

3-1-1986

Inequitable Conduct and the Duty of Disclosure in Patent Procurement

Evan R. Witt

Follow this and additional works at: <https://digitalcommons.law.byu.edu/lawreview>



Part of the [Commercial Law Commons](#), and the [Constitutional Law Commons](#)

Recommended Citation

Evan R. Witt, *Inequitable Conduct and the Duty of Disclosure in Patent Procurement*, 1986 BYU L. Rev. 149 (1986).

Available at: <https://digitalcommons.law.byu.edu/lawreview/vol1986/iss1/3>

This Comment is brought to you for free and open access by the Brigham Young University Law Review at BYU Law Digital Commons. It has been accepted for inclusion in BYU Law Review by an authorized editor of BYU Law Digital Commons. For more information, please contact hunterlawlibrary@byu.edu.

Inequitable Conduct and the Duty of Disclosure in Patent Procurement

A patent represents a contract between the United States government and an inventor.¹ The inventor, upon full disclosure of his invention,² receives for a limited time³ the right to exclude others from making, using, or selling the invention.⁴ The constitutional purpose for granting patents, “[t]o promote the Progress of Science and Useful Arts,” is achieved when persons disclose new technology in return for this limited right of exclusion.⁵ Patent infringement suits protect and enforce this right of exclusion. A patentee may obtain injunctive relief, compensatory damages, or both against anyone who “makes, uses or sells” the patented invention during the patent term “without authority.”⁶

Alleged patent infringers commonly defend themselves in infringement suits by claiming that the patentee procured the patent through inequitable conduct. Recent decisions of the Court of Appeals for the Federal Circuit shed light on the standard for determining inequitable conduct; however, the Federal Circuit has not been entirely consistent in applying its pronounced standard. This comment examines the development of the present standard for determining inequitable conduct and

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

2. 35 U.S.C. § 112 (1982). For a detailed description of the required specificity in patent applications, see *Mowry v. Whitney*, 81 U.S. (14 Wall.) 620, 644 (1872).

3. A patent term is seventeen years, 35 U.S.C. § 154 (1982), except in the case of a design patent, which has a term of fourteen years, 35 U.S.C. § 173 (1982). Recent legislation permits extending the term for certain inventions if the invention is subject to lengthy regulatory review before marketing. 35 U.S.C. §§ 155, 155A (1982 & Supp. I 1983); 35 U.S.C.A. § 156 (West. Supp. 1985).

4. 35 U.S.C. § 281 (1982) (providing civil cause of action for patent infringement); 35 U.S.C. § 271(a) (1982) (defining patent infringement). A patent does not grant the patentee the right to make, use, or sell the invention; it only grants the right to exclude others from making, using, or selling the invention claimed in the patent. For example, a person may patent an improvement on an already patented device, but may not be able to make, use, or sell the improvement if in doing so the original patent is infringed.

5. U.S. CONST. art. I, § 8, cl. 8. See *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 480 (1974). An economic analysis outlining ways in which the patent system benefits society by encouraging technological innovation is found in Kitch, *The Nature and Function of the Patent System*, 20 J.L. & ECON. 265 (1977).

6. 35 U.S.C. § 271(a) (1982).

its current application, and concludes that the standard should be reexamined and clarified in light of the fundamental purpose of the patent system.

I. THE EVOLUTION OF THE INEQUITABLE CONDUCT DOCTRINE

A. *Fraud in Patent Procurement: The Forerunner of Inequitable Conduct*

Early patent legislation permitted private individuals to sue for cancellation of a fraudulently procured patent.⁷ However, the Patent Act of 1836 removed this individual right; in 1869 the Supreme Court interpreted the Patent Act of 1836 by finding that Congress did not intend "to allow a patent to be abrogated in any collateral proceeding."⁸ This rule was followed until the early 1930's when the Supreme Court in *Keystone Driller Co. v. General Excavator Co.* recognized the defendant's right to equitable relief in a patent infringement action when the plaintiff had committed fraud or misconduct.⁹ The Court based its decision on the equitable doctrine of "unclean hands," which withholds equitable remedies to one who has acted in bad faith.

In 1945, the unclean hands doctrine was again used to deny relief in *Precision Instrument Manufacturing Co. v. Automotive Maintenance Machinery Co.*¹⁰ That case firmly established fraud in patent procurement as a defense in patent infringement suits. Despite recognition of this defense, fraud in patent pro-

7. Patent Act of 1790, ch. 7, § 5, 1 Stat. 109, 111; Patent Act of 1793, ch. 11, § 10, 1 Stat. 318, 323. For a historical look at the private right to attack a fraudulently procured patent, see *United States v. American Bell Tel. Co.*, 128 U.S. 315, 371-72 (1888). This private remedy extended to patents obtained "surreptitiously or upon false suggestion." Patent Act of 1793, 1 Stat. at 323.

8. *Rubber Co. v. Goodyear*, 76 U.S. (9 Wall.) 788, 797 (1870). There is an exception for patents issued to the wrong party. See Patent Act of 1836, ch. 357, § 16, 5 Stat. 117, 123.

9. 290 U.S. 240 (1933). Keystone was aware of a prior use of its patented device that would have rendered the patent invalid. Contemplating a series of patent infringement suits and knowing that disclosure of the prior use would render the patent invalid, Keystone paid the prior user to execute a false affidavit that the prior use was an abandoned experiment. Thereupon the Court found that Keystone had "unclean hands" and denied equitable relief. Technically this was not fraud in the procurement of the patent, but fraud on the court by attempting to conceal incriminating evidence. Nevertheless, the unclean hands doctrine may also be invoked when a patentee wishing to enforce his patent has committed fraud. *Id.* at 243-44.

10. 324 U.S. 806 (1945); see also *Hazel-Atlas Glass Co. v. Hartford-Empire Co.*, 322 U.S. 238 (1944) (holding the patent invalid because the applicant suppressed the true authorship of an article critical to the patent grant).

curement was rarely pleaded¹¹ until the 1965 case of *Walker Process Equipment, Inc. v. Food Machinery & Chemical Corp.*¹² *Walker Process* recognized that a patent procured by fraud was an illegal monopoly that could form the basis of an antitrust action under section two of the Sherman Act.¹³ This recognition made treble damages and attorneys' fees recoverable under section four of the Clayton Act.¹⁴ Thus, an alleged infringer had little to lose and much to gain by adding a defensive counterclaim of fraud on the Patent and Trademark Office (PTO).¹⁵ Even though successful antitrust counterclaims in patent infringement suits are rare,¹⁶ fraud on the PTO, or inequitable conduct as it is known today,¹⁷ remains a popular defense.¹⁸

Inequitable conduct occurs when a patent applicant with the requisite mental state fails to disclose prior art or pertinent information material to the patent application. According to PTO Rule 56(a), information is material when "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."¹⁹ One problem in determining inequitable conduct

11. C.B. HAMBURG, *PATENT FRAUD AND INEQUITABLE CONDUCT* § 1.04 (1981); Ram, *Patent Fraud: A New Defense?*, 54 J. PAT. OFF. SOC'Y 363, 370 (1972).

12. 382 U.S. 172 (1965).

13. 15 U.S.C. § 2 (1982).

14. 15 U.S.C. § 15 (1982).

15. See Kayton, Lynch & Stern, *Fraud in Patent Procurement: Genuine and Sham Charges*, 43 GEO. WASH. L. REV. 1, 6 (1974).

16. The Court noted that all the elements of a cause of action under the Sherman and Clayton acts must be shown. In particular, to show monopolization through fraudulent procurement the plaintiff must prove knowing and willful fraud; good faith, including an honest mistake, is a complete defense. *Walker Process*, 382 U.S. at 177; see also C.B. HAMBURG, *supra* note 11, § 1.04.

17. In patent cases, the terms fraud and inequitable conduct are often used synonymously. However, fraud on the PTO should not be confused with common law fraud, which is more difficult to prove. Courts have distinguished common law fraud from inequitable conduct. *J.P. Stevens & Co. v. Lex Tex Ltd.*, 747 F.2d 1553, 1559 (Fed. Cir. 1984), *cert. denied*, 106 S. Ct. 73 (1985); *American Hoist & Derrick Co. v. Sowa & Sons*, 725 F.2d 1350, 1363 (Fed. Cir.), *cert. denied*, 105 S. Ct. 95 (1984). The Federal Circuit has expressed its preference for the term "inequitable conduct" to describe proscribed activity. *J.P. Stevens*, 747 F.2d at 1559.

18. See, e.g., *Kimberly-Clark Corp. 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."); *Norton v. Curtiss*, 433 F.2d 779, 793 (C.C.P.A. 1970); Ram, *supra* note 11, at 371 ("Since 1965 fraud on the Patent Office has become a standard defense in patent infringement actions and the number of infringement suits wherein fraud was alleged in the last six years far exceeds the number in the previous 175 years.").

19. 37 C.F.R. § 1.56(a) (1985).

arises from varied judicial interpretations of the requisite mental state: is a particular mental state required and, if so, by what standard is it measured? Because the Court of Appeals for the Federal Circuit currently interprets the inequitable conduct doctrine, it will be helpful to briefly examine the procedures of that court.

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

Patent owners wishing to enforce their rights must file suit against alleged infringers in federal district court²⁰ where they may seek compensatory damages, injunctive relief, or both.²¹ As the inequitable conduct defense became more common, so did the number of conflicting opinions on the subject. In fact, widespread disagreement among various circuit courts on many patent law issues²² made forum shopping common.²³ To help solve these problems, Congress created the Court of Appeals for the Federal Circuit.²⁴

The Federal Circuit was formed by merging the Court of Customs and Patent Appeals and the Court of Claims. Congress granted the Federal Circuit exclusive appellate jurisdiction over all patent cases on appeal from federal district courts²⁵ to eliminate the previous uncertainty within different federal circuits.²⁶

20. All patent cases "arising under" federal patent laws are within the exclusive jurisdiction of the federal district courts. 28 U.S.C. § 1388(a) (1982). See *Pratt v. Paris Gas Light & Coke Co.*, 168 U.S. 255, 259 (1897); see also 15 C. WRIGHT, A. MILLER & E. COOPER, *FEDERAL PRACTICE AND PROCEDURE: JURISDICTION* § 3823 (1976).

21. 35 U.S.C. §§ 283-284 (1982). The damages are usually a "reasonable royalty" for the infringer's unauthorized use of the invention. In "exceptional cases," attorneys' fees may be awarded to the prevailing party. 35 U.S.C. § 285 (1982).

22. For a list of intercircuit conflicts before formation of the Court of Appeals for the Federal Circuit, see Markey, *The Phoenix Court*, 10 APLA Q.J. 227, 212-34 (1982).

23. S. REP. NO. 275, 97th Cong., 2d Sess. 5 (1981), reprinted in 1982 U.S. CODE CONG. & AD. NEWS 11, 15; see also Adams, *The Court of Appeals for the Federal Circuit: More Than a National Patent Court*, 49 MO. L. REV. 43, 57 (1984); Wendel, *Things You Must Know About the New Court of Appeals for the Federal Circuit*, 21 PAT. L. ANN. 177, 177 (1983).

24. Federal Courts Improvement Act of 1982, Pub. L. No. 97-164, 96 Stat. 25.

25. 28 U.S.C. § 1295 (1982). The Federal Circuit also has jurisdiction over appeals from the Board of Patent Appeals and Interferences. 35 U.S.C.A. § 141 (West Supp. 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.A. § 145 (West Supp. 1985).

26. S. REP. NO. 275, 97th Cong., 2d Sess. 3 (1981), reprinted in 1982 U.S. CODE CONG. & AD. NEWS 11, 13; Wendel, *supra* note 23, at 177.

To eliminate confusion among its own panels, the Federal Circuit has implemented an intracircuit information system.²⁷ However, despite these safeguards, the Federal Circuit has not enunciated a predictable standard for determining inequitable conduct.

II. INEQUITABLE CONDUCT AS APPLIED BY THE FEDERAL CIRCUIT

Although the Federal Circuit has often applied the inequitable conduct defense in patent infringement actions, recent decisions illustrate that its analysis of this defense is anything but consistent. Its panels have been following at least two different standards for determining inequitable conduct.

In *Kansas Jack, Inc. v. Kuhn*²⁸ an inventor who received a patent for his vehicle frame straightener had failed to disclose to the PTO a similar device. This information, if disclosed, would have presumably invalidated the patentee's infringement claims under 35 U.S.C. § 103.²⁹ But at trial the patentee testified that he considered the prior device to be unrelated to his invention. The district judge believed him, and the majority of the Federal Circuit panel accepted the inventor's testimony as sufficient to rebut any presumption of wrongful intent. Thus the panel affirmed the district court's holding that the inventor was not guilty of fraud.³⁰

Similarly, in *Connell v. Sears, Roebuck & Co.*,³¹ the Federal Circuit affirmed the district court's finding that a patent was enforceable. According to the court, it was "undisputed that [the inventor] concealed from the PTO at least . . . five prior art patents he received from the patent lawyer he first consulted and who advised that his invention might not be patentable. [The inventor] then sought new counsel, who filed and prose-

27. All decisions are reviewed by the Chief Technical Advisor to the court, and the court circulates opinions to all Federal Circuit judges, not just those judges that heard the case. Thus, each judge is aware of the law stated by the others and can act accordingly. Wendel, *supra* note 23, at 178-79.

28. 719 F.2d 1144 (Fed. Cir. 1983).

29. To be patentable, the subject matter of the invention must not have been obvious "at the time the invention was made to a person having ordinary skill in the art to which [the] subject matter pertains." 35 U.S.C. § 103 (1982).

30. *Kansas Jack*, 719 F.2d at 1152. Judge Rich dissented, finding the inventor's testimony incredible. His dissenting opinion does not dispute the majority's legal standard, but raises questions about the sufficiency of the evidence to rebut a presumption of intent. *Id.* (Rich, J., dissenting).

31. 722 F.2d 1542 (Fed. Cir. 1983).

cuted the application"³² The second attorney argued before the PTO that a particular feature of the invention was not prior art when in fact the precise feature was disclosed in one of the patents uncovered by the first attorney. The trial court indicated that the patent would not have issued if the prior art had not been concealed from the PTO. However, the attorney who prosecuted the patent application testified "that in failing to disclose prior art he believed he was following the standard of candor due the PTO at the time."³³ The jury accordingly found the patent enforceable, and the judge determined that the verdict was supported by "substantial evidence."³⁴ The Federal Circuit affirmed the lower court's decision, concluding that it may have been the attorney's testimony that supported the jury's finding that there was no intent to mislead the PTO.³⁵ Thus, the attorney's testimony or good faith belief that he adhered to the duty of disclosure was sufficient to defeat an inequitable conduct defense.

Despite these two lenient rulings, in *Argus Chemical Corp. v. Fibre Glass-Evercoat Co.*,³⁶ the Federal Circuit held certain patents unenforceable for inequitable conduct. The conduct in *Argus* was not as egregious as the conduct of the plaintiffs in either *Kansas Jack* or *Connell*. *Argus*, the owner of two chemical patents, sued Fibre Glass for infringement. Fibre Glass sought to establish the invalidity of *Argus*'s patents because sales had occurred more than one year prior to the filing of the patent applications. Fibre Glass also alleged inequitable conduct based on *Argus*'s failure to disclose the prior sales to the PTO.³⁷

Before trial, *Argus* returned its patent to the PTO for consideration of prior art not previously examined.³⁸ The PTO

32. *Id.* at 1550.

33. *Id.* Neither court elaborated on what the past "standard of candor due the PTO" actually was. See *Connell v. Sears, Roebuck & Co.*, 559 F. Supp. 229 (N.D. Ala. 1983). For a historical review of the duty of disclosure owed to the PTO, see Roberts, *The Disclosure Duty: Its Evolution, Scope, and Limitations*, 5 APLA Q.J. 154, 154-65 (1977).

34. *Connell*, 722 F.2d at 1551. The judge noted, however, that the evidence was not overwhelming.

35. *Id.*

36. 759 F.2d 10 (Fed. Cir.), cert. denied, 106 S. Ct. 231 (1985).

37. *Id.* at 12. An inventor is not entitled to patent an invention sold more than one year prior to filing the patent application. 35 U.S.C. § 102(b) (1982).

38. *Argus*, 759 F.2d at 12. This procedure was governed by the so-called "no-fault" or "no defect" reissue proceeding of the 1977 "Dann Amendments." Patent reissues have traditionally been granted where some inadvertent error or fault existed in the patent by

found the claims patentable despite the undisclosed sales.³⁹ The district court ultimately determined that “there was no breach of [the] duty of candor during examination under the standard of the early ‘60’s by Argus’s failure to disclose the subject sales.”⁴⁰ Nevertheless, the Federal Circuit, applying the Rule 56 duty of disclosure retroactively, held that Argus had breached its duty of disclosure and had thus committed inequitable conduct.⁴¹

Argus contended that even if the information was material under the Rule 56(a) standard,⁴² its counsel’s subjective “good faith” defeated an inequitable conduct defense.⁴³ Nevertheless, the court held that “[b]ecause the withheld information on sales was clearly material, and Argus’s attorney should have known of its importance to the PTO’s consideration, inequitable conduct under the precedent of this court has been established.”⁴⁴

reason of a defective specification or drawing, or by reason of the patentee claiming more or less than he had a right to claim. 35 U.S.C. § 251 (1982). The 1977 amendments to the PTO rules provided a novel variation of this reissue proceeding—prior art not previously considered by the PTO was examined to determine whether an invention was still patentable over the previously unconsidered art. 42 Fed. Reg. 5587, 5594 (1977), *reprinted in* 955 Off. Gaz. Pat. Office 1054, 1061 (1977) (formerly codified at 37 C.F.R. § 1.175(a)(4) (1977), *amended by* 47 Fed. Reg. 21745, 21752 (1982), *reprinted in* 1019 Off. Gaz. Pat. Office 37, 43 (1982)). If the PTO considered the invention patentable, it would reject the reissue application on the ground that there was “no fault” in the patent. This unique reissue proceeding was later replaced by the statutory reexamination proceeding. 35 U.S.C. § 302 (1982).

39. The PTO relied on 35 U.S.C. §§ 102(b), 103 (1982).

40. *Argus*, 759 F.2d at 12.

41. *Id.*

42. The court found that the undisclosed sales were material primarily because Argus’s own expert witness testified that the prior sales “would be *pertinent* for consideration.” *Id.* at 14. (emphasis in original).

43. The attorney’s argument that simple negligence or good faith mistake is not enough to establish the wrongful intent element of inequitable conduct is well supported. *J.P. Stevens & Co. v. Lex Tex Ltd.*, 747 F.2d 1553, 1560 (Fed. Cir. 1984), *cert. denied*, 106 S. Ct. 73 (1985) (“[S]imple negligence, oversight, or an erroneous judgment made in good faith, is insufficient” to establish inequitable conduct.); *Orthopedic Equip. Co. v. All Orthopedic Appliances, Inc.*, 707 F.2d 1376, 1383 (Fed. Cir. 1983) (“Although inequitable conduct requires less stringent proofs as to both materiality and intent than common law fraud, mere evidence of simple negligence, oversight, or an erroneous judgment made in good faith not to disclose prior art is not sufficient to render a patent unenforceable.”); *Oetiker v. Jurid Werke GmbH*, 671 F.2d 596, 600 (D.C. Cir. 1982) (“A good faith judgment not to cite prior art to the PTO, even if erroneous, cannot be fraud.”). In addition, Sokal, *Impact of Decisions of the Court of Appeals for the Federal Circuit on the Duty of Disclosure*, 66 J. PAT. OFF. SOC’Y 29, 34-35 (1984), discusses why inequitable conduct requires a minimum showing of gross negligence or recklessness, and thus good faith or honest mistake is always an effective defense.

44. *Argus*, 759 F.2d at 15. The court relied specifically on the definition of gross negligence set forth in *J.P. Stevens*, 747 F.2d 1553. See *infra* notes 51-53 and accompa-

It appears that the result in *Argus* conflicts with the results of *Kansas Jack* and *Connell*. In all three cases material information, known by either the inventor or patent counsel, was not disclosed to the PTO during patent prosecution. This failure to disclose would in normal circumstances be sufficient evidence to successfully invoke inequitable conduct as a defense in a patent infringement suit. However, in all three cases either the inventor or patent counsel testified that he acted in good faith. In *Kansas Jack* and *Connell* this good faith belief was sufficient to rebut the wrongful intent presumption, but in *Argus* the court disregarded this evidence of good faith and found inequitable conduct.

These inconsistent results can best be explained by the different inequitable conduct standards applied to the cases by the Federal Circuit. In *Kansas Jack* and *Connell*, the court applied *American Hoist & Derrick Co. v. Sowa & Sons, Inc.*,⁴⁵ which requires varying levels of intent to establish inequitable conduct based on the materiality of the information withheld. However, the *Argus* court applied the standard enunciated in *J.P. Stevens & Co. v. Lex Tex, Ltd.*,⁴⁶ which finds inequitable conduct when the failure to disclose material information is grossly negligent. Accordingly, a closer examination of the intent requirement promulgated in these two cases is warranted.

III. THE NECESSARY INTENT

In *American Hoist & Derrick Co. v. Sowa & Sons, Inc.*, the Federal Circuit did not specifically address the level of intent required to establish inequitable conduct; rather, the court spoke of inequitable conduct being determined by a careful balancing of intent in light of materiality.⁴⁷ The court noted that if a high level of materiality is shown, a lesser showing of intent is required, whereas if the level of materiality is low, the requisite intent is higher.⁴⁸

nying text.

45. 725 F.2d 1350 (Fed. Cir.), *cert. denied*, 105 S. Ct. 95 (1984).

46. 747 F.2d 1553 (Fed. Cir. 1984), *cert. denied*, 106 S. Ct. 73 (1985).

47. 725 F.2d at 1364.

48. *Id.* at 1363. The court quoted an earlier First Circuit opinion: Questions of "materiality" and "culpability" are often interrelated and intertwined, so that a lesser showing of the materiality of the withheld information may suffice when an intentional scheme to defraud is established, whereas a greater showing of the materiality of withheld information would necessarily create an inference that its nondisclosure was "wrongful."

Accordingly, the court held that wrongful intent may be inferred if there is a high showing of materiality whether or not the applicant was grossly negligent.⁴⁹ In contrast, if a minimum level of materiality is shown, good faith judgment or honest mistake may be sufficient to rebut any presumption of wrongful intent. It appears from the decision that *American Hoist* would require a level of intent greater than gross negligence for information conforming to the materiality standard promulgated in PTO Rule 56:

[W]here it is demonstrated that a reasonable examiner would merely have considered particular information to be important but not crucial to his decision not to reject, a showing of facts which would indicate something more than gross negligence or recklessness may be required, and good faith judgment or honest mistake might well be a sufficient defense.⁵⁰

The same court in *J.P. Stevens v. Lex Tex, Inc.*, diverges dramatically from the analysis presented in *American Hoist*. At the level of materiality required by Rule 56, the *J.P. Stevens* court would establish inequitable conduct on a showing of gross negligence. Furthermore, the court stated that the intent required for inequitable conduct "need not be proven with direct evidence." Rather, intent "may be proven by showing acts the natural consequences of which are presumably intended by the actor."⁵¹ The court continued:

Proof 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 a withheld reference. On the other hand, simple

Id. (quoting *Digital Equip. Corp. v. Diamond*, 653 F.2d 701, 716 (1st Cir. 1981)). The court contrasted its position with an objective "but for" materiality test under which, although one is not necessarily grossly negligent, "a lesser showing of facts from which intent can be inferred may be sufficient to justify holding the patent invalid or unenforceable." *American Hoist*, 725 F.2d at 1363.

49. Inference of the intent element was also recognized in *Kansas Jack, Inc. v. Kuhn*, 719 F.2d 1144, 1151 (Fed. Cir. 1983) ("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."). See also *W.L. Gore & Assocs. v. Garlock, Inc.*, 721 F.2d 1540, 1558 (Fed. Cir. 1983), *cert. denied*, 105 S. Ct. 172 (1984); *Norton v. Curtiss*, 433 F.2d 779, 795-96 (C.C.P.A. 1970).

50. *American Hoist*, 725 F.2d at 1363. If information is considered important by a reasonable examiner in his decision not to reject a patent application, then the Rule 56 materiality test is satisfied. See 37 C.F.R. § 1.56(a) (1985).

51. 747 F.2d at 1560.

negligence, oversight, or an erroneous judgment made in good faith, is insufficient.⁵²

The court further stated that "threshold intent is established where an actor in an applicant's position would have reasonably known that the reference was material, *e.g.*, that the reference would have been important to a reasonable examiner in deciding whether to allow the claims."⁵³ Thus, the Federal Circuit in *J.P. Stevens* defines "gross negligence" as the minimum level of intent required to establish inequitable conduct.

Although the *American Hoist* case fails to provide clear standards for those desiring to invoke an inequitable conduct defense in patent infringement suits, *J.P. Stevens* is the more troublesome opinion. The most disturbing aspect of *J.P. Stevens* is its apparent willingness to accept simple negligence as a sufficient basis for inequitable conduct. Although the *J.P. Stevens* court in fact stated that simple negligence was not enough, its definition of gross negligence is for all practical purposes one of simple negligence. According to *J.P. Stevens*, "[g]ross negligence is present when the actor, judged as a reasonable person in his position, should have known of the materiality of a withheld reference."⁵⁴ Negligence is commonly understood to mean failure to act as a reasonable person would have acted in the same or similar circumstances,⁵⁵ whereas gross negligence is very great negligence, lacking even slight care or diligence.⁵⁶ According to the common definition, simple negligence in patent procurement would exist when an applicant fails to disclose information he believed to be immaterial, which a reasonable person in his position would have known to be material. However, this same conduct would satisfy the *J.P. Stevens* definition of "gross negligence." The *J.P. Stevens* gross negligence standard is merely simple negligence masquerading under a different label.⁵⁷

52. *Id.* (citations omitted).

53. *Id.* at 1564.

54. *Id.* at 1560.

55. See W. KEETON, D. DOBBS, R. KEETON & D. OWEN, PROSSER AND KEETON ON THE LAW OF TORTS §§ 30-34 (5th ed. 1984); RESTATEMENT (SECOND) OF TORTS § 282 (1965); see also 57 AM. JUR. 2D Negligence § 1 (1971); 65 C.J.S. Negligence § 8 (1966).

56. See 57 AM. JUR. 2D Negligence § 99 (1971); 65 C.J.S. Negligence § 8(4) (1966).

57. One authority, recognizing the potential confusion raised by the *J.P. Stevens* definition of gross negligence, stated that the definition "must be read in light of the well settled Federal Circuit law that *gross negligence* is required and that *simple negligence* will not suffice. Thus, it might have been more accurate for the court to describe proscribed intent as beginning where failure to recognize the materiality of a reference be-

IV. THE SIMPLE NEGLIGENCE STANDARD EXAMINED

A. *The Historical Level of Intent Required*

Inequitable conduct during patent procurement as a defense in an infringement suit derives from the equitable doctrine of "unclean hands." Historically, before the unclean hands doctrine could be invoked, a court required a showing of willful, deliberate, or grossly negligent conduct.⁵⁸ Therefore, the historical application of the unclean hands doctrine provides no support for its application on a showing of simple negligence. Instead, it would require at least gross negligence before one could establish inequitable conduct. Nonetheless, a closer analysis reveals that the gross negligence standard best promotes the purposes of the patent system.

B. *Simple Negligence and the Purpose of the Patent System*

The fundamental purpose of the United States patent system is to stimulate the development of technology by granting for a limited term the right to exclude others from practicing the technology patented.⁵⁹ Such a system promotes both public and private interests.

Public interest disfavors the granting of improper monopolies. Thus, patent procurement should be free from any taint of fraud or inequitable conduct, and inventions should be fully disclosed. Patent legislation also reinforces public interest by imposing strict patentability standards.⁶⁰ There must be integrity⁶¹ and confidence⁶² in the patent system in order for it to function properly.

comes grossly unreasonable." D. DUNNER, J. GAMBRELL, M. ADELMAN, C. LIPSEY & B. LEWIS, 5 PATENT LAW PERSPECTIVES § 17.2[2] n.270 (2d ed. 1985) (emphasis in original). It is easy to justify the *J.P. Stevens* language by assuming that the Federal Circuit meant gross negligence. Unfortunately, this approach avoids confronting the court's subsequent application of its pronounced standard, which indicates the court applied simple negligence.

58. See C.B. HAMBURG, *supra* note 11, § 2.02[5]; see also *Eresch v. Braecklein*, 133 F.2d 12, 14 (10th Cir. 1943) ("It is well settled that it is only fraud or willful misconduct which bars one from recovering in a court of equity under the maxim, 'He who comes into equity must come with clean hands.' The maxim refers to willful misconduct rather than merely negligent misconduct.").

59. See *supra* notes 3-5 and accompanying text.

60. 35 U.S.C. §§ 101-103, 112 (1982).

61. The court in *Norton v. Curtiss*, 433 F.2d 779, 793-94 (C.C.P.A. 1970), noted the special relationship that must exist between an applicant and the Patent Office.

62. *Diamond, Our Patent System—The Past is Prologue*, 62 J. PAT. OFF. SOC'Y, 437,

At the same time, the private individual desires a patent enforceable by courts.⁶³ Patent legislation reinforces this interest by providing a presumption of validity for an issued patent and remedies for patent infringement.⁶⁴ If courts find patents enforceable confidence in the patent system is enhanced, the value of patents increases, and greater incentive to conduct expensive research exists. If the courts frequently find patents unenforceable, desire to develop and patent new technology decreases because once patented, technology is disclosed to the public and the patentee loses the right to keep technology secret or restrict its use. It is only through the patentee's right to exclude others that a sufficient profit results to recover the capital expenditures required to develop the patented invention.

Problems arise, however, in balancing these public and private interests. On the one hand, if patents tainted with inequitable conduct are found to be valid and enforceable, the patent system is compromised and public confidence is reduced.⁶⁵ On the other hand, if patents are found unenforceable due to inequitable conduct when the conduct was not undertaken in bad faith, the entire patent system is weakened and its purpose frustrated.

This same conflict exists when two different standards are applied in determining inequitable conduct. If inequitable conduct in patent procurement may be established on a showing of only simple negligence, patents would be rendered unenforceable with relative ease.⁶⁶ Consequently, a patent's value and the incentive to develop and patent new technology would decrease. Hence, a simple negligence standard would not promote the constitutional purpose of the patent system.

However, if inequitable conduct requires a showing of at least gross negligence, it would be much more difficult to render patents unenforceable. As long as patent counsel in good faith comply with the duty of disclosure by exercising a reasonable amount of care, an inequitable conduct defense would fail. Confidence in patents would increase, ultimately resulting in greater

441-42 (1980).

63. See, e.g., 42 Fed. Reg. 5587, 5588 (1977), reprinted in 955 Off. Gaz. Pat. Office 1054 (1977).

64. 35 U.S.C. §§ 281-284 (1982).

65. *Norton*, 433 F.2d at 796.

66. If an alleged infringer discovered some nondisclosed information which a reasonable person in the patentee's position would have considered to be material he can show that the patentee was negligent in failing to disclose the information.

willingness to develop and patent new technology. Thus, a gross negligence standard would further the constitutional purpose of promoting science and useful arts.

A gross negligence standard is also consistent with current PTO regulations, which indicate that a patent will not be granted if the duty of disclosure was violated through bad faith or gross negligence.⁶⁷ Even though this rule applies to conduct prior to patent issuance, it also should apply after issuance if the duty of disclosure is shown to have been breached. The PTO rule would have no meaning if simple negligence did not constitute inequitable conduct before the patent issued, but then upon issuance the patent could be attacked on the basis of a simple negligence breach of the duty of disclosure. Therefore, because gross negligence is defined as the minimum level of intent required for establishing inequitable conduct during patent procurement, it should also be the standard for determining inequitable conduct after patent issuance.

C. *Practical Considerations of a Simple Negligence Standard*

The threshold intent standard defined in *J.P. Stevens*⁶⁸ conditions inequitable conduct solely on failure to disclose information later determined to be material.⁶⁹ As a consequence, cautious patent attorneys will disclose more information than normal, even if they do not believe the information is material, to avoid the risk of having the patent held unenforceable. They will thus submit unnecessary documents to the PTO, increasing PTO inefficiency and patent procurement costs.

A significant cost increase may make patents available only to the rich or to large business organizations. If small businesses, which are an important source of patented inventions, were "priced out" of obtaining patents, technological innovation would be dampened.⁷⁰ In addition, given the demands of such a

67. 37 C.F.R. § 1.56(d) (1985).

68. See *supra* notes 51-54 and accompanying text.

69. It is assumed that if the information meets the Rule 56 materiality test, then any reasonable person in the position of the applicant should know of its materiality and disclose it to the PTO.

70. Congress's concern that small businesses not be "priced out" of obtaining patent protection appears in the recent fifty percent fee reduction for independent inventors, nonprofit organizations, and small businesses. Act of Aug. 27, 1982, Pub. L. No. 97-247, § 1, 96 Stat. 317.

system, some inventors may not apply for patents at all. If valuable technology is withheld from the public, further innovation is reduced and the progress of the useful arts is not promoted. Again, a simple negligence standard, such as the *J.P. Stevens* definition of gross negligence, does not promote the constitutional purpose of the patent system.

D. Does Ease of Proof Justify a Simple Negligence Standard?

A factor which may justify a simple negligence standard is judicial concern for the ease of proof in patent infringement cases. Subjective mental state determinations are difficult to make accurately. It is practically impossible to know precisely an applicant's mental state during patent prosecution because direct proof is difficult to obtain, making inferred mental state a legal necessity. As the Federal Circuit explained in *Kansas Jack*: "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."⁷¹

Although ease of proof may be a consideration, it is not enough to sustain an inference of wrongful intent solely because nondisclosed information believed immaterial was later deemed material. The *Kansas Jack* court said "that something 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."⁷² Thus, even though wrongful intent should at times be inferred, it should not be inferred if only simple negligence exists.

E. Does Public Interest Require a Simple Negligence Standard?

Another factor justifying a simple negligence standard is the "paramount public interest" of complete honesty and candor with the PTO. The Supreme Court in *Precision Instrument* acknowledged the important public interest associated with patents:

A patent by its very nature is affected with a public interest.

71. *Kansas Jack, Inc. v. Huhn*, 719 F.2d at 1144, 1151 (Fed. Cir. 1983).

72. *Id.*

As recognized by the Constitution, it is a special privilege designed to serve the public purpose of promoting the "Progress of Science and useful Arts." At the same time, a patent 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, gives the public a paramount interest in seeing that patent monopolies spring from backgrounds free from fraud or other inequitable conduct⁷³

The Tenth Circuit in *True Temper Corp. v. CF&I Steel Corp.*,⁷⁴ discussed the relationship between this paramount public interest and the applicant's duty of disclosure before the PTO. The court emphasized the importance of full disclosure by indicating that if the duty had been breached, the patent might not be enforceable. "[T]he applicant owes an 'absolute duty of full and complete disclosure of all matters reflecting adversely upon his patent,' and he risks non-enforcement of his monopoly on later discovery of a failure to fulfill that obligation."⁷⁵

Does this mean that a good faith failure to disclose information later found to be material is enough to establish inequitable conduct? The Tenth Circuit language quoted above indicates that such failure to disclose may be sufficient. If so, then simple negligence can establish inequitable conduct.⁷⁶ However, merely stating the important public interest behind disclosure does not rebut the strong arguments against a simple negligence standard. Other interests, including the public interest in a workable patent system that encourages invention, must be considered. Accommodation of all relevant interests requires that the standard for breach of the duty of disclosure not be so exacting that good faith patentees are left without the protection of the system.

V. CONCLUSION

Recently, the Court of Appeals for the Federal Circuit intro-

73. *Precision Instrument Mfg. Co. v. Automotive Maintenance Mach. Co.*, 324 U.S. 806, 816 (1945). *See also* *Norton v. Curtiss*, 433 F.2d 779, 793-94 (C.C.P.A. 1970) (strong public interest in the patent system requires strict duty of disclosure).

74. 601 F.2d 495 (10th Cir. 1979).

75. *Id.* at 501 (citation omitted). Even though the Tenth Circuit refers to a patent as a monopoly, a patent is a property interest and by itself may not be a true monopoly.

76. However, the Federal Circuit more recently implied that simple negligence is not sufficient. *See supra* note 72 and accompanying text.

duced uncertainty into the application of an inequitable conduct defense by using two different standards for determining the required intent. Gross negligence has historically been applied as the minimum level of intent required for inequitable conduct; nevertheless, the Federal Circuit, relying on *J.P. Stevens & Co. v. Lex Tex, Ltd.*, has actually applied a simple negligence test even though it called its test gross negligence. At the same time, it stated that simple negligence is an insufficient level of intent to establish inequitable conduct. An examination of the inequitable conduct defense reveals that a gross negligence requirement best satisfies the constitutional purpose of the patent system and that gross negligence is required under current PTO rules. Therefore, the *J.P. Stevens* definition of "gross negligence," which in reality is simple negligence, should be reexamined by the Federal Circuit and repronounced as a true gross negligence standard.

Evan R. Witt