

5-1-1989

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Recommended Citation

Kenneth S. Barrow, *What Level of Intent is Required to Prove Inequitable Conduct?*, 3 BYU J. Pub. L. 385 (1989).
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Comment: What Level of Intent is Required to Prove Inequitable Conduct?

A patent is a legal instrument with which an inventor can protect his investment of money and effort in an invention. The inventor, by fully disclosing his invention to the government,¹ receives the right to exclude others from making, using, or selling the invention within the United States.² In essence, a patent represents a contract between the United States and the inventor.³ The government's contract power stems from the Constitution,⁴ which authorizes Congress "[t]o promote the Progress of Science and Useful Arts, by securing for a limited time to Authors and Inventors the exclusive right to their respective writings and discoveries."⁵ The primary purpose of this constitutional provision is not to reward the individual, but to promote science for the "general welfare of the nation."⁶ The public, therefore, has a high interest in seeing that the patent process is free from fraud.⁷

Because of the significant public interest in the patent system, both patent applicants and their attorneys owe an uncompromising duty to report to the United States Patent and Trademark Office ("PTO") all facts relevant to the patent process. A person who violates this duty may be charged with "inequitable conduct," the specific term for fraudulent procurement of a patent.⁸ A patent obtained through inequitable conduct is unenforceable.⁹ As a result, inequitable conduct is often an affirmative defense in patent infringement suits. A defendant, by claiming that the patentee procured the patent through inequitable conduct,

1. 35 U.S.C. § 112 (1982).

2. *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100, 135 (1969).

3. *See, e.g., Grant v. Raymond*, 31 U.S. (6 Pet.) 218, 241-42 (1832).

4. U.S. CONST. art. I, § 8, cl. 8.

5. *Graham v. John Deere Co.*, 383 U.S. 1, 5 (1965).

6. *Sinclair & Carroll Co. v. Interchemical Corp.*, 325 U.S. 327, 330-31 (1945).

7. *See True Temper Corp. v. CF & I Steel Corp.*, 601 F.2d 495, 501 (10th Cir. 1979)(patent applicant stands in a confidential relationship to the PTO and has an absolute duty of full and complete disclosure to help the Office in developing patent claims).

8. *See Precision Instr. Mfg. Co. v. Automotive Maint. Mach. Co.*, 324 U.S. 806, 818 (1945). When a patent applicant fails to uphold his duty of candor and good faith, and procures a patent by withholding material information from, or submitting false information to the PTO, the applicant is said to have procured his patent through inequitable conduct or fraud on the PTO.

9. *J.P. Stevens & Co. v. Lex Tex Ltd.*, 747 F.2d 1553, 1560 (Fed. Cir. 1984), *cert. denied*, 474 U.S. 822 (1985). A finding of inequitable conduct may also result in criminal punishment of culpable parties, and there is a possibility of liability under antitrust laws. A discussion of these potential liabilities is beyond the scope of this comment.

may avoid liability for his patent infringement. Additionally, in *ex parte* proceedings, the PTO has invalidated patents due to inequitable conduct where the patent practitioner has breached his duty of candor to the Patent Office.¹⁰

Courts today impose a greater burden of proof upon a party seeking to prove inequitable conduct than did courts of a decade ago. In order to prove inequitable conduct, two elements must be shown: 1) materiality of information, and 2) intent to mislead. However, courts disagree upon the amount of proof required to satisfy each of these elements, particularly with respect to intent to mislead. In two recent cases,¹¹ the United States Court of Appeals for the Federal Circuit ("CAFC"), significantly raised the threshold level of proof required to show intent to mislead the PTO. These CAFC decisions hold that proof of gross negligence, without proof of actual intent to mislead, is insufficient to meet the intent threshold for a finding of inequitable conduct. This new standard has altered the PTO's approach to inequitable conduct problems.¹²

The recent CAFC decisions establish a standard of proof for inequitable conduct that is more consistent with the primary purposes of patent law. This comment first examines the evolution of inequitable conduct from its common law fraud origin into a standard that encouraged litigation and prompted courts to focus predominantly on the actions of the patentee rather than on the merits of the patentee's invention. Second, it examines the development of the new heightened-intent standard, a standard that both effectively reduces the number of inequitable conduct claims that will be raised in court, and changes the focus of many patent cases to one concentrating on the merits of the invention. Finally, it concludes that the recent CAFC decisions establish a standard of proof for inequitable conduct that will prevent fraud on the PTO and, at the same time, promote useful art and technology,

10. Grounds upon which findings of inequitable conduct have been found include: 1) misrepresentations in patent applications oaths or declarations, *see, e.g.*, Walker Process Equip., Inc. v. Food Mach. & Chem. Co., 382 U.S. 172 (1965); 2) misrepresentations in affidavits, *see, e.g.*, Rohm & Haas Co. v. Crystal Chem. Co., 722 F.2d 1556 (Fed. Cir. 1983); 3) misrepresentation or inadequate disclosure of prior art or other information, *see, e.g.*, Penn Yan Boats, Inc. v. Sea Lark Boats, Inc., 359 F.Supp. 948 (S.D. Fla. 1972), *aff'd*, 479 F.2d 1329 (5th Cir. 1973), *cert. denied*, 414 U.S. 874 (1973); 4) nondisclosure of material prior art, *see, e.g.*, Argus Chem. Corp. v. Fibre Glass-Evercoat Co., Inc., 759 F.2d 10 (Fed. Cir. 1985); 5) non-disclosure of evidence of prior public use and sale, *see, e.g.*, Walker Process Equip. Inc. v. Food Mach. Co., 382 U.S. 172 (1965).

11. *See* FMC Corp. v. Manitowoc Co., 835 F.2d 1411 (Fed. Cir. 1987); *In Re Harita*, 847 F.2d 801 (Fed. Cir. 1988). These decisions are discussed in detail, *see infra* text accompanying notes 64-90.

12. *See infra* text accompanying notes 102 to 106 for the PTO's most recent policy changes regarding inequitable conduct.

thus furthering the primary purposes of the patent system.

I. BACKGROUND - THE EVOLUTION OF THE INEQUITABLE CONDUCT DOCTRINE

A. *Merging Common Law Fraud and the Doctrine of "Unclean Hands"*

Common law fraud exists when the following elements are proved: (1) a representation of a material fact; (2) the falsity of that representation; (3) the intent to deceive or, at least, a state of mind so reckless as to the consequences that it is held to be the equivalent of intent (scienter); (4) justifiable reliance upon the misrepresentation by the party deceived which induces him to act thereon; and (5) injury to the party deceived as a result of his reliance on the misrepresentation.¹³ The first patent legislation in the United States, the Patent Act of 1790, allowed individuals to sue for cancellation of a fraudulently procured patent.¹⁴ However, this private right of action was removed from the statute by the Patent Act of 1836.¹⁵ From that time until 1933, only suits by the government to cancel a fraudulently procured patent were recognized.¹⁶

In 1933, the Supreme Court, in *Keystone Driller Co. v. General Excavator Co.*,¹⁷ allowed equitable relief to a private individual defendant in a patent infringement action based on a fraudulently procured patent. The Court's reasoning incorporated the equitable doctrine of "unclean hands," which forbids equitable relief to one who has acted in bad faith.¹⁸ This doctrine originally developed in the English courts of chancery and paralleled the development of the doctrine of fraud in the common law courts.¹⁹ The standard of conduct necessary to secure a remedy under each of the doctrines is essentially the same.²⁰

In 1945, the U.S. Supreme Court established fraud in patent pro-

13. W. KEETON, D. DOBBS, R. KEETON & D. OWEN, *PROSSER AND KEETON ON TORTS* §§ 100-05 (5th ed. 1984); 37 C.J.S. *Fraud* § 3 (1943).

14. Patent Act of 1790, ch. 7, § 5, 1 Stat. 109, 111. This provision was also carried forth in the Patent Act of 1793, ch. 11, § 10, 1 Stat. 318, 323.

15. See Patent Act of 1836, ch. 357, § 16, 5 Stat. 117, 123. See also *Rubber Co. v. Goodyear*, 76 U.S. (9 Wall.) 788, 797 (1870) ("[T]he intention of Congress [was] not to allow a patent to be abrogated in any collateral proceeding")

16. See, e.g., *Mowry v. Whitney*, 81 U.S. (14 Wall.) 434 (1871) (action to cancel a patent by private individual denied even though patent was procured by means of a fraud); *United States v. American Bell Tel. Co.*, 128 U.S. 315, 370 (1888) (government has a "duty to correct this evil, to recall these patents, to get a remedy for this fraud").

17. 290 U.S. 240 (1933).

18. See generally *RESTATEMENT (SECOND) OF TORTS* § 940 (1979).

19. Ram, *Patent Fraud: A New Defense?*, 54 J. PAT. OFF. SOC'Y 363, 365 (1972).

20. *Id.* at 365-66.

curement as a defense to charges of patent infringement.²¹ This defense was not used extensively, however, until 1965, when the Supreme Court, in *Walker Process Equipment, Inc v. Food Machinery & Chemical Corp.*,²² held that a patent procured by fraud was an illegal monopoly that could be the basis of an antitrust action under section two of the Sherman Act.²³

The analyses of early cases examining the duty of disclosure to the PTO merged common law fraud and the equitable doctrine of unclean hands.²⁴ The pioneer case discussing these issues was *Norton v. Curtiss*.²⁵ In *Norton*, the Court of Custom and Patent Appeals affirmed a decision of the Commissioner refusing to strike an application under the then applicable version of PTO Rule 56.²⁶ The court based its analysis upon the five element common law fraud standard.²⁷ The court then modified certain of those elements to fit the patent law context, merging the doctrines of fraud and unclean hands.²⁸ It concluded that "[a] court might still evade the evidence in light of the traditional elements of technical fraud, but will now include a broader range of

21. *Precision Instr. Mfg. Co. v. Automotive Maint. Mach. Co.*, 324 U.S. 806 (1945).

22. 382 U.S. 172 (1965).

23. 15 U.S.C. §§ 1-7 (1982).

24. *See, e.g., Norton v. Curtiss*, 433 F.2d 779 (C.C.P.A. 1970); *In re Clark*, 522 F.2d 623 (C.C.P.A. 1975). Such a duty exists because of the ex parte nature of patent prosecution and the public interest in ensuring that only valid patents issue.

25. 433 F.2d 779 (C.C.P.A. 1970).

26. 35 C.F.R. § 1.56 (1970). The rule at that time provided:

56. *Improper applications.* Any application signed or sworn to in blank, or without actual inspection by the applicant, and any application altered or partly filled in after being signed or sworn to, and also any application *fraudulently* filed or in connection with which any *fraud* is practiced or attempted on the Patent Office, may be stricken from the files.

Id. (emphasis added).

27. 433 F.2d at 793. The court first noted that "traditionally, the concept of fraud has most often been used by the courts, in general, to refer to a type of conduct so reprehensible that it could alone form the basis of an actionable wrong . . ." *Id.* at 792.

28. *Id.* at 793. The court explained:

But the term "fraud" is also commonly used to define that conduct which may be raised as a defense in an action at equity for enforcement of a specific obligation. In this context, it is evident that the concept takes on a whole new scope. . . . However, in these situations, failure, for one reason or another, to satisfy all the elements of the technical offense often will not necessarily result in a holding of "no fraud." Rather the courts appear to look at the equities of the particular case and determine whether the conduct before them—which might have been admittedly less than fraudulent in the technical sense—was still so reprehensible as to justify the court's refusing to enforce the rights of the party guilty of such conduct. It might be said that *in such instances the concept of fraud becomes intermingled with the equitable conduct of "unclean hands."*

Id. (emphasis added.)

The elements of common law fraud modified by the court included materiality, intent, and injury. *Id.* at 794-96.

conduct within each of those elements, giving consideration to the equities involved in the particular case."²⁹ Thus, the court relaxed the fraud requirement actions dealing with patent procurement. However, the court retained the rigid intent element of fraud, explaining that "[t]he state of mind of the one making the representations is probably the most important of the elements to be considered in determining the existence of fraud."³⁰

Even though the *Norton* decision merged the doctrines of unclean hands and fraud to achieve a more workable fraud standard of proof for patent cases, there were numerous conflicts regarding the intent requirement and the duty to disclose.³¹ Many courts had held that the inequitable conduct defense required both knowledge and intent to conceal.³² Other courts had held that a patent may be invalid regardless of this intent.³³ In 1977, the PTO attempted to resolve these conflicts by promulgating rules based on existing office policy regarding fraud and inequitable conduct, which the PTO found consistent with the then prevailing case law in the federal courts.³⁴ Rule 1.56 made punishable both affirmative misrepresentations³⁵ and "material" omissions³⁶ in patent procurement. It was felt that Rule 1.56 would have a stabilizing effect on future decisions and that it would also offer guidance to the

29. *Id.*

30. *Id.* at 795.

31. See Markey, *The Phoenix Court*, 10 AIPLA Q.J. 227, 233 (1982).

32. See, e.g., *Carter-Wallace, Inc. v. Riverton Laboratories, Inc.*, 433 F.2d 1034 (2nd Cir. 1970); *Benger Laboratories, Ltd. v. R.K. Laros, Co.*, 317 F.2d 455 (3d Cir. 1963), *cert. denied*, 375 U.S. 833.

33. See, e.g., *Dale Electronics, Inc. v. R.C.L. Electronics, Inc.*, 488 F.2d 382 (1st. Cir. 1973); *Union Carbide Corp. v. Borg-Warner Corp.*, 550 F.2d 355 (6th Cir. 1977).

34. See *Duty of Disclosure; Striking of Applications*, 37 C.F.R. § 1.56 (a), (d) (1978), which provides:

(a) A duty of candor and good faith toward the Patent and Trademark Office rests on the inventor, on each attorney or agent who prepares or prosecutes the application, and on every other individual who is substantively involved in the preparation or prosecution of the application and who is associated with the inventor, with the assignee or with anyone to whom there is an obligation to assign the application. All such individuals have a duty to disclose to the Office information they are aware of which is material to the examination of the application. Such information is material where there is a substantial likelihood that a reasonable examiner would consider it important in deciding whether to allow the application to issue as a patent. The duty is commensurate with the degree of involvement in the preparation of prosecution or the application.

* * *

(d) An application shall be stricken from the files if it is established by clear and convincing evidence that any fraud was practiced or attempted on the Office in connection with the application, or in connection with it or that there was any violation of the duty of disclosure through bad faith or gross negligence.

Id.

35. See *id.* § 1.56(d).

36. See *id.* § 1.56(a).

courts.³⁷ However, the rule did not stabilize the standard for proving inequitable conduct, and the wording of the rule has been widely criticized for vagueness.³⁸ Thus, the Court of Appeals for the Federal Circuit faced the challenge of clarifying patent laws and resolving conflicts between courts, and between the courts and the PTO.

B. *The Establishment of the Court of Appeals for the Federal Circuit*

The Court of Appeals for the Federal Circuit was formed in 1982 by merging the Court of Customs and Patent Appeals and the Court of Claims. Congress established the CAFC as a court with exclusive appellate jurisdiction over all patent cases on appeal from the federal district courts.³⁹ It was expected that uniformity and reliability in the interpretation and application of patent law would result, and that forum shopping among the circuits would cease.⁴⁰ While the CAFC has established uniformity in many areas of patent law, it has not yet reached a consensus as to the bounds and parameters of prohibited conduct before the United States Patent and Trademark Office concerning both *ex parte* and *inter partes* matters.⁴¹ For this reason, until recently the standard of proof for inequitable conduct, especially with respect to the intent element, remained an area of enormous uncertainty to attorney and client alike. The most recent CAFC decisions involving inequitable conduct have done much to dispel this uncertainty.⁴²

37. PATENT AND TRADEMARK OFFICE, MANUAL OF PATENT EXAMINING PROCEDURE § 2010 (Rev. 3, May 1986).

38. See *Proposed Resolution 403-1 on Duty of Disclosure*, ABA SEC. PAT., TRADEMARK & COPYRIGHT L. COMM. REP., 252, 253 (1988); *Resolution 502-1 on Duty of Disclosure*, ABA SEC. PAT., TRADEMARK & COPYRIGHT L. COMM. REP., 67, 68 (1987); Adamo & Ducatman, *The Status of the Rules of Prohibited Conduct Before the Office: "Violation of the Duty of Disclosure" Out of "Inequitable Conduct" by "Fraud"*, 68 J. PAT. OFF. SOC'Y 193, 205 n.14 (1986).

39. 28 U.S.C. § 1295 (1982). When jurisdiction in the district court rested wholly or in part on the patent portion of 28 U.S.C. 1338 (1982), or on certain subsections of 28 U.S.C. 1346 (1982) not relating to taxes, the judgements in those cases are appealable exclusively to the Court of Appeals for the Federal Circuit. The Federal Circuit also has jurisdiction over appeals from the Board of Patent Appeals and Interferences. 35 U.S.C. § 141 (1985). However, after an adverse decision from the Board of Patent Appeals and Interferences, the dissatisfied applicant may alternatively sue the Commissioner of Patents and Trademarks in the United States District Court for the District of Columbia; the decision must thereafter be appealed to the Federal Circuit. 35 U.S.C. § 145 (1982).

40. S. REP. NO. 275, 97th Cong., 2d Sess. 2 (1982), *reprinted in*, 1982 U.S. CODE CONG. & ADMIN. NEWS 11, 14.

41. The reason for this lack of consensus is not due to the infrequency of addressing the issue of inequitable conduct. The CAFC has addressed inequitable conduct extensively. See *infra* table accompanying notes 91 to 102.

42. See *generally infra* text accompanying notes 61 to 111.

C. Application of the Inequitable Conduct Doctrine in the CAFC

In its early decisions, the CAFC adopted the modified five element *prima facie* standard of inequitable conduct articulated in *Norton v. Curtiss*.⁴³ In *Kansas Jack, Inc. v. Kuhn*,⁴⁴ the court further delineated the standard:

Fraud must be proved by clear and convincing evidence, and the party asserting it carries a heavy burden *The intent element of fraud, however, may be proven by a showing of acts the natural consequences of which are presumably intended by the actor. Statements made with gross negligence as to their truth may establish such intent.* . . . The duty of candor owed the PTO being uncompromising, it would deal a deathblow to that duty if direct proof of wrongful intent were required. At the same time, that something thought to be true when stated, or a piece of prior art thought unimportant to the PTO's decision, was later determined to have been untrue or important, will not automatically and alone establish that fraud or inequitable conduct occurred.

* * *

Where one who knew, or should have known, that a piece of prior art, or other information, would be material, i.e., important to the PTO in making its decision, a failure to disclose that art or information can be sufficient proof that a wrongful intent existed to mislead the PTO, and may result in a finding of what has come to be called "fraud" on the PTO.⁴⁵

The court did not deviate from this standard until early 1984, in the case of *American Hoist & Derrick v. Sowa & Sons, Inc.*⁴⁶ Judge Rich abandoned the *Norton v. Curtiss* standard and announced a balancing test comprising the elements of materiality and intent. The court stated that the jury must first decide whether the level of intent is convincing. Next, the court will balance intent in light of materiality to determine, as a matter of law, whether fraud on the PTO occurred.⁴⁷

43. See, e.g., *Kansas Jack, Inc. v. Kuhn*, 719 F.2d 1144, 1151-52 (Fed. Cir. 1983); *Orthopedic Equip. Co. v. All Orthopedic Appliances, Inc.*, 707 F.2d 1376, 1383-84 (Fed. Cir. 1983).

44. 719 F.2d 1144 (Fed. Cir. 1983).

45. *Id.* at 1151-52 (emphasis added).

46. 725 F.2d 1350 (Fed. Cir.), *cert denied*, 469 U.S. 821 (1984).

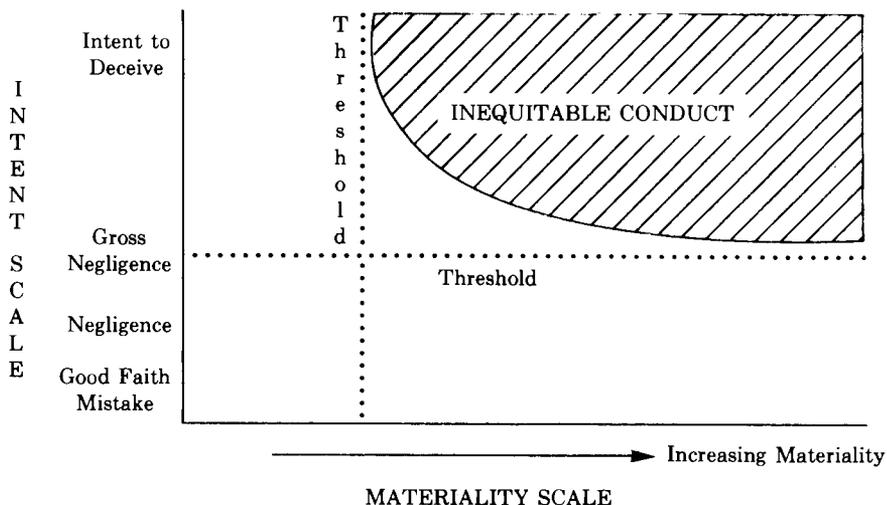
47. *Id.* at 1363-64. The court stated:

The jury must also determine how convincing has been the proof of intent, if at all. It should, therefore, be instructed that it may find a showing on this element to be lacking entirely or that it may find intent to have been shown by any relevant degree of proof—from inference to direct evidence, i.e., from gross negligence or recklessness to a deliberate scheming.

The considerations here are distinct from fraud as a common law cause of action. In the latter instance, it is usual that a jury can render a verdict for plaintiff by answering affirmatively the factual questions of (1) knowing (2) misrepresentation or omission (3)

The following graph more clearly represents the *American Hoist* balancing process:

MATERIALITY/INTENT RELATIONSHIP



The vertical axis shows the range of intent and the horizontal axis shows the range of materiality. First, the trier of fact must determine whether clear and convincing evidence establishes that the defendant's conduct reaches the threshold levels of materiality and intent.⁴⁸ If both

of a material ("important" or "inducing") fact, (4) intent, and (5) reliance by the party deceived (6) to his damage. It need only answer "yes" to these fact questions to find fraud.

Here, however, because an applicant's misrepresentation or failure to meet his "duty to disclose to the Office information . . . which is material" will not in itself render a patent invalid or unenforceable, see 37 C.F.R. § 1.56(a) and (d), "fraud" may be determined only by a careful balancing of intent in light of materiality. The result of that balancing is obviously not a fact that may be found to exist or not, nor is it a mere matter of application of the law to the facts, both normal jury functions. It requires that judicial discretion be brought to bear, and the district court shall decide it.

Id. (emphasis added).

Confirmation that the *Norton* standard no longer ruled in the Federal Circuit came in *Driscoll v. Cebalo*, 731 F.2d 878, 884-85 (Fed. Cir. 1984)(proof of reliance was not an element of "fraud on the Patent Office").

48. The *American Hoist* Court found the threshold level of materiality to be misconduct which "might reasonably have affected the examiner's decision as to patentability." *American Hoist*, 725 F.2d at 1362. This interpretation of materiality is similar to PTO Rule 56(a), which

thresholds are satisfied, then the court will decide, as a matter of law, whether inequitable conduct occurred in light of materiality and intent. A lesser degree of materiality requires a greater degree of intent. In contrast, a lesser degree of intent is required where the information has a great degree of materiality.⁴⁹ In essence, the summation of materiality and intent is used so that a large amount of one and a small amount of the other equal a sum which exceeds what may be considered the inequitable conduct boundary.⁵⁰

The balancing test has been used by the CAFC since *American Hoist*, and is still alive today.⁵¹ The *American Hoist* test has been criti-

provides that information "is material where there is a substantial likelihood that a reasonable examiner would consider it important in deciding whether to allow the application to issue as a patent." 37 C.F.R. § 1.56(a). This standard has also been applied in subsequent cases. *See, e.g., J.P. Stevens & Co. v. Lex Tex, Ltd.*, 747 F.2d 1553, 1559 (Fed. Cir. 1984), *cert. denied*, 474 U.S. 822 (1985); *FMC v. Manitowoc Co.*, 835 F.2d 1411, 1415 (Fed. Cir. 1987). Note that application of this standard has not been absolute. *See, e.g., Carella v. Starlight Archery*, 804 F.2d 135 (Fed. Cir. 1986)(information not material unless there is a clear showing that prior art would impact the determination of obviousness); *Rolls Royce Ltd. v. GTE Valeron Corp.*, 800 F.2d 1101 (Fed. Cir. 1986)(without looking for any other threshold for materiality the court found that a "merely cumulative" reference is not material).

The *American Hoist* court implied that threshold level of intent would at least be gross negligence. This threshold level of intent dropped to a simple negligence standard in subsequent cases and, more recently, has been raised to something close to an actual intent to deceive. *See infra* text accompanying notes 61 to 64.

The CAFC did not formally announce "threshold" levels as part of its analysis until *J.P. Stevens*. *Stevens*, 747 F.2d at 1559. However, threshold levels of intent and materiality were present in *American Hoist* and continue today. *Cf. Wegner, Inequitable Conduct and the Proper Roles of Patent Attorney and Examiner in an Era of International Patent Harmonization*, 16 AIPLA Q.J. 38, 62 (1988)(declaring that the CAFC's holding in *Manitowoc* abandons the balancing test and replaces it with a rebuttable three-element test).

It is also significant to note that the standards for both materiality and intent continue to be criticized and recently several proposals to change rule 56 were made. *Patent and Trademark Office Proposals to Modify Rules 56 and 97-99*, 16 AIPLA Q.J. 96 (1988). Efforts to modify Rule 56 were finally abandoned in October 1988, when the PTO decided that it would no longer investigate patent applications for inequitable conduct under Rule 56. *See infra* notes 102 to 106.

49. *See Kimberley-Clark Corp. v. Johnson & Johnson*, 745 F.2d 1437, 1455 (Fed. Cir. 1984)("wrongful intent may lower the materiality requirement."). In a way this is not really a balancing test. Materiality and intent are not balanced against each other but rather weighed together; it is clear that inequitable conduct may be found when both materiality and intent exist in a high degree. *See, e.g., In Re Jerabek*, 789 F.2d 886 (Fed. Cir. 1986). The "balancing test" seems simply to reserve the ultimate judgment to the courts.

50. This boundary is determined by the courts using their sense of equity. *See American Hoist*, 725 F.2d 1350, 1364 (Fed. Cir. 1984)("It requires that judicial discretion be brought to bear . . .").

51. *See Demaco Corp. v. F. Von Langsdorff Licensing, Ltd.*, 851 F.2d 1387, 1394 (Fed. Cir. 1988); *J.P. Stevens & Co. v. Lex Tex Ltd.*, 747 F.2d 1553, 1559 (Fed. Cir. 1984); *Hycor Corp. v. Schlueter Co.*, 740 F.2d 1529, 1537-41 (Fed. Cir. 1984); *Merck & Co., Inc. v. Biocraft Laboratories, Inc.*, 690 F.Supp. 1376, 1376 (D.N.J. 1988); *H. B. Fuller Co. v. National Starch and Chem. Corp.*, 689 F.Supp. 923, 932-34 (D. Minn. 1988); *Edwards v. Weinburger*, 688 F. Supp. 203, 217 (E.D. Vir. 1988).

cized by some commentators because its parameters and application vary greatly from case to case.⁵² It is easy to establish a standard using the important elements that must be considered; it is much more difficult to get that test to fit all situations involving inequitable conduct. However, even wide variances in the test's application seem consistent with Judge Rich's requirement that "judicial discretion be brought to bear. . . ."⁵³ By balancing materiality and intent the courts are allowed more discretion, which is proper for courts deciding cases which turn on equitable principles.⁵⁴

D. The Demise of Intent as an Element of Inequitable Conduct

Inequitable conduct, unlike fraud, does not require a showing of bad faith as part of the "intent" element.⁵⁵ The intent element of inequitable conduct has been satisfied by a showing of "gross negligence," which the CAFC defines as the failure to act as a "reasonable person," one who should have known of the materiality of a withheld reference.⁵⁶ For example, a reasonable person should know that "important" prior art should be disclosed. Therefore, the intent element is satisfied by merely showing that the omitted prior art was important.⁵⁷

52. See, e.g., Lynch, *An Argument for Eliminating the Defense of Patent Unenforceability Based on Inequitable Conduct*, 16 AIPLA Q.J. 7, 12 (1988). To see just how varying the application of the *American Hoist* test can be, see *KangaROOS U.S.A., Inc. v. Caldor Inc.*, 778 F.2d 1571 (Fed. Cir. 1985); *Haworth, Inc. v. Steelcase, Inc.*, 685 F. Supp 1422 (W.D. Mich. 1988).

53. *American Hoist*, 725 F.2d at 1364.

54. For a discussion of the incorporation of these equitable principles into the inequitable conduct defense, see *supra* notes 24 to 31 and accompanying text.

55. *Argus Chem. Corp. v. Fibre Glass-Evercoat Co., Inc.*, 759 F.2d 10, 14 (Fed. Cir. 1985).

56. *J.P. Stevens & Co. v. Lex Tex, Ltd.*, 747 F.2d 1553 (Fed. Cir. 1985). The court held that "[p]roof of deliberate scheming is not needed; gross negligence is sufficient. Gross negligence is present when the actor, judged as a reasonable person in his position, should have known of the materiality of the withheld reference. On the other hand, simple negligence, oversight, or an erroneous judgment made in good faith, is insufficient. *Id.* at 1560 (citations omitted). It is interesting to note that even though the court specifically stated that simple negligence was not enough to constitute inequitable conduct, its definition of gross negligence seemed to include simple negligence. Negligence is commonly understood to mean failure to act as a reasonable person would have acted in the same or similar circumstances. Gross negligence, on the other hand, is great negligence, that requires willful, wanton, or reckless misconduct, or evidence of utter lack of all care. See RESTATEMENT (SECOND) OF TORTS § 282 (1965); 57 AM. JUR. 2D *Negligence* § 99 (1971); 65 C.J.S. *Negligence* § 8(4)(1966); W. KEETON, D. DOBBS, R. KEETON & D. OWEN, PROSSER AND KEETON ON THE LAW OF TORTS, § 34 (5th ed. 1984). See also *Machinery Corp. of America v. Gullfiber AB*, 774 F.2d 467, 473 (Fed. Cir. 1985)(court stated with respect to gross negligence that, "The gross negligence standard has been defined as requiring willful, wanton, or reckless misconduct, or evidence of 'utter lack of all care.'"); *Hycor Corp. v. Schlueter Co.*, 740 F.2d 1529, 1540 (Fed. Cir. 1984).

57. *Argus Chem. Corp. v. Fibre Glass-Evercoat Co., Inc.*, 759 F.2d 10 (Fed. Cir. 1985)(court found the requisite intent to establish inequitable conduct because Argus's attorney should have known the importance of the withheld information). More recently the CAFC has

The relaxing of the intent requirement to a mere showing of gross negligence has caused inequitable conduct to become a popular defense.⁵⁸ The CAFC has often been willing to find inequitable conduct where the district court had rejected the defense. From the 1982 inception of the CAFC through 1988, the court wrote twelve opinions in favor of the accused infringer on the issue of inequitable conduct. Eight of those decisions were reversals of the district court's finding that inequitable conduct did not exist, and four affirmed the district court's findings of inequitable conduct.⁵⁹

Inequitable conduct, a charge that challenges the integrity of the patentee and his attorney, would seem to be an area of law similar to fraud where an appellate court gives more deference to the rulings of the District Court as compared to other non-fraud issues. But until recently, the opposite has been true.⁶⁰

Not only has the number of inequitable conduct claims increased in recent years, but additionally the focus of trials involving inequitable conduct issues has switched from trials primarily concerned with the

abandoned this approach. *Cf. Allen Archery, Inc. v. Browning Mfg. Co.*, 819 F.2d 1087, 1095 (Fed. Cir. 1987)(good faith belief that certain prior art was not material is sufficient to overcome a charge of inequitable conduct).

58. This popularity stems directly from the lowered intent standard, since historically the intent requirement in a fraud defense had been one of the elements most difficult to prove. The relaxed standard has prompted commentators to urge CAFC practitioners to liberally use the inequitable conduct defense. *See generally* Schwab, *Defending a Patent Case Under the Watchful Eye of the Federal Circuit*, 70 J. PAT. OFF. SOC'Y 100 (1988).

59. *See infra* chart accompanying notes 91 to 102.

60. One author has published staggering numbers. He says that the reversal rate on decisions favoring the alleged infringers involving inequitable conduct is 50% and that in decisions not involving inequitable conduct, the reversal rate is less than 10%. *See* Schwab, 70 J. PAT. OFF. SOC'Y at 105, 108. Another author suggests more conservative numbers. He wrote:

[A]n examination of the Federal Circuit rulings on inequitable conduct issues shows that, in the overwhelming majority of such cases, no inequitable conduct was found. The trial court's finding of no inequitable conduct was upheld in twenty-one cases and reversed only four times. A lower court finding of inequitable conduct is generally only found where, 'but for' the withholding of the information, the claims in issue would clearly not have issued or where there is very strong non-circumstantial evidence of a deliberate intent to deceive.

Pearson, *How To Keep Your Hands Clean - The Developing U.S. Law On Inequitable Conduct In Patent Prosecution*, 92 INTELL. PROP. J. 91, 99-100 (1987). The CAFC has recently resolved, in an *en banc* decision, that "inequitable conduct is committed to the discretion of the trial court and is reviewed by this court under an abuse of discretion standard." *Kingstown Medical Consultants v. Hollister, Inc.*, 863 F.2d 867, 876 (Fed. Cir. 1988). This resolution will ultimately reduce these reversal rates on inequitable conduct issues.

Assuming that the 10% reversal rate suggested by Mr. Schwab is correct, the more conservative numbers show that reversal rates involving inequitable conduct issues are double non-inequitable conduct issues. For an independent analysis in the CAFC's reversal rate on inequitable conduct, *see infra* text accompanying notes 91 to 102. Based on these numbers, it is not difficult to understand why so many inequitable conduct charges are raised.

merits of an invention to trials primarily concerned with the ethics or morals of those involved in prosecuting the patent.⁶¹ As a result, many courts have emphasized discouraging dishonest conduct in dealing with the PTO, but at the expense of encouraging invention and dissemination to the public, the primary purposes of the patent system.⁶² To establish a standard that encourages litigation and deflects the attention of the court away from the merits of an invention, the primary purposes of the patent system are unnecessarily compromised.⁶³

II. THE IMPACT OF RECENT CAFC DECISIONS ON THE ELEMENT OF INTENT

A. *The Return of Intent as One of the Two Elements in a Prima Facie "Violation of Duty" Case*

In two recent decisions, the CAFC again began to require a greater showing of intent to mislead before finding that inequitable conduct occurred. In both *FMC Corp. v. Manitowoc Co.*,⁶⁴ and *In re Harita*,⁶⁵ the CAFC modified the intent threshold by raising the required level of proof of intent to mislead the PTO from gross negligence to an actual intent to mislead.⁶⁶ These decisions will have a long-lasting effect on the manner in which the PTO deals with inequitable conduct. Perhaps more importantly, the decisions reflect a concern noted by many judges that the inequitable conduct defense is overused, wastes resources, and frustrates the primary purposes of the patent

61. See generally, Chism, *Patent Law and the Presumption of Moral Regularity: A Critical Review of Recent Federal Circuit Decisions on Inequitable Conduct and Willful Infringement*, J. PAT. OFF. SOC'Y 27 (1987).

62. The CAFC has, in some cases, been aware of this overemphasis and their decisions reflect a desire to reduce it. See, e.g., *Rohm & Haas Co. v. Crystal Chem.*, 722 F.2d 1556, 1571 (Fed. Cir. 1983) which said:

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

Id. (emphasis added).

63. It is the author's contention that these policies are not mutually exclusive; that a standard for inequitable conduct exists which will allow discouragement of fraud in the PTO while encouraging disclosure of inventions.

64. 835 F.2d 1411 (Fed. Cir. 1987).

65. 847 F.2d 801 (Fed. Cir. 1988).

66. One other case that fits into this category is *FMC Corp. v. Hennessy Indus., Inc.*, 836 F.2d 521 (Fed. Cir. 1987). In *Hennessy*, the CAFC held that the non-disclosure of facts of facts of an "on sale" was not sufficient to satisfy the inequitable conduct defense.

system.⁶⁷

1. *FMC Corp. v. Manitowoc Co.*

a. Background. FMC filed suit against Manitowoc for a declaratory judgment that its heavy lift cranes did not infringe Manitowoc's patent and that Manitowoc's patent was invalid.⁶⁸ FMC also alleged that Manitowoc's threatened enforcement of the patent constituted unfair competition because "FMC was forced to 'design around' [a] patent procured through inequitable conduct."⁶⁹ The charge that alleged the patentee had not disclosed information that constituted prior art publication. At trial, the patent owner presented evidence that he did not believe that the information in question constituted art that required disclosure. Based on this evidence, the trial court found that the patentee lacked intent to mislead the PTO.⁷⁰

b. The CAFC's reasoning. Chief Judge Markey devoted most of his opinion to the issue of inequitable conduct and ultimately established when the invocation of an inequitable conduct claim is proper. The court stated that:

"Inequitable conduct" is not, or should not be, a magic incantation to

67. See, e.g., *Burlington Indus., Inc. v. Dayco Corp.* 849 F.2d 1418, 1422 (Fed. Cir. 1988). The *Dayco* court noted:

We add one final word: the habit of charging inequitable conduct in almost every major patent case has become an absolute plague. Reputable lawyers seem to feel compelled to make the charge against other reputable lawyers on the slenderest grounds, to represent their client's interests adequately, perhaps. They get anywhere with the accusation in but a small percentage of the cases, but such charges are not inconsequential on that account. They destroy the respect for one another's integrity, for being fellow members of an honorable profession, that used to make the bar a valuable help to the courts in making a sound disposition of their cases, and to sustain the good name of the bar itself. A patent litigant should be made to feel, therefore, that an unsupported charge of "inequitable conduct in the Patent Office" is a negative contribution to the rightful administration of justice. The charge was formerly known as "fraud on the Patent Office," a more pejorative term, but the change of name does not make the thing itself smell any sweeter. Even after complete testimony the court should find inequitable conduct only if shown by clear and convincing evidence. A *summary judgment* that a reputable attorney has been guilty of inequitable conduct, over his denials, ought to be, and can properly be, rare indeed.

Id. See also *Kimberly-Clark v. Johnson & Johnson*, 745 F.2d 1437, 1454 (Fed. Cir. 1984) ("'Fraud in the PTO' has been overplayed, is appearing in nearly every patent suit, and is cluttering up the patent system.").

68. *Manitowoc*, 835 F.2d at 1412. The challenged patent was U.S. Patent No. 3,485,383 ('383).

69. Manitowoc responded by initiating a separate suit against FMC for infringement, and FMC counterclaimed for antitrust violations. The cases were consolidated in this action, but the only issue discussed here is the inequitable conduct claim.

70. *Id.* at 1415.

be asserted against every patentee. Nor is that allegation established upon a mere showing that art or information having some degree of materiality was not disclosed. To be guilty of inequitable conduct, one must have intended to act inequitably. Thus, one who alleges a "failure to disclose" form of inequitable conduct must offer clear and convincing proof of: (1) prior art or information that is material; (2) knowledge chargeable to applicant of that prior art or information and of its materiality; and (3) failure of the applicant to disclose the art or information resulting from an intent to mislead the PTO.⁷¹

Judge Markey explained that this proof may be rebutted by a good faith showing that the applicant's failure to disclose art or information did not result from an intent to mislead the PTO.⁷² The court applied the *American Hoist* balancing test, but added an interesting twist; it held that "[t]he level of materiality may be high or low . . .", but the "[a]pplicant must be chargeable with knowledge of the existence of the prior art or information, for it is impossible to disclose the unknown."⁷³ The court further weakened the gross negligence standard by stating that

an applicant who knew or should have known of the art or information, and of its materiality, is not automatically precluded thereby from an effort to convince the fact finder that the failure to disclose was nonetheless not due to an intent to mislead the PTO; i.e., that, in light of all the circumstances of the case, an inference of intent to mislead is not warranted.⁷⁴

The court strengthened the notion that subjective good faith will cure a suspected inequitable conduct charge.⁷⁵ In essence, it established

71. *Id.*

72. *Id.* The court stated that:

That proof may be rebutted by a showing that: (a) the prior art or information was not material (e.g. because it is less pertinent than or merely cumulative with prior art or information cited to or by the PTO); (b) if the prior art or information was material, a showing that applicant did not know of that art or information; (c) if applicant did know of that art or information, a showing that applicant did not know of its materiality; (d) a showing that applicant's failure to disclose art or information did not result from an intent to mislead the PTO.

Id.

73. *Id.*

74. *Id.* at 1416.

75. The court reasoned that:

No single factor or combination of factors can be said always to *require* an inference of intent to mislead; yet a patentee facing a high level of materiality and clear proof that it knew or should have known of that materiality, can expect to find it difficult to establish "subjective good faith" sufficient to prevent the drawing of an inference of intent to mislead. A mere denial of intent to mislead (which would defeat every effort to establish inequitable conduct) will not suffice in such circumstances. Nonetheless, when, as here, the district court finds, on all the evidence, that an applicant had no knowledge of

that once it is shown the applicant should have known of the materiality of certain information, the burden of proof as to intent to mislead the PTO shifts to the applicant. The applicant may then successfully challenge the claim by showing that he acted in good faith with no knowledge of the art's materiality.

2. *In Re Harita*

a. Background. Mr. Harita and five other employees of Kissei Pharmaceutical Co., a Japanese company, are the inventors listed for a patent issued in 1976.⁷⁶ The patent was filed by an American patent attorney on behalf of Kissei's patent attorney, Mr. Agata. Mr. Agata later received notice of an action by the French patent office which cited a reference⁷⁷ that disclosed compounds within the scope of the claims of the U.S. application. He notified Kissei, which made a further search and found other prior art on which the U.S. claims relied. When Kissei asked Mr. Agata whether the additional prior art should be called to the attention of the United States PTO, he replied that it should not.⁷⁸ After the patent issued, Kissei learned that Mr. Agata's advice had been wrong. They took steps to file a reissue application through new U.S. attorneys.⁷⁹

In 1979, the pending reissue application was referred to the special program examiner at the PTO. After four and a half years of additional investigation, the program examiner rejected certain of the claims on the sole ground that Mr. Agata did not disclose the newly discovered art to the PTO before the patent issued. He based his decision on PTO Rule 1.56(d).⁸⁰

Harita appealed the special program examiner's finding of inequitable conduct to the Board of Patent Appeals and Interferences, which

materiality, that that lack of knowledge was not due to gross negligence, and that applicant had no intent to mislead the PTO, the burden on an appellant attempting to overturn those findings is not met by mere argument that undisclosed art or information known to the applicant was material.

Id.

76. *In re Harita* 847 F.2d 801, 804 (Fed. Cir. 1988). The patent claimed "a group of compounds useful for treating asthma, hay fever, etc." *Id.*

77. *Id.* (citing CHEMICAL ABSTRACTS Vol. 71 No 3354V (1969)).

78. *Harita*, 847 F.2d at 804.

79. *Id.* at 805. The ground for reissue was that the patent was "inoperative", within the meaning of 35 U.S.C. § 251 (1982), to protect the invention "by reason of the patentee claiming more . . . than he had a right to claim in the patent".

80. *Id.* at 806. Rule 56(d) provides that "an application shall be stricken from the record if it is established by clear and convincing evidence that any fraud was practiced or attempted on the Office in connection with it or that there was any violation of the duty of disclosure through bad faith or gross negligence." 37 C.F.R § 1.56(d) (1977).

affirmed the finding by simply adopting and attaching the examiner's brief to its short opinion.⁸¹ Harita then appealed to the U.S. Court of Appeals for the Federal Circuit.

b. The CAFC's reasoning. The CAFC emphasized that its decision was fact specific and that the standard of inequitable conduct that should be applied is the standard existing at the time the original patent issued.⁸² The court stated that the only issue in this case is whether the PTO established that the Japanese attorney, Mr. Agata, had an intent to mislead the PTO. The Court concluded that although the Board found that Mr. Agata had been grossly negligent in his failure to report the prior art to the PTO, such a vague concept should not, without more, imply an intent to mislead. It reversed the prior decisions of the PTO because, in its view, an intent to mislead had not been adequately proved.⁸³ Judge Rich stated, "[w]e think we should not infer merely from some vague thing called 'gross negligence' an intent which it was the PTO's obligation to establish and especially that we should not infer it in light of detailed rules of procedure enacted long after the events in this case took place."⁸⁴ In making these conclusions, it referred to the court's previous decision in *FMC Corp. v. Manitowoc*.⁸⁵ The court also found that for Mr. Agata to be guilty of inequitable conduct, he must have intended to act inequitably.⁸⁶

In a dissenting opinion, Judge Davis stated that Mr. Agata was guilty of at least gross negligence and therefore inequitable conduct. The American patent attorney prosecuting the original patent application before the PTO wrote two letters to the Japanese attorney, "each cautioning that a newly-found (but prior) disclosure of a compound within the scope of the application's claims would invalidate those claims."⁸⁷ Such material claims became known to Mr. Harita, but he told the inventors that it was not necessary to call that prior art to the attention of the PTO. He also knew that a voluntary amendment (correcting a claim that had been too broadly or inartfully drafted) was permissible in the U.S. patent practice.

81. See *Ex Parte Harita*, 1 USPQ 2d 1887 (U.S. Pat. Off. 1987); *Harita*, 847 F.2d at 803.

82. *Id.* at 807. The court stated that its decision was made "with no intent whatsoever to create a precedent applicable to different fact situations." Although setting precedent was not the intention of the court, the case created a strong precedent, as evidenced by the PTO's attention to *Harita*. See *infra* text accompanying notes 106-111.

83. *Id.* at 808.

84. *Id.* at 809.

85. 835 F.2d 1411 (Fed. Cir. 1987). See *supra*, notes 68-75 and accompanying text.

86. The court based this conclusion on the language in *Manitowoc, Id.* at 1415. ("'Inequitable conduct' is not . . . some magic incantation to be asserted against every patentee. . . . To be guilty of inequitable conduct, one must have intended to act inequitably.")

87. *Harita*, 847 F.2d. at 810.

To Judge Davis, Mr. Agata's conduct amounted to gross negligence, "at the very least."⁸⁸ He stated that "[g]ross negligence" is one form of inequitable conduct specified in the July 1982 Patent rule embodied in 37 C.F.R. § 1.56(d), and this court has accepted that foundation for showing the proper measure of intent, especially where, as here, there is a high level of materiality."⁸⁹ By balancing materiality and intent, both of which he found to exist in high measures, Judge Davis concluded that inequitable conduct occurred when Mr. Agata failed to disclose the reference.⁹⁰

B. *The Effect of FMC and Harita*

Both *FMC* and *Harita* require the party alleging inequitable conduct to bring forth evidence that proves an actual intent to mislead the PTO. This approach raises the required threshold level of intent from the gross negligence standard to proof nearer an actual intent to deceive.⁹¹ The immediate effect of these decisions will be to substantially increase the burden on those charging a patentee with fraud. The long-term effect will be litigation that is more consistent with the purposes of the patent system.⁹²

Based purely on statistics, the CAFC has not been hospitable to inequitable conduct charges.⁹³ (See the table below.)⁹⁴

88. *Id.*

89. *Id.* Judge Davis also explained that in 1975-76 the basis for finding inequitable conduct included gross negligence, and that precedent suggests that the later versions of Rule 56 generally embody the PTO policy as it earlier existed. See *In re Clark*, 522 F.2d 623, 627 (C.C.P.A. 1975); *Driscoll v. Cebalo*, 731 F.2d 878 (1984).

Judge Davis' dissent is persuasive in that it followed CAFC precedent, absent the *FMC* decision. The CAFC adopted the precedents of the Court of Customs and Patent Appeals and indicated that it would not overrule applicable precedents except by *en banc* consideration. *South Corp. v. United States*, 690 F.2d 1368, 1370 n.2 (Fed. Cir. 1982)(*en banc*). Both *FMC* and *Harita* were decided by three-judge panels. However, the *en banc* decision affirming these inequitable conduct decisions in *Harita* and *FMC* was not long in coming. In *Kingstown Medical Consultant v. Hollister, Inc.*, 863 F.2d 867 (Fed. Cir. 1988), the court in a separate part of the decision made a "Resolution of Conflicting Precedent" and held that "'gross negligence' does not of itself justify an inference of intent to deceive; the involved conduct, viewed in light of all the evidence, including evidence indicative of good faith, must indicate sufficient culpability to require a finding of intent to deceive." *Id.* at 876.

90. *Harita*, 847 F.2d at 811 (citing *In re Jerabek*, 789 F.2d 886, 891 (Fed. Cir. 1986)).

91. By referring to the graph, see *supra* text accompanying notes 47-50, one can see that this effectively reduces the area, i.e. the number of inequitable conduct cases, in which the CAFC will find inequitable conduct.

92. For the practical effects of *Harita* and *Manitowoc*, see *infra* text accompanying notes 108-111.

93. Statistics, however, do not tell the full story. For a more meaningful analysis, one must make a qualitative, not merely a quantitative analysis. This comment shows that the threshold level of intent has increased from what may be considered a 'simple negligence' standard to somewhere near an 'actual intent to mislead' standard. This substantively demonstrates that the CAFC

CAFC Decisions on Inequitable Conduct

	Number of Cases involving Inequitable Conduct	Number Reversed By CAFC	Percent, %
Where Lower Court or Agency Found Inequitable Conduct			
Since 1982 (Beginning of CAFC):	18 ⁹⁶	13 ⁹⁶	72
1988:	3 ⁹⁷	3 ⁹⁸	100
Inequitable Conduct Issue Raised But Lower Court or Agency Rejected			
Since 1982 (Beginning of CAFC):	33 ⁹⁹	7 ¹⁰⁰	21
1988:	8 ¹⁰¹	2 ¹⁰²	25
TOTAL	51	21	

is less hospitable to fraud as compared to previous years.

94. Note that the table only takes into account published opinions through 1988 that address inequitable conduct on appeal to the CAFC. Inequitable conduct is alleged in many cases but is rejected in most of them. *See Dunner, Inequitable Conduct: Is the Sky Falling?* 16 AIPLA Q.J. 27, 28-29 (1988)(Inequitable conduct charges are rejected 75% of the time at the district court level and 91% of the time at the PTO.

95. *Demaco Corp. v. F. Von Langsdorff Licensing Ltd.*, 851 F.2d 1387 (Fed. Cir. 1988); *Burlington Indus., Inc. v. Dayco Corp.*, 849 F.2d 1418 (Fed. Cir. 1988); *Harita*, 847 F.2d 801 (Fed. Cir. 1988); *Baker Oil Tools, Inc. v. Geo Vann, Inc.*, 828 F.2d 1558 (Fed. Cir. 1987); *Jaskiewicz v. Mossinghoff*, 822 F.2d 1053 (Fed. Cir. 1987); *Gardco Mfg. Inc. v. Herst Lighting Co.*, 820 F.2d 1209 (Fed. Cir. 1987); *A.B. Dick Co. v. Burroughs Corp.*, 798 F.2d 1392 (Fed. Cir. 1986); *In re Jerabek*, 789 F.2d 886 (Fed. Cir. 1986); *KangaROOS U.S.A., Inc. v. Caldor, Inc.*, 778 F.2d 1571 (Fed. Cir. 1985); *Reactive Metals & Alloys Corp. v. ESM, Inc.*, 769 F.2d 1578 (Fed. Cir. 1985); *State Indus., Inc. v. Rheem Mfg. Co.*, 769 F.2d 762 (Fed. Cir. 1985); *Korody-Colyer Corp. v. General Motors Corp.*, 760 F.2d 1293 (Fed. Cir. 1985); *Litton Indus. Prod., Inc. v. Solid State Sys. Corp.*, 755 F.2d 158 (Fed. Cir. 1985); *In re Mark Indus.*, 751 F.2d 1219 (Fed. Cir. 1984); *Kimberly-Clark Corp. v. Johnson & Johnson*, 745 F.2d 1437 (Fed. Cir. 1984); *Hycor Corp. v. Schlueter Co.*, 740 F.2d 1529 (Fed. Cir. 1984); *American Hoist & Derrick Co. v. Sowa & Sons, Inc.*, 725 F.2d 1350 (Fed. Cir. 1984); *Rohm & Haas Co. v. Crystal Chem Co.*, 722 F.2d 1556 (Fed. Cir. 1983).

96. *Demaco Corp. v. F. Von Langsdorff Licensing Ltd.*, 851 F.2d 1387 (Fed. Cir. 1988); *Burlington Indus., Inc. v. Dayco Corp.*, 849 F.2d 1418 (Fed. Cir. 1988); *Harita*, 847 F.2d 801 (Fed. Cir. 1988); *Baker Oil Tools, Inc. v. Geo Vann, Inc.*, 828 F.2d 1558 (Fed. Cir. 1987); *Jaskiewicz v. Mossinghoff*, 822 F.2d 1053 (Fed. Cir. 1987); *KangaROOS U.S.A., Inc. v. Caldor, Inc.*, 778 F.2d 1571 (Fed. Cir. 1985); *State Indus., Inc. v. Rheem Mfg. Co.*, 769 F.2d 762 (Fed. Cir. 1985); *Litton Indus. Prod., Inc. v. Solid State Sys. Corp.*, 755 F.2d 158 (Fed. Cir. 1985); *In re Mark Indus.*, 751 F.2d 1219 (Fed. Cir. 1984); *Kimberly-Clark Corp. v. Johnson & Johnson*, 745 F.2d 27 (Fed. Cir. 1984); *Hycor Corp. v. Schlueter Co.*, 740 F.2d 1529 (Fed. Cir. 1984); *American Hoist & Derrick Co. v. Sowa & Sons, Inc.*, 725 F.2d 1350 (Fed. Cir. 1984); *Rohm & Haas Co. v. Crystal Chem Co.*, 722 F.2d 1556 (Fed. Cir. 1983).

97. *Demaco Corp. v. F. Von Langsdorff Licensing Ltd.*, 851 F.2d 1387 (Fed. Cir. 1988); *Burlington Indus., Inc. v. Dayco Corp.*, 849 F.2d 1418 (Fed. Cir. 1988); *Harita*, 847 F.2d 801 (Fed. Cir. 1988).

98. *Demaco Corp. v. F. Von Langsdorff Licensing Ltd.*, 851 F.2d 1387 (Fed. Cir. 1988); *Burlington Indus., Inc. v. Dayco Corp.*, 849 F.2d 1418 (Fed. Cir. 1988); *Harita*, 847 F.2d 801 (Fed. Cir. 1988).

Through 1988, the CAFC has heard appeals on issues concerning inequitable conduct in 51 cases. The reversal rate in cases where the lower court or agency found inequitable conduct is 72%. In cases where the lower court or agency rejected allegations of inequitable conduct, the CAFC's reversal rate is only 21%.¹⁰³ This indicates that the chances of a reversal following a trial court's finding of inequitable conduct are significantly greater than reversing a finding of no inequitable conduct.

99. *Smithkline Diagnostics, Inc. v. Helena Laboratories Corp.* 859 F.2d 878 (Fed. Cir. 1988); *A.B Chance Co. v. RTE Corp.* 854 F.2d 1307 (Fed. Cir. 1988); *E.I. Dupont De Nemours & Co. v. Phillips Petroleum Co.*, 849 F.2d 1430 (Fed. Cir. 1988); *Buildex Inc. v. Kason Indus., Inc.*, 849 F.2d 1461 (Fed. Cir. 1988); *Andrew Corp. v. Gabriel Elec., Inc.*, 847 F.2d 819 (Fed. Cir. 1988); *Specialty Composites v. Cabot Corp.*, 845 F.2d 981 (Fed. Cir. 1988); *Grain Processing Corp. v. American Maize-Products Co.*, 840 F.2d 902 (Fed. Cir. 1988); *Allen Organ Co. v. Kimball Int'l, Inc.*, 839 F.2d 1556 (Fed. Cir. 1988); *FMC Corp. v. Hennessy Indus., Inc.*, 836 F.2d 521 (Fed. Cir. 1987); *FMC Corp. v. Manitowoc Co.*, 835 F.2d 1411 (Fed. Cir. 1987); *Under Sea Indus., Inc. v. Dacor Corp.*, 833 F.2d 1551 (Fed. Cir. 1987); *Sweats Fashions, Inc. v. Pannill Knitting Co.*, 833 F.2d 1560 (Fed. Cir. 1987); *Perini Am., Inc. v. Paper Converting Mach. Co.*, 832 F.2d 581 (Fed. Cir. 1987); *Allen Archery, Inc. v. Browning Mfg. Co.*, 819 F.2d 1087 (Fed. Cir. 1987); *Argus Chem. Corp. v. Fibre Glass-Evercoat Co.*, 812 F.2d 1381 (Fed. Cir. 1987); *NV Akzo v. E.I. Dupont de Nemours*, 810 F.2d 1148 (Fed. Cir. 1987); *Carella v. Starlight Archery and Pro Line Co.*, 804 F.2d 135 (Fed. Cir. 1986); *Revlon, Inc. v. Carson Prod. Co.*, 803 F.2d 676 (Fed. Cir. 1986); *Pacific Furniture Mfg. Co. v. Preview Furniture Corp.*, 800 F.2d 1111 (Fed. Cir. 1986); *Kloster Speedsteel AB v. Crucible, Inc.*, 793 F.2d 1565 (Fed. Cir. 1986); *Laitram Corp. v. Cambridge Wire Cloth Co.*, 785 F.2d 292 (Fed. Cir. 1986); *Argus Chem. Corp. v. Fibre Glass-Evercoat Co.*, 759 F.2d 10 (Fed. Cir. 1985); *Shatterproof Glass Corp. v. Libbey-Owens Ford Co.*, 758 F.2d 613 (Fed. Cir. 1985); *Atlas Powder Co. v. E.I. Du Pont de Nemours & Co.*, 750 F.2d 1569 (Fed. Cir. 1984); *J.P. Stevens & Co. v. Lex Tex, Inc.*, 747 F.2d 1553 (Fed. Cir. 1984); *Driscoll v. Cebalo*, 731 F.2d 878 (Fed. Cir. 1984); *Kohle v. Dart Indus. Inc.*, 726 F.2d 724 (Fed. Cir. 1984); *Rohm & Haas Co. v. Crystal Chem Co.*, 722 F.2d 1556 (Fed. Cir. 1983); *Connell v. Sears, Roebuck & Co.*, 722 F.2d 1542 (Fed. Cir. 1983); *W.L. Gore & Assoc., Inc. v. Garlock, Inc.*, 721 F.2d 1540 (Fed. Cir. 1983); *Kansas Jack, Inc. v. Kuhn*, 719 F.2d 1144 (Fed. Cir. 1983); *Environmental Designs, Ltd. v. Union Oil Co.*, 713 F.2d 693 (Fed. Cir. 1983); *Orthopedic Equip. Co. v. All Orthopedic Appliances, Inc.*, 707 F.2d 1376 (Fed. Cir. 1983).

100. *A.B Chance Co. v. RTE Corp.* 854 F.2d 1307 (Fed. Cir. 1988); *Buildex Inc. v. Kason Indus., Inc.*, 849 F.2d 1461 (Fed. Cir. 1988); *Argus Chem. Corp. v. Fibre Glass-Evercoat Co.*, 759 F.2d 10 (Fed. Cir. 1985); *Shatterproof Glass Corp. v. Libbey-Owens Ford Co.*, 758 F.2d 613 (Fed. Cir. 1985); *J.P. Stevens & Co. v. Lex Tex, Inc.*, 747 F.2d 1553 (Fed. Cir. 1984); *Driscoll v. Cebalo*, 731 F.2d 878 (Fed. Cir. 1984); *Rohm & Haas Co. v. Crystal Chem Co.*, 722 F.2d 1556 (Fed. Cir. 1983)

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102. *A.B Chance Co. v. RTE Corp.* 854 F.2d 1307 (Fed. Cir. 1988); *Buildex Inc. v. Kason Indus., Inc.*, 849 F.2d 1461 (Fed. Cir. 1988).

103. These reversal rates are high compared to the reversal rates on non-inequitable conduct issues suggested by other commentators. *See* Schwab, *supra* note 60.

The reversal rates in 1988 were not substantially different from previous years combined.¹⁰⁴ However, the substance of the reversals in the cases of *Manitowoc* and *Harita* will have a long lasting effect on the application of the inequitable conduct doctrine.¹⁰⁵

C. *The Effect of FMC and Harita on PTO Policy*

The CAFC decisions in *FMC* and *Harita* have had a dramatic effect on the PTO's long-standing policy on inequitable conduct. As a result of these decisions and suggestions from private sector groups,¹⁰⁶ the PTO has decided that it will no longer investigate and reject original or reissue patent applications for inequitable conduct under 37 C.F.R. 1.56.¹⁰⁷ This decision was made despite mounting political pressure to codify the infringement defense of inequitable conduct in 37 C.F.R.¹⁰⁸ The PTO notice states:

Determination of inequitable conduct issues requires an evaluation of the intent of the party involved. While some court decisions have held that intent may be inferred in some circumstances, consideration of the good faith of the party, or lack thereof, is often required. *In several recent court decisions a high level of proof of intent to mislead the Office was required in order to prove inequitable conduct under 37 C.F.R. 1.56. Harita; FMC* [emphasis added; full citations omitted].¹⁰⁹

104. This indicates that the decisions, at least in result, have been consistent.

105. This is evidenced from the PTO's reaction to these cases. See *infra* text accompanying notes 106-111.

106. The standards for judging inequitable conduct before the PTO dominated the business session of the American Bar Association's Section of Patent, Trademark and Copyright Law at the ABA's annual meeting in Toronto in August, 1988. Among the resolutions passed by the Section was one favoring deference, by the PTO, to the federal courts in "all determinations, except in disciplinary proceedings, of whether there has been a violation of any duty of disclosure established in Title 37 of the Code of Federal Regulations, Part 1." *Proposed Resolution 403-1 on Duty of Disclosure*, ABA SEC. PAT., TRADEMARK & COPYRIGHT L. COMM. REP., 252, 253 (1988).

107. See United States Patent Office, OFF. GAZ. (October 11, 1988).

108. See House Judiciary Committee's Subcommittee on Courts, Civil Liberties and the Administration of Justice, testimony heard on HR 4086 (May 1988).

109. See United States Patent Office, Off. Gaz. (October 11, 1988). The office does not handle live testimony or participation by adverse parties, as the court can. The courts are also in a better position to fashion equitable remedies.

The PTO, on March 17, 1989, proposed a new rule 57 to replace rule 56 on the duty of disclosure. It includes a "but for" standard of materiality, specific deadlines for submitting mandatory disclosure statements, and a fee of \$200 for disclosure statements filed more than three months, with some exceptions, after the applicable date. Additionally, the new rule provides that the PTO will make no evaluation of compliance with the duty of disclosure except in reissue applications and disciplinary proceedings. For a more detailed summary of the new rule 57 ramifications, see *Duty of Disclosure and Practitioner Misconduct*, 54 Fed. Reg. 11,334 (1989) (to be codified in 37 C.F.R.) (proposed March 17, 1989).

Because of the evaluation necessary to decide an inequitable conduct issue, the PTO added, "[t]he Office is not the best forum in which to determine whether there was an 'intent to mislead.'" ¹¹⁰ It explained that the PTO would no longer examine or comment on inequitable conduct issues. The PTO replaced the present 37 C.F.R. 1.56 requirement that applicants submit information which a "reasonable examiner" would consider important in deciding whether to allow a patent, with a new requirement to submit information "when an individual knows or should have known that the information would render unpatentable any pending claim in an application."¹¹¹

It is not known whether this action taken by the PTO will act in accord with the CAFC's decisions in reducing litigation costs. The PTO's action may cause parties to adjudicate some of their claims at the administrative level and then turn to the courts to adjudicate claims like inequitable conduct charges. This may increase litigation costs through duplication of effort. It is likely that the hard-line approach of the CAFC will deter any frivolous claims.

D. Consequences of a Higher Threshold for Intent

As a consequence of the heightened intent threshold, the number of frivolous claims of inequitable conduct will be reduced. In the past, inequitable conduct was frequently raised by parties with the view that it would do no harm to at least try to satisfy the minimal requirements to support a claim. There has been every incentive for the defendant to make such allegations. Four considerations support the position that these claims will be reduced.

First, a court's finding of inequitable conduct completely invalidates the patent. With low requirements of proof to satisfy such a defense, a party will always try for the "knock-out" rather than suing to get only part of the patent to be held invalid. The higher level of proof will discourage this strategy.

Second, the possibility of being awarded attorney's fees on the basis of the patentee's inequitable conduct has previously been too attractive to ignore with the low threshold of proof.¹¹² Courts normally cannot award the winning party any part of his legal expenses other than some limited costs. With the higher intent threshold, alleged infringers will likely use other approaches before they allege a fraud defense.¹¹³

110. *Id.*

111. *Id.*

112. See 35 U.S.C. § 288 (1982).

113. The frequent invocation of FED. R. CIV. P. 11, used in conjunction with the higher intent standard for inequitable conduct, will accentuate this result.

This in turn should reduce patent procurement costs overall.¹¹⁴

Third, the low intent threshold of the past provided defendants with an easy way to discover the work-product of their adversaries. To adequately counter an inequitable conduct defense, attorneys for the patentee frequently had to present documents which otherwise would have been protected under the work-product doctrine or under the attorney-client privilege. The heightened intent standard substantially forecloses this avenue.

Fourth, there will be fewer cases where truly meritorious patents are declared unenforceable because of a successful inequitable conduct claim. The rules regarding the duty of disclosure to the PTO generally benefit patent procurement by providing the patent examiner with the most pertinent prior art, often known only to the patent applicant. However, if the rules are construed in such a way that a simple good faith mistake will invalidate a worthwhile patent, the loss of the patent outweighs any benefit gained from the disclosure rules. By tightening the intent standard in requiring that the patent applicant have the actual intent to mislead the PTO, the protection of patents will increase and the public will directly benefit through the stimulation of incentive to commercialize useful patentable inventions.

Perhaps most importantly, the higher intent threshold may help change the focus of many patent cases. In these cases, the concentration will be on trying the merits of the invention rather than concentrating predominantly on the ethics or morals of the patentee or the patentee's attorney. This is not to say that there should not be cases that concentrate predominantly on the morals or ethics of those involved in the patent process. It is to point out that the higher intent standard may help courts realize that they "should not so emphasize morals or ethics as to forget the [primary purposes of the patent system]."¹¹⁵ The standard will ensure that the interests of preventing fraud on the PTO and of promoting useful art and technology are more adequately balanced.

III. CONCLUSION

In the past, most U.S. patent infringement actions also included the defendant's allegation that the patent holder acquired the patent

114. Defending an inequitable conduct defense unquestionably adds to the cost of litigation; a reduction of the number of these defenses alleged will reduce the overall costs associated with patent procurement. A significant cost decrease may make patents available to more people. An expensive process will only be accessible by the rich or by large businesses. This will also promote the constitutional purpose of the patent system.

115. See *supra* note 62.

through some form of inequitable conduct.¹¹⁶ The defendant had everything to gain and nothing to lose by this action. The CAFC decisions of *FMC* and *Harita* will limit this practice by favoring the strict application of the intent element. The decisions have reduced and will continue to reduce patent litigation cost and will allow patent law to develop in line with its constitutional purposes. The new intent standard will reduce the uncertainty that has heretofore encouraged litigators to make charges of inequitable conduct. It will allow for more uniformity in patent law, one of the congressional purposes behind the creation of the Court of Appeals for the Federal Circuit. Most importantly, it will more fully satisfy the purposes of the patent system—to promote science and invention for the benefit of the nation and, in addition, continue to protect the public interest in maintaining the patent process free of fraud.

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116. Many of these cases have been successful. See *supra* notes 82, 84, 87, 89.