner, this is not always true. As patent applicants file earlier in their research, the informational asymmetry between the examiner and the patentee decreases. As this informational asymmetry vanishes, the patent-quality function of the duty of disclosure diminishes. However, this function of the duty of disclosure will never vanish, as certain types of prior art that can invalidate a patent, such as prior sales, are inherently difficult for the examiner to unearth.

Furthermore, the PTO has consistently struggled with getting patent applicants to disclose the right type of information without requiring disclosure of too much or too little information. The PTO has toiled to enact rules to manage information. For instance, a rule requires patent applicants to provide additional explanations when the applicant submits more than twenty prior-art documents, pointing out what part of the document makes it important, identifying specific claims to which the document applies, and clarifying how a document adds new information not already considered by the examiner.<sup>161</sup>

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<sup>156</sup> Press Release, N.Y. Law Sch. Inst. for Info. Law & Policy, U.S. PTO to Implement Patent Reform Project Developed by New York Law School's Institute for Information Law & Policy (Aug. 29, 2006), [http://dotank.nyls.edu/communitypatent/pressrelease\\_082906.html](http://dotank.nyls.edu/communitypatent/pressrelease_082906.html).

<sup>157</sup> N.Y. LAW SCH. INST. FOR INFO. LAW & POLICY, COMMUNITY PATENT REVIEW PROJECT SUMMARY (2007), [http://dotank.nyls.edu/communitypatent/p2p\\_exec\\_sum\\_feb\\_07.pdf](http://dotank.nyls.edu/communitypatent/p2p_exec_sum_feb_07.pdf).

<sup>158</sup> *Id.*

<sup>159</sup> N.Y. LAW SCH. CENTER FOR PATENT INNOVATIONS, PEER TO PATENT FIRST ANNUAL REPORT (2008), <http://dotank.nyls.edu/communitypatent/P2Panniversaryreport.pdf>.

<sup>160</sup> N.Y. LAW SCH. INST. FOR INFO. LAW & POLICY, COMMUNITY PATENT REVIEW PROJECT SUMMARY (2007), [http://dotank.nyls.edu/communitypatent/p2p\\_exec\\_sum\\_feb\\_07.pdf](http://dotank.nyls.edu/communitypatent/p2p_exec_sum_feb_07.pdf) (“Community Patent Review aims to improve the quality of issued patents by giving the patent examiner access to better information by means of an open network for community peer review of patent applications.”).

<sup>161</sup> 71 Fed. Reg. 38808, 38810 (July 10, 2006).

#### D. Patent System Reforms to Increase Patent Quality

Finally, there are several proposed reforms to the patent system that would result in increasing applicants' motivation to submit relevant prior art to the PTO during the prosecution of their patent applications, thereby increasing patent quality. First, reforming the presumption of validity with respect to issued patents should encourage patent applicants to disclose the most relevant prior art. Currently, the presumption of validity applies regardless of whether the examiner reviews the prior art asserted by the challenger.<sup>162</sup> By limiting the presumption for unexamined noncumulative art, applicants should be encouraged to fulfill their duty to disclose. Under this modified regime, a challenger who asserts that a patent is invalid due to anticipation based on prior art not before the PTO would need to prove only that such a claim is based on the preponderance of the evidence, not the clear-and-convincing standard.

In addition to reforming the presumption of validity, implementing postgrant opposition proceedings will also encourage applicants to submit relevant prior art to the PTO during examination. Several scholars in patent law have argued that a postgrant opposition system would improve patent quality by providing a cost-effective way to challenge questionable patents.<sup>163</sup> By providing challengers with another avenue to weed out invalid patents, the need to use the doctrine of inequitable conduct to regulate patent quality is diminished.

#### VI. CONCLUSION

The Federal Circuit has expanded the doctrine of inequitable conduct beyond its equitable roots. Whether this enlargement was fueled by a desire to increase patent quality or out of concerns for fairness, it does not appear that enlargement is serving the underlying policy goals of the doctrine. In addition, the Federal Circuit's expansion of the doctrine has led to a number of unwanted side effects. Inequitable conduct is frequently pleaded but rarely proved. The subjective nature of the charge, the fact specificity, and the cost associated with litigating inequitable conduct charges all weigh in favor of its limitation. The application of the doctrine should be reformed to address these problems, and other avenues to increase patent quality should be pursued. Limiting the doctrine of inequitable conduct and enacting a second tier of remedies to address less egregious behavior will promote the efficiency of both the prosecution and the litigation systems in the United States by rewarding the inventor who fulfills her duty to disclose while dissuading unsubstantiated allegations of inequitable conduct.

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<sup>162</sup> Am. Hoist v. Sowa & Sons, Inc., 725 F.2d 1350, 1360 (Fed. Cir. 1981).

<sup>163</sup> Bronwyn H. Hall & Dietmar Harhoff, *Post-Grant Reviews in the U.S. Patent System-Design Choices and Expected Impact*, 19 BERKELEY TECH. L.J. 989, 1015 (2004) (arguing that a "properly designed post-grant review mechanism . . . should generate considerable welfare gains for the intellectual property system"); Robert P. Merges, *As Many as Six Impossible Patents Before Breakfast: Property Rights for Business Concepts and Patent System Reform*, 14 BERKELEY TECH. L.J. 614 (1999) ("Creation of a coherent, efficient opposition procedure would be the ideal solution to a number of problems plaguing the current patent system.").