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INEQUITABLE CONDUCT

David McGowan*

The inequitable conduct doctrine empowers a court to refuse to enforce a patent upon a clear showing that a patentee intended to deceive the Patent and Trademark Office. Some form of the doctrine has existed in the United States since 1790. Despite its longstanding existence, however, the doctrine is unpopular at present with patent prosecutors, legislators, and judges alike. Borrowing from experience and case law arising under the federal securities laws, recent opinions of the U.S. Court of Appeals for the Federal Circuit aim to make inequitable conduct harder to plead and harder to prove. This Article argues that the disclosure policies the inequitable conduct doctrine advances are ill served by standards that result in treating dissimilar patentees alike. Rather than concerning itself with the morality of participants in the application process, the inequitable conduct doctrine should aim to ensure examiners get the information they need to make the system work. A more pragmatic, disclosure-oriented approach would be more predictable and useful than the court's current approach.

[W]e are faced with questions of both socioeconomic policy on the one hand, and morals or ethics on the other. We . . . should not so emphasize either category as to forget the other.

—*Rohm & Haas Co. v. Crystal Chemical Co.*¹

The definition of a legal subject is thus a legitimate, and quite conceivably a practically important matter. But it is a matter of analysis of facts, not of search for an inhering essence.

—John Dewey²

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1. 722 F.2d 1556, 1571 (Fed. Cir. 1983).

2. John Dewey, *The Historic Background of Corporate Legal Personality*, 35 YALE L.J. 655, 661 (1926).

INTRODUCTION

The inequitable conduct doctrine empowers a court to refuse to enforce a patent upon a clear showing that a patentee intended to deceive the Patent and Trademark Office (PTO) through the concealment of material information or through the submission of materially false information.³ Antecedents of the doctrine may be traced to the Patent Act of 1790 and to English practice before that.⁴ The constant presence of some form of the doctrine suggests some form of it is helpful to the sensible operation of the patent system.

The doctrine is unpopular at present, though. Lawyers who prosecute patents, and whose conduct the doctrine scrutinizes, dislike it. They also seem to think infringement defendants assert the defense reflexively, so that prosecutors can never immunize themselves from claims of inequitable conduct, no matter how scrupulous their conduct may be. Many legislators and judges appear to believe the doctrine is asserted too often and view the frequency of its assertion as a sign of a flaw in its structure.⁵ The Federal Circuit's recent opinions cast the doctrine as a noxious weed and some judges seem to see themselves as particularly vigorous gardeners.⁶ Borrowing from experience and caselaw arising under the federal securities laws, these opinions aim to make inequitable conduct harder to plead and harder to prove. The Federal Circuit recently decided to rehear en banc a case upholding a finding of inequitable conduct, likely for the purpose of further limiting the scope of the defense.⁷

Even before the court's most recent rehearing grant, the unpopularity of the inequitable conduct doctrine led the Federal Circuit to weaken it over time. Under current law, an infringement defendant must show by clear and convincing evidence that a

3. Benjamin Brown, *Inequitable Conduct: A Standard in Motion*, 19 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 593, 594–95 (2009).

4. Robert J. Goldman, *Evolution of the Inequitable Conduct Defense in Patent Litigation*, 7 HARV. J.L. & TECH. 37, 39–40 (1993).

5. See Christopher A. Cotropia, *Modernizing Patent Law's Inequitable Conduct Doctrine*, 24 BERKELEY TECH. L.J. 723, 737–38 (2009).

6. A different metaphor, suggested by *Burlington Industries, Inc. v. Dayco Corp.*, 849 F.2d 1418, 1422 (Fed. Cir. 1988), would cast the doctrine as a plague and the Federal Circuit as a physician with the right antibiotic.

7. *Therasense, Inc. v. Becton, Dickinson & Co.*, 593 F.3d 1289 (Fed. Cir. 2010), review granted 2010 WL 1655391.

patentee deliberately intended to deceive the PTO through material misstatements or omissions. As a result, courts treat a patent issued after the patentee complied scrupulously with all relevant obligations no differently than a patent issued after the patentee more likely than not attempted to deceive an examiner by withholding material information the examiner did not otherwise have, and no differently from a patent obtained by a patentee who clear and convincing evidence shows to have misled the PTO through reckless disregard for the truth.⁸

This Article argues that the disclosure policies the inequitable conduct doctrine advances are ill served by standards that result in treating such dissimilar patentees alike. To the extent the inequitable conduct doctrine has problems, they stem not from the doctrine's pleading or scienter requirements but from the relatively blunt remedy the Supreme Court has prescribed and, even more fundamentally, from a cost asymmetry that may be remedied through simple orders shifting fees and costs in cases where the defense is asserted without foundation. The Federal Circuit's hostility toward the doctrine is not justified and is manifesting itself in rulings that are likely to be counterproductive.

I

Antecedents of the inequitable conduct doctrine may be traced to the beginning of the U.S. patent system and beyond. The doctrine was weakened during the roughly one hundred years after reorganization of the PTO in 1836 but was revived in the wave of judicial economic populism and corresponding anti-patent sentiment in the 1930s and 1940s.⁹ The cases occasioning the revival had unusual facts, which provided a poor basis for the doctrine they created. Nevertheless, the provenance of the doctrine suggests what analysis confirms: the doctrine is important to a well-functioning patent system.¹⁰

8. See Brown, *supra* note 3, at 603–05; see also *Kao Corp. v. Unilever U.S., Inc.*, 441 F.3d 963, 972 (Fed. Cir. 2006).

9. See Goldman, *supra* note 4, at 45–51.

10. The following is a truncated précis of the doctrine's history. My main topic here is the optimal structure under present conditions and what I see as unwise attempts to rein in the doctrine by loading it up with unrealistic procedural requirements and adopting an unrealistic epistemology. For a fuller discussion, see Goldman, *supra* note 4.

A

Section 5 of the first Patent Act, adopted in 1790, provided a right of action to cancel a patent.¹¹ Within one year of issuance a challenger could submit in the district court where the defendant lived an oath showing the patent had been “obtained surreptitiously, or upon false suggestion.”¹² If the court deemed the showing sufficient, it was empowered to issue an order to the patentee to show cause why the patent should not be repealed.¹³ If the patentee failed to show cause in such a case, the court was to render a judgment repealing the patent.¹⁴ If the patentee did show cause, however, the “party at whose complaint the process issued, shall have judgment given against him, [and] he shall pay all such costs as the defendant shall be put to in defending the suit.”¹⁵

This right of action for cancellation carried into American patent practice the writ of *scire facias*, the English procedure requiring the beneficiary of a judicial record to appear and show cause why it should not be repealed and the cause resolved against him.¹⁶ In England, the writ provided the means by which the Queen, in her prerogative, could repeal her grant of a patent where she had been “deceived by a false suggestion.”¹⁷ The “false suggestion” language is ambiguous with respect to the patentee’s state of mind. The most natural reading of the term is that any falsity justified repeal (after all, a regent misled innocently is still a regent misled) but one could read “false suggestion” together to extend the writ only to deliberate lies.

Section 6 of the 1790 Act provided that one accused of infringement could defend on the ground that “the specification filed

11. Patent Act of 1790, ch. 7, § 5, 1 Stat. 109, 111 (repealed 1793) (current version at 35 U.S.C. § 284 (2006)).

12. *Id.*

13. *Id.*

14. *Id.*

15. *Id.*

16. See THOMAS CAMPBELL FOSTER, A TREATISE ON THE WRIT OF SCIRE FACIAS 12 (London, V. & R. Stevens and G.S. Norton 1846).

17. *Id.* The practice was quite old. Sir Edward Coke recognized that the writ would lie when “the King granteth any thing that is grantable upon a fal[s]e [s]jugge[s]tion,” and Coke opined that the “highest point of [the chancellor’s] jurisdiction” was “to cancel the king’s letters patents under the great [s]jeal, and dam[n]ing the [e]nrolment thereof, by drawing [s]trikes through it like a lettee.” EDWARD COKE, THE FOURTH PART OF THE INSTITUTES OF THE LAWS OF ENGLAND 87–88 (London, John Streeter et al. 1671).

by the plaintiff did not contain the whole truth concerning his invention or discovery.”¹⁸ Under this provision,

[I]f the concealment of part, or the addition of more than is necessary, shall appear to have been intended to mislead, or shall actually mislead the public, so as the effect described cannot be produced by the means specified, then, and in such cases, the verdict and judgment shall be for the defendant.¹⁹

Two things about this provision are worth noting. First, it seems to aim at enablement—enforcing the “patent bargain” by making sure one who read the patent could practice the invention. Second, the provision applies both to patentees who intended to mislead the public and to those who did so regardless of their intention.

The 1793 Patent Act (“1793 Act”) included modified versions of both provisions. Section 10 extended to three years the time to bring an action for cancellation.²⁰ Section 6 modified the defense in two ways. The 1793 Act eliminated the defense for cases in which the patentee “actually misled” the public without intending to do so and it added language seeming to heighten the standard of proof for the defense.²¹ The new language stated that the defense prevailed only if the concealment or addition “shall fully appear to have been made” “for the purpose of deceiving the public.”²²

Perhaps more importantly, the 1793 Act did away with any pretense of examination and instead required applicants to submit affidavits averring to the statutory elements.²³ That did not work. Fraud and conflicting claims were common.²⁴ Things changed with the general reorganization of the patent office under the 1836 Patent Act.

Section 15 of the 1836 Patent Act (“1836 Act”) carried forward the substance of the defense provided by the 1793 Act.²⁵ The 1836

18. Patent Act of 1790, ch. 7, § 6, 1 Stat. at 111.

19. *Id.* § 6, at 111–12.

20. Patent Act of 1793, ch. 10, § 10, 1 Stat. 318, 323 (repealed 1836) (current version at 35 U.S.C. § 284 (2006)).

21. *Id.* § 6, at 322.

22. *Id.*

23. *Id.* § 3, at 321.

24. Goldman, *supra* note 4, at 40–41.

25. See also *Celluloid Mfg. Co. v. Russell*, 37 F. 676, 679 (S.D.N.Y. 1889) (requiring intent to deceive to establish statutory defense).

Act did not provide a cause of action for cancellation, however, and it limited the defense against patents “surreptitiously or unjustly obtained” to cases where the patentee claimed the invention of another who was exercising reasonable diligence in perfecting the invention.²⁶ Only in the case of interference did the 1836 Act provide a private right that might lead to cancellation.²⁷

Accordingly, in *Rubber Co. v. Goodyear*²⁸ and *Mowry v. Whitney*,²⁹ the Supreme Court declined to consider allegations of fraud leveled by a private party seeking to challenge an existing patent. Both cases noted the 1836 Act’s elimination of the private right of action for cancellation;³⁰ *Mowry* conceived of the writ of *scire facias* (and the equitable remedies that supplanted it in American law) as asserting a right belonging to the defrauded party—the government.³¹ In *United States v. American Bell Telephone Co. (American Bell I)*,³² the Court converted the dicta in *Mowry* into a holding that the government had standing to bring a claim for repeal of a patent allegedly obtained by fraud even though the 1836 Act contained no language authorizing such a suit.³³

American Bell I also outlined the pleading standard necessary to proceed with such a case.³⁴ Bell demurred to the complaint on the ground that the government had not alleged fraud with enough specificity.³⁵ The Court replied:

It is a mistake to suppose that in stating the facts which constitute a fraud, where relief is sought in a bill in equity, all the evidence which may be adduced to prove that fraud must be recited in the bill. It is sufficient if the main facts or

26. Patent Act of 1836, ch. 357, § 15, 5 Stat. 117, 123 (repealed 1842) (current version at 35 U.S.C. § 284 (2006)).

27. *Id.* § 16, at 117, 123–24 (repealed 1842).

28. 76 U.S. 788, 797–98 (1869).

29. 81 U.S. 434, 441 (1871).

30. *Id.* at 434, 440–41; *Rubber Co.*, 76 U.S. at 797.

31. *Mowry*, 81 U.S. at 440–41. Courts applying *Mowry* read it as barring ordinary defendants from asserting inequitable conduct as a defense. See *Vortex Mfg. Co. v. Ply-Rite Contracting Co.*, 33 F.2d 302, 313 (D. Md. 1929).

32. 128 U.S. 315 (1888).

33. *Id.* at 373.

34. *Id.* at 356.

35. *Id.* at 351.

incidents which constitute the fraud against which relief is desired shall be fairly stated³⁶

The allegations of the complaint were in fact fairly detailed, so this comment might be taken less severely than it reads, but it sheds some light on what the Court was willing to accept in government suits.

In addition, the Court began its explanation of why the government was allowed to bring such a suit without statutory authorization by adopting a highly moral tone that emphasized the badness of the patentee. The claim that the government had no power to bring suit, the Court said, implied that

a party may practice an *intentional* fraud upon the officers of the government who are authorized and whose duty it is to decide upon his right to a patent, and that he may by means of that fraud perpetrate a grievous wrong upon the general public, upon the United States, and upon its representatives.³⁷

It was this “gross fraud” the Court combated with its decision.³⁸

American Bell I carries some hints of a general aversion to patents. The Court said,

The United States, by issuing the patents which are here sought to be annulled, has taken from the public rights of immense value, and bestowed them upon the patentee. In this respect the government and its officers are acting as the agents of the people, and have, under the authority of law vested in them, taken from the people this valuable privilege, and conferred it as an exclusive right upon the patentee.³⁹

The late nineteenth century was not generally an anti-patent period, however. For example, though the Sherman Act became law only two years after *American Bell I*, initial decisions regarding the intersection of patent and antitrust law favored patentees.⁴⁰ The

36. *Id.* at 356.

37. *Id.* at 357 (emphasis added).

38. *Id.*

39. *Id.* at 370.

40. *E.g.*, *Henry v. A.B. Dick Co.*, 224 U.S. 1, 1 (1912); *E. Bement & Sons v. Nat'l Harrow Co.*, 186 U.S. 70, 94 (1902); *Heaton-Peninsular Button-Fastener Co. v. Eureka Specialty Co.*, 77 F. 288, 301 (6th Cir. 1896).

Court's preservation of the cancellation cause of action appears to have been motivated more by abhorrence of fraud than of patents.⁴¹

This impression was confirmed when *United States v. American Bell Telephone* returned to the Court in *American Bell II*.⁴² Having allowed the cancellation action to go forward, the Court then had to decide what proof would justify cancellation.⁴³ The Court drew on cases challenging grants of land patents (another historical use for the *scire facias* writ) but found less need for cancellation in the context of patents on technology.⁴⁴ After all, the Court reasoned, an erroneous grant of land took from the United States something it previously owned, whereas an erroneous grant of rights to an invention did not,⁴⁵ and land grants were forever while technology patents expired within a comparatively short time.⁴⁶ The Court then established a high burden of proof for such cases, which it borrowed from the *Maxwell Land-Grant* case.⁴⁷

The *Maxwell* case involved a challenge to a patent confirming a Mexican grant of title in land the United States obtained under the Treaty of Guadalupe Hidalgo, which ended the war with Mexico.⁴⁸ Congress confirmed the grant by statute. The government later argued that the land patentee conspired to claim 265,000 acres more than the original Mexican grant.⁴⁹ (This land amounted to an entire county in Colorado.)

41. Thus the Court's statement that preserving the cause of action allowed the government a way to "correct this evil, to recall these patents, to get a remedy for this fraud . . ." *American Bell I*, 128 U.S. at 370.

42. *United States v. Am. Bell Tel. Co. (American Bell II)*, 167 U.S. 224 (1897).

43. *Id.* at 238.

44. *Id.* at 240-42.

45. *Id.* at 239 ("The government parted with nothing by the patent. It lost no property. Its possessions were not diminished.").

46. According to the Court, if clear and convincing proof is required in suits between individuals,

it is much more so when the government attempts to set aside its solemn patent. And we may here again repeat that if this is true when the suit is to set aside a patent for land, which conveys for all time the title, *a fortiori* it must be true when the suit is one to set aside a patent for an invention, which only grants a temporary right.

Id. at 251 (paraphrasing *United States v. Maxwell Land-Grant Co.*, 121 U.S. 325, 381 (1887)) (emphasis added).

47. *Id.*

48. *Maxwell Land-Grant Co.*, 121 U.S. at 365.

49. *Id.* at 358-59.

There was some ambiguity in the language of the Mexican grant. The land patentee asked the government to survey the grant but the government initially declined. The patentee then commissioned its own survey and delivered it to the government. The government did not use that survey, however, and instead ordered one of its own, on which the patent was finally based.⁵⁰ On this record the government later claimed that the patentee's survey overstated the grant's reach and that the patent therefore should be repealed for fraud.⁵¹

The Court disagreed. It held the patentee's survey withstood the particular challenges the government asserted against it and, in any event, the evidence for the survey was "as strong or stronger than that for any other survey which could be made, or which has been suggested by the counsel for the United States."⁵² This finding meant that the Court was not certain that any misrepresentation had been made in the first place. The Court also found there was "not the slightest evidence" of intentional fraud, noting that the patent had not been based on the private survey.⁵³

The Court refused to

set aside and declare null and void these surveys and patents approved by the officers of the government whose duty it was to consider them, and who evidently did consider them with great attention, upon the mere possibility or a bare probability that some other survey would more accurately represent the terms of the grant.⁵⁴

It was in this context that the *Maxwell* Court wrote the language quoted in *American Bell II*:

50. According to the Court,

[i]f they attempted a fraudulent imposition, they were not successful; he rejected their survey altogether, caused another one to be made, and pointed out in his instructions to those who executed the final survey the points of departure from that made by Griffin, upon which he insisted. It seems impossible, in the face of these circumstances, to assume that there was anything in the nature of fraud perpetrated in regard to the Griffin survey, and its effect upon the final survey.

Id. at 378–79.

51. *Id.* at 358–59.

52. *Id.* at 377.

53. *Id.*

54. *Id.*

We take the general doctrine to be that when, in a court of equity, it is proposed to set aside, to annul, or to correct a written instrument for fraud or mistake in the execution of the instrument itself, *the testimony on which this is done must be clear, unequivocal, and convincing, and that it cannot be done upon a bare preponderance of evidence which leaves the issue in doubt.* If the proposition, as thus laid down in the cases cited, is sound in regard to the ordinary contracts of private individuals, how much more should it be observed where the attempt is to annul the grants, the patents, and other solemn evidences of title emanating from the government of the United States under its official seal. In this class of cases *the respect due to a patent, the presumptions that all the preceding steps required by the law had been observed before its issue, the immense importance and necessity of the stability of titles dependent upon these official instruments, demand that the effort to set them aside, to annul them, or to correct mistakes in them should only be successful when the allegations on which this is attempted are clearly stated and fully sustained by proof.* It is not to be admitted that the titles by which so much property in this country and so many rights are held, purporting to emanate from the authoritative action of the officers of the government, and, as in this case, under the seal and signature of the President of the United States himself, shall be dependent upon the hazard of successful resistance to the whims and caprices of every person who chooses to attack them in a court of justice; but it should be well understood that only that class of evidence which commands respect, and that amount of it which produces conviction, shall make such an attempt successful.⁵⁵

One can understand the Court's concern with respect to land titles. People sink costs into land and rely heavily on the stability of titles.⁵⁶ But land is not the product of a process that presumes

55. *Id.* at 381–82 (emphases added).

56. The Court also invoked general equitable principles, drawing on cases voiding contracts, among others. *Id.* at 379–81.

applicants tell people the truth. The question in most cases is not whether land shall be owned but who shall own it. Patents are different, as the Court noted later in reviving the inequitable conduct doctrine.⁵⁷

In any event, the *Maxwell* Court found no evidence of corruption or deceit and, indeed, no evidence that there had been any misrepresentation. The Court's discussion of the standard of proof has the ring of dicta. Even if the Court's language is taken as an unequivocal holding, however, the Court's reasoning does not extend automatically to patents on technology rather than land. The court was right to say that security of title is important: People must have confidence in their title if they are to sink costs into improving their land. With regard to real property this point favors current occupants over other claimants. But the point has no similar valence with regard to technology patents. Even defendants who do their own research and development and copy nothing may be liable for patent infringement. Such defendants have a legitimate interest in exploiting their own investments, an interest that can be frustrated by infringement suits.

Moreover, the Court in *American Bell II* adopted the *Maxwell* language and applied it to the government's claim.⁵⁸ That claim did not amount to much: it centered on delay.⁵⁹ The gist of the charge was that Bell acquired an invention that improved on his basic telephone, for which he previously had received his famous patent.⁶⁰ Bell supposedly let the application on the improvement languish in the patent office until his original patent was about to expire, thus effectively extending the length of his rights.⁶¹

The government's claim did not even hint at misrepresentation, and the Court rejected it summarily.⁶² The Court held that to prevail, the government

57. *See id.* at 382.

58. *American Bell II*, 167 U.S. 224, 240–41 (1897).

59. *Id.* at 240–42.

60. *Id.* at 243.

61. *Id.* at 244–46.

62. *Id.* at 248 (“The true rule is that if application has been made, and the applicant has once called for action, he cannot be deprived of any benefits which flow from the ultimate action of the tribunal, although that tribunal may unnecessarily, negligently, or even wantonly, if that supposition were admissible, delay its judgment.”).

must affirmatively show that the delay has been caused in some way by the conduct of the applicant, and before its patent can be set aside, the government must, in accordance with the rules laid down in respect to land patents, establish that fact clearly. It may not rest on mere inferences, mere suggestions but must prove the wrong in such a manner as to satisfy the judgment before it can destroy that which its own agents have created.⁶³

B

American Bell I did not create an inequitable conduct defense in the modern sense of the doctrine. A right of cancellation in the government did ordinary infringement defendants little good. Defendants could assert only the statutory defense for misleading descriptions, provided they could show deliberate deceit regarding a material aspect of the patent.⁶⁴

In *Keystone Driller Co. v. General Excavator Co.*,⁶⁵ the Court took a step toward creating the modern defense.⁶⁶ The patentee in that case had procured a false affidavit meant to suppress evidence of prior invention and prior use that threatened the validity of the patent.⁶⁷ This trick worked to suppress evidence in one case but was uncovered in a different case asserting the same patents.⁶⁸ The trial court denied a motion for injunctive relief, which cited the prior case,

63. *Id.* at 251.

64. *Corona Cord Tire Co. v. Dovan Chem. Co.*, 276 U.S. 358, 374 (1928) (holding no fraud shown where patentee submitted declaration claiming to have used accelerant to vulcanize rubber but had only shown that the accelerant worked without vulcanizing anything). The Court in *Corona Cord Tire* stated:

Production of rubber goods for use or sale was not indispensable to the granting of the patent. Hence the affidavits, though perhaps reckless, were not the basis for it or essentially material to its issue. The reasonable presumption of validity furnished by the grant of the patent, therefore, would not seem to be destroyed.

Id. See also *Burke Elec. Co. v. Indep. Pneumatic Tool Co.*, 232 F. 145, 147 (2d Cir. 1916) (affirming holding of Learned Hand, then a district judge, that defense would not lie where the description, though misleading, was not intentionally so and the misleading element concerned the operation of the invention rather than the elements of patentability).

65. 290 U.S. 240 (1933).

66. *Id.* at 247. It is worth noting that even before *Keystone Driller*, some courts held that misrepresentations to the PTO stripped an issued patent of its presumption of validity. See *Floridin Co. v. Attapulugus Clay Co.*, 35 F. Supp. 810, 814 (D. Del. 1940), *aff'd*, 125 F.2d 669 (3d Cir. 1942).

67. *Keystone Driller*, 290 U.S. at 243-44.

68. *Id.*

but required the defendants to post a bond.⁶⁹ The district court also rejected the defendants' claim that injunctive relief was barred by unclean hands on the ground that, though the defendants had tried to suppress evidence, no evidence had been suppressed in the case before it.⁷⁰

The court of appeals reversed, finding that the cases in which evidence was suppressed were sufficiently connected to the case at hand to justify application of the unclean hands doctrine.⁷¹ The court held it did not matter whether the evidence suppressed was sufficient to show anticipation. According to the court, "if the conduct was reprehensible, it matters not that it was really unnecessary."⁷² The court reversed the district court's decision with instructions to dismiss the equitable actions without prejudice.⁷³ The court did not bar all suits on the patents. It left open the possibility of suits for damages and, perhaps, even equitable relief in a new, untainted action. The Supreme Court affirmed.⁷⁴

Keystone Driller was an uncontroversial application of general equitable principles. In Justice Black's influential opinion in *Hazel-Atlas Glass Co. v. Hartford-Empire Co.*,⁷⁵ however, it appears in conjunction with *American Bell I* to justify the modern inequitable conduct doctrine.

In *Hazel-Atlas*, lawyers for Hartford, the patentee, wrote an article praising its invention as revolutionary, paid a well-known union president to sign it, and submitted it to the PTO in support of its application.⁷⁶ The patent issued and Hartford sued Hazel-Atlas for infringement. Hartford lost at the trial court and, on appeal, relied heavily on the article.⁷⁷ The appellate court entered a judgment of validity and infringement; its opinion quoted Hartford's article.⁷⁸ Hazel-Atlas then tracked down the union president to question him

69. *Id.* at 242.

70. *Id.* at 244. Even though the court denied the motion for injunctive relief, the defense would have mooted the need for the bond.

71. *Id.* at 246-47.

72. *Gen. Excavator Co. v. Keystone Driller Co.*, 62 F.2d 48, 50 (6th Cir. 1932).

73. *Keystone Driller*, 290 U.S. at 244.

74. *Id.* at 247.

75. 322 U.S. 238 (1944).

76. *Id.* at 240-41.

77. *Id.*

78. *Id.* at 241.

about the article.⁷⁹ He would not talk to Hazel-Atlas but did give Hartford an affidavit and was paid \$8,000 not too long thereafter.⁸⁰

All this happened in 1932. In 1941 these facts came to light in an antitrust investigation of Hartford.⁸¹ Hazel-Atlas then petitioned the circuit court to vacate the appellate judgment on the ground that it had been procured by fraud on that court.⁸² The circuit court denied relief on the ground that the fraud was not newly discovered, the article was not the primary basis of the opinion, and it had no power to vacate its judgment in any event.⁸³

The Supreme Court reversed.⁸⁴ It did not care whether Hazel-Atlas was diligent. Citing misuse cases, it held that "even if Hazel did not exercise the highest degree of diligence Hartford's fraud cannot be condoned for that reason alone. This matter does not concern only private parties. There are issues of great moment to the public in a patent suit."⁸⁵ Nor did it care whether the article was the primary basis for the circuit court's opinion: "Hartford's officials and lawyers thought the article material. They conceived it in an effort to persuade a hostile Patent Office to grant their patent application, and went to considerable trouble and expense to get it published."⁸⁶

The Court then combined the holding of *Keystone Driller* with the misuse doctrine that equity will not help a patentee extend the scope or duration of a patent⁸⁷ to hold that the district court would have been justified in dismissing Hartford's claim had the fraud come to light there.⁸⁸ As noted above, the circuit court in *Keystone Driller* dismissed the relevant claims without prejudice and held that the misuse doctrine (though it does suspend all enforcement of a misused patent) may be avoided if the patentee purges itself of misuse. The Court nevertheless held that "[t]o grant full protection to

79. *Id.* at 242.

80. *Id.* at 242-43.

81. *Id.* at 243.

82. *Id.* at 240.

83. *Id.* at 243-44.

84. *Id.* at 251.

85. *Id.* at 246.

86. *Id.* at 247.

87. *Morton Salt Co. v. G. S. Suppiger Co.*, 314 U.S. 488, 494 (1942).

88. *Hazel-Atlas*, 322 U.S. at 250.

the public against a patent obtained by fraud, that patent must be vacated.⁸⁹

The following year, in *Precision Instrument Manufacturing Co. v. Automotive Maintenance Machinery Co.*,⁹⁰ the Court elaborated on the doctrine. An employee of Automotive had invented a new wrench while working for that firm but sought to commercialize it with a third party, who filed a patent application.⁹¹ This application included materially false statements regarding the invention and other matters.⁹²

The PTO declared an interference between this application and another application assigned to Automotive.⁹³ Automotive discovered the fraud in connection with the interference proceeding.⁹⁴ It settled the interference by obtaining an assignment to the third-party application (which claimed an invention as to which Automotive probably had a prior assignment by virtue of its employment agreement with the employee who invented it).⁹⁵

Automotive obtained patents on both its application and the third-party application it obtained in the settlement.⁹⁶ It sued to enforce them against a party that knew about the assignment.⁹⁷ The defendant asserted that Automotive's claims were barred by the doctrine of unclean hands because Automotive asserted rights in a patent it knew was obtained by fraud.⁹⁸ The district court held a trial on this claim and found that Automotive should be denied any relief.⁹⁹ The court of appeals took a different view of the facts and reversed.¹⁰⁰

The Supreme Court "brought the case here because of the public importance of the issues involved,"¹⁰¹ even though the disputes below

89. *Id.* at 251.

90. 324 U.S. 806 (1945).

91. *Id.* at 808–09.

92. *Id.* at 809–10.

93. *Id.* at 809.

94. *Id.* at 809–10.

95. *Id.* at 813–14.

96. *Id.* at 814.

97. *Id.*

98. *Id.* at 807–08.

99. *Id.* at 808.

100. *Id.*

101. *Id.*

were largely factual. The Court reversed the decision of the court of appeals and reinstated the district court's judgment.¹⁰² In doing so, it took the opportunity to elaborate on the doctrine in terms that differed significantly from the rhetoric of *American Bell II*. Rather than worrying less about technology patents than about land, the Court held:

[a] patent by its very nature is affected with a public interest. 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, give the public a paramount interest in seeing that patent monopolies spring from backgrounds free from fraud or other inequitable conduct and that such monopolies are kept within their legitimate scope.¹⁰³

The Court found Automotive acted "in disregard of the public interest" by taking advantage of the fraudulent application rather than doing "all within its power to reveal and expose the fraud."¹⁰⁴

C

Congress revised the Patent Act in 1952, replacing the old statutory defense for misleading specifications with a new 35 U.S.C. § 282, which lists defenses generally. Section 282 provides that unenforceability is a defense, which seemed to codify the inequitable conduct doctrine without clarifying it very much.¹⁰⁵

Cases following this revision and, more importantly, the Supreme Court's revival of the doctrine, divided on some important questions. Some courts took a more relaxed view of materiality than the strict requirement established in *Corona Cord*. In *Corning Glass Works v. Anchor Hocking Glass Corp.*,¹⁰⁶ for example, the court cited

102. *Id.* at 820.

103. *Id.* at 816.

104. *Id.*

105. 35 U.S.C. § 282 (2006).

106. 253 F. Supp. 461 (D. Del. 1966), *modified on other grounds*, 374 F.2d 473 (3d Cir. 1967).

Precision Instrument for the proposition that it could decline to enforce the patent based on intentional but legally immaterial misrepresentations.¹⁰⁷ In *Monolith Portland Midwest Co. v. Kaiser Aluminum & Chemical Corp.*¹⁰⁸ the Ninth Circuit rejected the argument that the defense should not be sustained unless misrepresentations were material to patentability rather than to another issue such as acceleration. Other courts were stricter.¹⁰⁹ Some courts stated that deception needed to be proved only to a “reasonable degree of certainty,”¹¹⁰ while others retained the “clear and convincing” standard traceable to *Maxwell*.¹¹¹

Perhaps most importantly from the perspective of the present retrenchment of the doctrine, some courts maintained a strict requirement that a defendant show intentional misrepresentation or omission¹¹² while others held that reckless indifference to the truth was enough.¹¹³ The Ninth Circuit’s *Monolith Portland* opinion endorsed a gross negligence standard, and two years later, the Court of Customs and Patent Appeals followed with its influential opinion in *Norton v. Curtiss*.¹¹⁴

Norton rightly distinguished deceit as a defense from deceit as a cause of action.¹¹⁵ *Norton* might have gone farther and established an

107. *Id.* at 470. The court agreed, however, that the defense could only be established by representations that met at least some standard of relevance. *Id.* at 471 n.27; see also *SCM Corp. v. Radio Corp. of Am.*, 318 F. Supp. 433, 449–50 (S.D.N.Y. 1970).

108. 407 F.2d 288, 296 (9th Cir. 1969) (stating that “the use of willfully false testimony cannot be fully rinsed away with a solution composed primarily of legal semantics”).

109. See, e.g., *Martin v. Ford Alexander Corp.*, 160 F. Supp. 670, 685 (S.D. Cal. 1958) (finding the defense was not established where there was neither evidence that incorrect affidavits expedited prosecution or overcame objections, nor any evidence of scienter).

110. E.g., *Baldwin-Lima-Hamilton Corp. v. Tatnall Measuring Sys. Co.*, 169 F. Supp. 1, 21 (E.D. Pa. 1958) (quoting *Helene Curtis Indus. v. Sales Affiliates, Inc.*, 121 F. Supp. 490, 510 (S.D.N.Y. 1954), *aff’d*, 233 F.2d 148 (2d Cir. 1956)).

111. E.g., *Clark v. Ace Rubber Prods.*, 108 F. Supp. 200, 205 (N.D. Ohio 1952).

112. E.g., *Martin*, 160 F. Supp. at 685. The court required a finding of scienter, but its holding was presumably overruled by the Ninth Circuit’s decision in *Monolith Portland*, 407 F.2d at 296.

113. *Monolith Portland*, 407 F.2d at 297 (stating that “calculated recklessness about the truth . . . constitutes a serious breach of duty to the Patent Office”). *Monolith Portland* was a fees case and the court held the patentee’s conduct before the PTO justified an award of fees to the defendant, although the court gave no indication that it intended to limit its holding to the fee context. *Id.* at 293, 297–98.

114. 433 F.2d 779 (C.C.P.A. 1970).

115. *Id.* at 793. In contract law, for example, as a rule “a party to a contract may avoid it even if the other party obtained its assent by an innocent misrepresentation.” E. ALLAN FARNSWORTH, WILLIAM F. YOUNG & CAROL SANGER, *CONTRACTS* 361 (6th ed. 2001); see *Halpert v. Rosenthal*, 267 A.2d 730 (R.I. 1970) (distinguishing misrepresentations in contract actions from

ordinary "preponderance of evidence" standard for establishing the defense. It could have pointed out that the "clear and convincing evidence" standard traced to *American Bell II* and *Maxwell*, cases asserting affirmative claims rather than defenses. The intervening cases from *Keystone Driller* through *Precision Instrument* certainly revived the non-statutory defense, and might reasonably be read as reviving the traditional equitable standards for such defenses as well. *Norton* did not do that, however. It endorsed the traditional standard of proof without comment.¹¹⁶

The other circuits fell in line behind *Norton*,¹¹⁷ and there matters stood until 1982, when the Court of Appeals for the Federal Circuit took over the doctrine.¹¹⁸

II

In the past twenty-plus years the Federal Circuit has pared back the doctrine it inherited. The court has kept constant the definition of materiality but has narrowed the mental state sufficient to establish the defense, set up a high standard for pleading the defense, and applied a severe if not strained epistemology to inferences of intention.

Kingsdown Medical Consultants, Ltd. v. Hollister, Inc.,¹¹⁹ reversed *Norton* and held that a finding that an applicant had been grossly negligent in its representations or in failing to disclose information did not of itself establish the deceptive intent necessary to show misconduct.¹²⁰ *American Hoist & Derrick Co. v. Sowa & Sons*¹²¹ disavowed a strand of caselaw holding that misrepresentations or omissions vitiated the presumption of validity ordinarily afforded a patent.¹²² Combined, these holdings committed

those in tort actions). In the patent context, this rule may be defended on the ground that the cause of action seeks judicial action while the defense seeks to avoid it. A court that strongly suspects it is being asked to abet a patentee who was indifferent to the truth of his statements to the PTO might well prefer to treat gross negligence as sufficient to establish the defense and thereby avoid the notoriously difficult question of proving subjective intent. After all, once gross negligence is established, such a rule essentially places the cost of uncertainty on the party who created it.

116. *Norton*, 433 F.2d at 797.

117. Goldman, *supra* note 4, at 64.

118. *Id.* at 67.

119. 863 F.2d 867 (Fed. Cir. 1988).

120. *Id.* at 873-74.

121. 725 F.2d 1350 (Fed. Cir. 1984).

122. *Id.* at 1360.

the court to treat patents procured by applicants whose gross negligence deprived the PTO of material information no differently than patents procured by applicants who complied scrupulously with their obligations.

Notwithstanding these decisions, in 1988 the Federal Circuit declared that inequitable conduct charges had become a plague. The court described such charges in moral terms, suggesting that accusations of inequitable conduct create a type of negative externality that harms the profession and the members in it.¹²³ Later cases emphasized that it is inequitable “to strike down an entire patent where the patentee only committed minor missteps or acted with minimal culpability or in good faith,” and cautioned that courts should “be vigilant in not permitting the defense to be applied too lightly.”¹²⁴

Recent cases have adopted three techniques to rein in the doctrine. First, they require that the defense be pleaded with the particularity required by Federal Rule of Civil Procedure 9(b).¹²⁵ Second, they emphasize the clear and convincing evidence standard as a means of policing district court findings of fact. Third, they stress the requirement that even material misstatements or omissions are not inequitable if they were not specifically intended to deceive.¹²⁶

123. *Burlington Indus., Inc. v. Dayco Corp.*, 849 F.2d 1418, 1422 (Fed. Cir. 1988). The court’s reputational argument is worth quoting:

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.

Id.

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

125. *Exergen Corp. v. Wal-Mart Stores, Inc.*, 575 F.3d 1312, 1326 (Fed. Cir. 2009); *Ferguson Beauregard/Logic Controls, Div. of Dover Res., Inc. v. Mega Sys., LLC*, 350 F.3d 1327, 1344 (Fed. Cir. 2003). For criticism of this application see David Hricik, *Wrong About Everything: The Application by District Courts of Rule 9(b) to Inequitable Conduct*, 86 MARQ. L. REV. 895 (2003).

126. *Larson Mfg. Co. v. Aluminart Prods. Ltd.*, 559 F.3d 1317, 1326 (Fed. Cir. 2009); *Star Scientific*, 537 F.3d at 1365; *Molins PLC v. Textron, Inc.*, 48 F.3d 1172, 1181 (Fed. Cir. 2005); *Dayco Prods., Inc. v. Total Containment, Inc.*, 329 F.3d 1358, 1367 (Fed. Cir. 2003) (holding that inequitable conduct requires intent to deceive and not intent to withhold).

The second and third techniques have created a remarkable epistemology of inequitable conduct. Because findings regarding intent are very sensitive to context, black-letter recitations of law may be misleading. Nevertheless, it is worth noting that at present, a specific intent to deceive cannot be inferred from the failure to disclose material information even where the patentee is able to offer no credible explanation for that failure, and even though an intent to deceive may be the most probable explanation for that failure.¹²⁷

I argue here that the Federal Circuit has gone too far. In its effort to limit the doctrine the court has exceeded whatever useful scope a scienter requirement has (and, beyond recklessness, I see none) and has far exceeded the admitted utility of a modest pleading requirement. In doing so, it has made the doctrine more subjective and less predictable except to the extent these steps will tend to make it harder for defendants to prevail on the defense.

A. *Scienter*

The Federal Circuit's recent opinion in *In re Bose Corp.*¹²⁸ illustrates the point. (*Bose* was a trademark case but its approach to scienter may be generalized safely.) Bose applied to renew its trademark on *Wave* and it opposed an application to register *Hexawave*.¹²⁹ Hexawave, Inc. counterclaimed for cancellation of Bose's mark, claiming Bose committed fraud in its renewal application. The basis of this claim was that in the renewal application, Bose's general counsel averred that Bose was still using the *Wave* mark in commerce on audio tape recorders and players. In fact, however, as the general counsel knew when he signed the affidavit, Bose had discontinued those products. On this ground the Trademark Trial and Appeal Board (TTAB) cancelled Bose's registration.¹³⁰

On appeal, Bose conceded that the affidavit was materially misleading but argued it was not fraudulent because the general counsel believed Bose satisfied the "use in commerce" requirement when it repaired players it had already sold and shipped them back to

127. *Larson*, 559 F.3d at 1340–41.

128. 580 F.3d 1240, 1244–46 (Fed. Cir. 2009).

129. *Id.* at 1242.

130. *Id.* at 1243.

customers.¹³¹ The Federal Circuit agreed and reversed the TTAB's order cancelling the registration.¹³²

The Federal Circuit rejected the TTAB's use of a "knew or should have known" standard for assessing scienter in a fraud claim.¹³³ More importantly, though it did not dispute the TTAB's findings that shipping repaired goods back to their owners is not "use in commerce" for purposes of renewal, and though it recited the general proposition that intent is hard to prove directly and therefore may be inferred from circumstantial evidence,¹³⁴ the court essentially took the general counsel's self-serving statement at face value as a sufficient basis to reverse:

There is no fraud if a false misrepresentation is occasioned by an honest misunderstanding or inadvertence without a willful intent to deceive. [The general counsel] testified under oath that he believed the statement was true at the time he signed the renewal application. Unless the challenger can point to evidence to support an inference of deceptive intent, it has failed to satisfy the clear and convincing evidence standard required to establish a fraud claim.¹³⁵

The court's language implies that there was no evidence of deceptive intent, but that, I think, is wrong.¹³⁶ "Use in commerce" is a term of art, usually indicating sales of branded products, even if only token sales to establish rights for future more widespread sales. When an author uses such a term in an idiosyncratic way, such as claiming that "use in commerce" extends to shipment of repaired goods, the reader is quite likely to be misled. As with passing off, the likelihood of confusion from idiosyncratic use is itself evidence that the author who misused the term intended to deceive the reader. It is not conclusive evidence, as anything short of confession will not be (and even a confession might be false), but it is evidence nonetheless.

131. *Id.* at 1246.

132. *Id.* at 1246–47. The court did agree that the scope of the registration should be restricted to "reflect commercial reality." *Id.*

133. *Id.* at 1244.

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

135. *In re Bose*, 580 F.3d at 1246.

136. Indeed, the court found no evidence even of recklessness.

This point might be made clearer with a symbolic example. Suppose we treat “use in commerce” as a sign, S , that has an accepted, dominant meaning, M . An author who uses S to express M communicates honestly and in good faith because her words correspond to the state of mind the modal reader or listener will understand them to express. Now suppose “use in commerce” also has a plausible literal meaning LM ; what may we infer from an author’s use of S to express LM rather than M ? That depends on how far the literal meaning differs from the dominant meaning. The inference rests on the assumption that the speaker knows the modal meaning and thus knows the likelihood that a listener will be misled by an idiosyncratic usage. The greater the distance between LM and M , the more likely it is that a reader will be materially deceived by the use of S and the more likely it is that a reader intended such deception.

For purposes of illustration, suppose we conceive of this distance as a probability (p) that a reader who sees S will understand it to mean LM . This probability will, of course, be the flip side of the probability of deception. Thus if $p = 0$, then the probability of deceiving the reader will be 1, and vice versa. Assuming Bose’s general counsel knew the conventional meaning M , then his choice to use the term “use in commerce” to express LM represents a choice to increase the likelihood that the trademark office would be misled. The closer p gets to 0, the more it seems that only one explanation fits the facts: the general counsel intended to deceive the reader by using a term of art in an idiosyncratic and materially misleading way.

It seems clear to me that in *Bose*, the use of the term “use in commerce” to refer to shipment of repaired goods should count as evidence of an intention to mislead. It is equally clear the Federal Circuit did not see it that way. Why not? It is possible to read the court as holding there was no dominant meaning of “use in commerce” and therefore no baseline understanding against which the probability of deception from *Bose*’s use of the term could be measured. However, I doubt the Federal Circuit believed a statutory term has no dominant meaning.

Perhaps it is better to read the court as holding that even if there were a dominant meaning of “use in commerce,” any use of the term that achieved at least some literal plausibility could not show the necessary intention to deceive. This reading is supported by the

court's comment in a footnote that "neither the PTO nor any court had interpreted 'use in commerce' to exclude the repairing and shipping repaired goods."¹³⁷ On this view, a literal connection between what the general counsel had in mind and the words he used is enough to rebut any inference of deliberate deception unless an authoritative body had held that the words did not extend to that meaning.

On reflection, however, this view cannot be right either. For one thing, it is easy to think of cases in which even the Federal Circuit would reject a literally plausible claim. Suppose the general counsel claimed that "use in commerce" included conversational use in social "commerce" (i.e., Bose executives often toss the word *Wave* around at cocktail parties). I have to think, and one certainly hopes, the court would consider that story to be fraud. For another thing, why should it matter if the PTO or a court had rejected whatever meaning the general counsel claimed to have in mind? If the general counsel were not aware of the decision then this fact would not be evidence of an intention to deceive unless the court was willing to embrace a recklessness standard or a "should have known" test, both of which it rejected in *Bose*.

A third alternative is that the Federal Circuit wanted to preserve space for lawyers to assert plausible but not intuitive meanings. This happens all the time in litigation, where one might well expect to see counsel advancing literal interpretations of statutes regardless of accepted meanings. But the statement at issue was a statement of fact about how Bose used the *Wave* mark, not a legal argument. The trademark office relies on applicants to tell the truth, and it is counterproductive to countenance, much less encourage, misleading or even ambiguous factual statements, even if courts would give more leeway to legal arguments.

Ultimately *Bose* shows that inferential reasoning about another person's state of mind has two irreducibly subjective components. One is the subjective intention of the person whose acts are in question. The other equally subjective component is the inferences and inferential processes a given observer such as a judge finds plausible. Probably the best reading of *Bose* is that the court took the opportunity to strike the recklessness standard and is unlikely to

137. *In re Bose*, 580 F.3d at 1246 n.2.

extrapolate from the facts of the case guidance for future holdings. It is not clear that this reading is right, however; the court should have remanded for further proceedings under a different standard if that is what it had in mind.

The Federal Circuit is likely to shed further light on this issue when it rehears the *Therasense* case en banc, because that case presents a similar, indeed clearer, example of the relationship among common usage, terms of art, and intention. In *Therasense* the patentee's counsel represented to the PTO that when used in a prior art patent to describe whether a membrane had to be employed in conjunction with a medical device the word "preferably" meant that use of the membrane was actually required.¹³⁸ The defendant alleged this representation contradicted the patentee's representations to the European patent office that the word was to be understood in its ordinary sense, to mean optional.¹³⁹

Part of the parties' dispute, and of the dispute between the panel majority and dissenting opinions, focused on the difference between the "plain meaning" of words and meanings words might take on as terms of art. The patentee's counsel testified at trial that "when drafting and prosecuting applications, practitioners often use the word "preferred" rather than 'required' in order to avoid a disclaimer of claim scope."¹⁴⁰ One could argue that this is an odd practice, because if everyone knows "preferably" actual means "required" then presumably 'preferably' disclaims whatever scope of invention "required" would disclaim. Alternatively, some people might not know of the convention so that using "preferably" could introduce ambiguity regarding claim scope a patentee might seek to exploit in later litigation. Choosing words to preserve ambiguity and thus a

138. *Therasense, Inc. v. Becton, Dickinson & Co.*, 593 F.3d 1289, 1301 (Fed. Cir. 2010). The then-applicant also submitted an affidavit averring that a person of ordinary skill in the art would have so understood the language.

139. *Id.* at 1303.

140. *Id.* at 1322 (Linn, J., dissenting). Only part of the disagreement on appeal turned on the meaning of "preferably." The parties, and the majority and dissent, also disagreed over whether the patentee's statement to the European patent office that certain language was plain and unambiguous did or did not extend to the word "preferably." Counsel testified at trial that as a matter of normal English construction the patentee's submission did extend to that word but counsel in fact did not intend to convey anything about the "preferably" language. *Id.* at 1304–07 (majority opinion). The panel majority found the trial court did not err in disbelieving this testimony. *Id.* Judge Linn's dissent argued the testimony negated a finding that counsel intended to deceive because counsel provided a plausible explanation other than deceit for not mentioning the European submission to the PTO. *Id.* at 1322 (Linn, J., dissenting).

client's future strategy space does not prove an intent to deceive but it does impair the efficient operation of the patent system by creating the risk that the PTO will intend to grant a narrower scope of claims than courts are forced to spend time considering in litigation. How the *Therasense* court handles this issue therefore will provide a good sense of how far the court now views inequitable conduct as a practical tool as compared to a moral sanction.

B. Pleading

The Federal Circuit also has weakened the inequitable conduct defense by requiring defendants asserting it to satisfy the pleading standards of Federal Rule of Civil Procedure 9(b), which requires that allegations of fraud be pleaded with particularity. The court of customs and patent appeals had held that Rule 9(b) applied to a trademark cancellation action based on fraud,¹⁴¹ and district courts tended to apply the rule to the inequitable conduct defense. Professor David Hricik objected to these rulings in a 2003 article arguing that inequitable conduct does not, strictly speaking, require proof of fraud,¹⁴² but that same year the Federal Circuit endorsed the application of Rule 9(b) anyway.¹⁴³ The court did not analyze whether Rule 9(b) applied, but rather assumed its application was obvious.¹⁴⁴

Of course some degree of specificity is needed to plead inequitable conduct cogently. Where a defendant alleges an applicant misled the PTO by failing to disclose prior art, the defendant should have to allege what the undisclosed art was and why its alleged concealment mattered.¹⁴⁵ As with the scienter requirement discussed above, however, the Federal Circuit has recently used Rule 9(b) to weaken the inequitable conduct defense in ways that threaten to be counterproductive.

Exergen Corp. v. Wal-Mart Stores is an important case in this regard. The patents in that case claimed infrared thermometers for

141. *King Auto., Inc. v. Speedy Muffler King, Inc.*, 667 F.2d 1008 (C.C.P.A. 1981).

142. Hricik, *supra* note 125, at 913–20.

143. *Ferguson Beauregard/Logic Controls, Div. of Dover Res., Inc. v. Mega Sys., LLC*, 350 F.3d 1327, 1344 (Fed. Cir. 2003).

144. *See id.* at 1342.

145. *Cent. Admixture Pharmacy Servs., Inc. v. Advanced Cardiac Solutions, P.C.*, 482 F.3d 1347, 1356–57 (Fed. Cir. 2007).

measuring body temperature.¹⁴⁶ The patentee won at trial but the Federal Circuit found as a matter of law that one patent was anticipated, another was not infringed, and that the defendant did not induce infringement of a third.¹⁴⁷ The defendant had moved to amend its answer to allege inequitable conduct as a defense.¹⁴⁸ The proposed amendment claimed the (corporate) patentee failed to cite as prior art two patents, which the amendment named. The proposed answer contained a brief explanation of why the defendant believed each of these two patents was material. The amendment did not name a specific person who withheld the references, however, stating only that the patentee and its agents or attorneys did so. The amendment also alleged that certain statements the patentee submitted (in an amendment to the application) to overcome rejections were false and in fact were contradicted by material available on the patentee's website. Again, however the amendment did not name the person who made the allegedly false statement.

The trial court denied the motion on the ground that the proposed amendment did not satisfy Rule 9(b), and the Federal Circuit affirmed.¹⁴⁹ Although the court held that the Federal Circuit's law governs application of Rule 9(b) to inequitable conduct pleadings, the court relied significantly on out-of-circuit securities cases.¹⁵⁰ In particular, the court adopted Judge Easterbrook's interpretation of Rule 9(b) in *DiLeo v. Ernst & Young*¹⁵¹ to hold that a party asserting inequitable conduct must plead "the specific who, what, when, where, and how of the material misrepresentation or omission committed before the PTO."¹⁵²

The court did not stop there. Rule 9(b) allows allegations of intention to be pleaded generally, but the court related its "who,

146. *Exergen Corp. v. Wal-Mart Stores, Inc.*, 575 F.3d 1312, 1316 (Fed. Cir. 2009).

147. Having disposed of the patents in suit on the merits, one might think the court would not trouble itself with the defendant's cross-appeal, in which the defendant argued that the district court erred in denying its motion for leave to amend its answer to allege inequitable conduct. Perhaps the court answered the question because attorney's fees remained a live issue, but the court gave no indication as to why its merits holdings did not moot its ruling on the pleading of the defense. Another possible answer is that the court took the opportunity to limit the inequitable conduct doctrine in what amounts to ten pages of dicta.

148. *Exergen*, 575 F.3d, at 1317.

149. *Id.* at 1316.

150. *Id.* at 1326–37, 1327 n.4.

151. 901 F.2d 624, 627 (7th Cir. 1990).

152. *Exergen*, 575 F.3d at 1327.

what, when, where, and how” rule to the high level of scienter it requires for the defense.¹⁵³ Thus, according to the court,

although “knowledge” and “intent” may be averred generally, a pleading of inequitable conduct under Rule 9(b) must include sufficient allegations of underlying facts from which a court may reasonably infer that a specific individual (1) knew of the withheld material information or of the falsity of the material misrepresentation, and (2) withheld or misrepresented this information with a specific intent to deceive the PTO.¹⁵⁴

The combination of these two rules makes it hard to see how a defendant could ever plead the inequitable conduct defense apart from one of two situations: a confession by a patentee or a disclosure by a “whistleblower,” most commonly a former employee of the patentee.

Exergen illustrates the point. The defendant alleged specific prior art and a reason to believe that the patentee knew of it—the art consisted of patents the patentee owned.¹⁵⁵ But the court found this allegation failed at the outset because the defendant did not “name the specific individual associated with the filing or prosecution of the application issuing as the ’685 patent, who both knew of the material information and deliberately withheld or misrepresented it.”¹⁵⁶

The court was clear that even if a defendant could name an individual who both knew of a reference and was obliged to be candid with the PTO, such allegations would not be enough: “A reference may be many pages long, and its various teachings may be relevant to different applications for different reasons. Thus, one cannot assume that an individual, who generally knew that a reference existed, also knew of the specific material *information* contained in that reference.”¹⁵⁷ Therefore,

153. *Id.* at 1330.

154. *Id.* at 1328–29.

155. *Id.* at 1327.

156. *Id.* at 1329. The court also faulted the defendant for not alleging which claims in the patent in suit the omitted references were relevant to and which aspects of those references were the relevant ones. *Id.* This aspect of the court’s reasoning is sound. Without such allegations, there is no reason to care that a given reference was omitted.

157. *Id.* at 1330.

[t]he mere fact that an applicant disclosed a reference during prosecution of one application, but did not disclose it during prosecution of a related application, is insufficient to meet the threshold level of deceptive intent required to support an allegation of inequitable conduct. Indeed, SAAT's pleading does not contain specific factual allegations to show that the individual who had previously cited the '998 patent knew of the specific information that is alleged to be material to the '685 patent and then decided to deliberately withhold it from the relevant examiner.¹⁵⁸

The court held such stringent prohibitions on inference were necessary, "lest inequitable conduct devolve into 'a magic incantation to be asserted against every patentee' and its 'allegation established upon a mere showing that art or information having some degree of materiality was not disclosed.'"¹⁵⁹

The court's "magic incantation" reference was sarcasm but it was telling sarcasm. It depicts patent defendants as magicians or sorcerers who think they have a telling trick to get them out of trouble. The trick is in the words, the court implied, not the conduct of the patentee. Thus, the court implies again, the words are recited no matter how scrupulous or merely negligent the patentee might have been. The end of the quoted passage makes clear that, to the court, the merits are only loosely related to the materiality of a lie or omission. The court was willing to tolerate a materially misleading application (on the assumption that the omitted references were material) but not a defense that is routinely, reflexively invoked.

Such data as there are do not justify the "magic incantation" label. The defense is discussed in less than 20 percent of reported cases between the years 2000 and 2007.¹⁶⁰ Certainly this statistic understates the frequency with which the defense is pleaded since most cases are not reported, but it does not show that inequitable conduct is a plague on patent lawyers or litigation. Of the cases in which inequitable conduct was discussed, summary judgment was granted for the patentee 19 percent of the time, implying that in most

158. *Id.* at 1331.

159. *Id.* (quoting *FMC Corp. v. Manitowoc Co.*, 835 F.2d 1411, 1415 (Fed. Cir. 1987)).

160. Brown, *supra* note 3, at 608 (citing UNIV. OF HOUSTON LAW CTR., U.S. PATENT LITIGATION STATISTICS, PATENT CASE DISPOSITIONS, 2005 TO 2007 (2007), [http://www.patstats.org/2005-2007_FY_PATENT_CASE_DISPOSITIONS_\(corrected\).doc](http://www.patstats.org/2005-2007_FY_PATENT_CASE_DISPOSITIONS_(corrected).doc)).

cases, the court found the defense raised a triable issue of fact.¹⁶¹ More recent pleadings databases might provide more precise data, so these numbers should be treated as provisional.¹⁶² But they do not give cause for alarm associated with the defense.

The sarcasm evinced in the “magic incantation” phrase therefore seems better explained by the *Exergen* court’s moral view of the defense. A footnote in the opinion states that one purpose of Rule 9(b) is to protect the reputations of persons accused of fraud by making sure such accusations are either well grounded or not made.¹⁶³ This view of the defense recalls the *Burlington* court’s argument that the inequitable conduct defense harms the profession by coarsening it. Rather than adopt the view in *Burlington* that lawyers should be shamed into not making inequitable conduct allegations (the implication of the claim that lawyers should be made to feel that allegations that fail create net losses to patent practice), however, *Exergen* deals with the problem by making inequitable conduct extremely difficult to plead.

The “magic incantation” language came from Judge (now Justice) Alito’s opinion in *In re Burlington Coat Factory Securities Litigation*,¹⁶⁴ and his rhetoric is in a tradition of judicial rhetoric condemning “strike suits,” which traces at least to Justice Rehnquist’s influential opinion in *Blue Chip Stamps v. Manor Drug Stores*.¹⁶⁵ The mild sarcasm of the language bespeaks the reality that concepts such as scienter and rules such as Rule 9(b) are highly malleable, no matter how clearly they might be stated, and how they are molded depends very much on one’s view of the contexts in which they arise.

There is a degree of irony in *Exergen*’s importation of securities pleading cases into the inequitable conduct defense. In the securities

161. *Id.* at 611.

162. A recent study suggests inequitable conduct may be pleaded as a defense in 30 percent to 40 percent of cases while the Federal Circuit affirms a finding of misconduct in only about 1 in 250 cases. Christian E. Mammen, *Controlling the ‘Plague’: Reforming the Doctrine of Inequitable Conduct*, 24 BERK. TECH. L.J. 1329, 1357–61 (2009). As the discussion in the text suggests, I disagree with the implied premise that Federal Circuit rulings can be considered a reliable proxy for how often inequitable conduct may be said to occur if that doctrine is viewed as a pragmatic tool.

163. *Exergen*, 575 F.3d at 1329 n.6.

164. 114 F.3d 1410, 1418 (3d Cir. 1997).

165. 421 U.S. 723 (1975).

context, phrases such as “magic incantation” are used to justify strict measures to thwart “strike suits,” by which judges using such rhetoric usually mean suits that are filed reflexively and with little basis but which cost defendants a great deal of time and money to defend. Depending on one’s view and the art in question, of course, that is exactly how many patent defendants see the infringement suits brought against them, especially those filed by “non practicing entities,” which many defendants perceive as being lawyer-driven shops in the business of filing suits rather than inventing things. Such views roughly correspond with the way many securities defendants see themselves as victims of plaintiffs’ securities lawyers rather than genuinely dissatisfied investors. Indeed, the moral position of the patent defendant in many cases will be no worse than that of an officer accused of securities fraud, because patent infringement is a strict liability offense and requires no culpable conduct whatsoever. Yet *Exergen* and the frame of mind its holding reflects make it harder for firms to defend such cases, which is precisely the opposite effect the same frame of mind has in securities law.

III

As noted above, the inequitable conduct doctrine expresses both moral and instrumental concerns. In this part, I argue that the Federal Circuit’s recent opinions emphasize a one-sided view of the moral aspect of the doctrine, specifically, the supposed wrong of the reflexive “magic incantation” assertion of the doctrine. I do not believe the remedy is to emphasize the other moral concern at stake—that applicants tell the whole truth. Instead, it is to focus on the instrumental concern that examiners have the information they need to decide whether an application satisfies the statutory criteria.

Below I offer several recommendations designed to make the doctrine more pragmatic and less moralistic. Though none of the recommendations has much chance of being adopted (the court’s recent order granting rehearing in the *Therasense* case seems likely to lead to further tightening of the doctrine), I recount them here to make clear the difference between the doctrine we have and what I

think a more pragmatic and less moralistic doctrine might look like.¹⁶⁶

At the most general level, the doctrine should focus on examiners and judges and not on applicants. It should aim to ensure that the PTO has the information it needs to do its job and that the office's work is not undermined in later litigation by applicants who try to take back concessions they made to get the patents they assert. It should not aim to assess the moral worthiness of applicants or their attorneys or to protect the reputation of the members of the patent bar. Efforts to ground the doctrine in moral principles entail a choice not to punish applicants who materially mislead examiners through even reckless behavior. *Exergen* is explicit on this point.¹⁶⁷

From a pragmatic point of view, it is very troubling to see opinions that care more about an applicant's state of mind than about whether an examiner was misled. *Bose* is essentially indefensible on pragmatic grounds. Who cares what Bose's general counsel might have been thinking when he used a phrase in a way likely to mislead the PTO? The office would work better if applicants were forced to use terms in their most accepted, relatively objective meaning rather than idiosyncratic private, subjective meanings. Nothing would be gained by having officials in the office grill applicants to see whether they mean what they seem to have said.

Exergen fares a little better because part of the opinion pertains to materiality. But suppose for the moment that the uncited art was highly material and that someone within the applicant company knew about the art and the pending application but decided to take the chance that the PTO would not notice. Why should we care whether the defendant knows that person's name prior to even engaging in discovery? On these assumptions the examiner was deprived of material information just the same, and the process therefore provides correspondingly weaker support for the idea that the patent should be presumed valid.

This general pragmatic orientation suggests several specific doctrinal alterations. First, the court should reverse its course with

166. This approach is consistent with Professor Christopher Cotropia's call for greater attention to the practical implications of the doctrine and less attention to its moral overtones. Cotropia, *supra* note 5, at 747. I disagree with Professor Cotropia's call for a specific intent standard, however, for the reasons stated in the text.

167. *Exergen*, 575 F.3d at 1331.

respect to Rule 9(b). The premise that inequitable conduct is routinely and reflexively pleaded undermines any claim that the allegation actually tarnishes the reputation of patent counsel. Members of the relevant community—other patent professionals—presumably know the premise and discount the allegations accordingly. The justification for applying the rule, that it is needed to protect reputations from being sullied by unsubstantiated accusations, does not extend to the inequitable conduct doctrine.

More fundamentally, pleading standards are a poor tool for weeding out meritless claims. Pleading standards are about specificity, not truth, and when they are used to preclude discovery they are as likely to impede the search for truth as to advance it. In most cases where the evidence is likely to be in the hands of one party, very specific allegations require discovery. The application of heightened pleading standards is also relatively subjective, no matter how objectively the standards may be written. What passes muster in one court might well fail in another. And it is always possible to think of something more that could have been pleaded but was not. Courts should focus on whether the evidence substantiates plausible claims, not on how precisely the claims are described.

Perhaps the most cogent objection to relaxing pleading standards is that doing so would increase litigation costs. Even if that were true, it would not show that such relaxation creates net losses—increased efficiency of the system might offset the cost. But relaxation of the standards is unlikely to produce large cost increases. Much of the evidence relevant to inequitable conduct is already subject to discovery when invalidity is alleged. The prior art is sifted either way,¹⁶⁸ as are facts relevant to invention or statutory bars.

Second, the court should reverse its course on scienter. Rather than increasing the threshold to an ever more unrealistic level, the court should return to a standard of recklessness. An applicant who acts with reckless disregard for whether it has omitted or misstated material information should be held responsible for not submitting or correcting the information.

The standard also should treat entity assignees as one person. Contrary to *Exergen*, it should not matter that one person in an entity knows prior art has been withheld and another knows its full

168. See Hricik, *supra* note 125, at 940.

significance. Nothing is gained by a rule encouraging tactical compartmentalization of information that, if disclosed, would improve the quality of review. This modification would require some alteration of Rule 1.56, which presently requires each “individual” associated with an application to disclose information material to the application.¹⁶⁹ Finally, courts should treat tactics to avoid acquiring knowledge as equivalent to the avoidance of knowledge.¹⁷⁰ This is the rule in the stricter environment of criminal law,¹⁷¹ and such a rule in patent law would discourage compartmentalization.

Loosening the scienter requirement may be justified on doctrinal and practical grounds. Doctrinally, the *Norton* court was correct to say that a high level of scienter is not required when a party asserts misrepresentation as a defense.¹⁷² The rule may be justified on the practical ground that a misrepresentation or omission undercuts our faith in the utility of a bargain regardless whether the misstating or omitting party intended to mislead anyone. More practically, states of mind can only be proved inferentially from circumstance. Limiting the doctrine to cases of confession, as *Bose* comes close to doing, serves no purpose. The question should not turn on the soul of an applicant or its counsel but on whether the PTO would work better if persons in their position were required to disclose what they know. It is a question of administrative efficiency, not abstract morality.

Chris Cotropia has argued for strict scienter standards as a way of reducing the problem of patent prosecutors dumping too much information on examiners just to avoid being second-guessed for not producing the information.¹⁷³ I address that argument in more detail below. With respect to scienter, however, I disagree with Cotropia. As noted above, if an applicant withholds a material reference the examination process suffers regardless whether the applicant had an

169. 37 C.F.R. § 1.56 (2009).

170. Some cases, such as *Braessler, U.S.A. I, L.P. v. Stryker Sales Corp.*, 267 F.3d 1370, 1380 (Fed Cir. 2001), approach such a rule by affirming findings of inequitable conduct where withheld information was plainly material and counsel who knew inquiry would lead them to acquire the information chose not to inquire and therefore not to learn information the PTO would want to know.

171. *E.g.*, *United States v. Heredia*, 483 F.3d 913, 920 (9th Cir. 2007) (affirming use of “ostrich instruction” under which willful ignorance counts as knowledge).

172. *Norton v. Curtiss*, 433 F.2d 779, 797 (C.C.P.A. 1971).

173. Cotropia, *supra* note 5, at 775–76.

evil intention. In addition, because intention is always proved inferentially, it is not clear that raising the verbal bar for the defense will avoid information dumping unless additional steps are taken.

The most obvious additional step would be to forbid a court from taking the materiality of withheld information into account when assessing scienter. In *Therasense* the Federal Circuit has called for briefing on whether it should continue allowing strong evidence of materiality to influence judgments of scienter, so this step may well be taken.¹⁷⁴ In my view, however, it makes no sense to divorce the assessment of an applicant's state of mind from the significance of a misstatement or omission. To do so would violate the common-sense epistemology we use every day. Taken literally, the proposal would require a court to determine whether an applicant intended to withhold an unknown piece of information. Imagine asking a jury to decide a securities fraud case without being told what the omitted information was. Or, more prosaically, ask yourself if you could advise a friend on whether his or her spouse or partner intended to conceal information without knowing whether the information was a twenty-year-old conviction for driving under the influence or a two-month-old diagnosis of a sexually transmitted disease. Whatever the conceptual appeal of this approach, it contradicts common sense and is therefore impractical.

Third, the standard of proof for inequitable conduct should be preponderance of the evidence. The present high standard of proof traces to *Maxwell*, which involved an affirmative cause of action for cancellation of a grant rather than a defense.¹⁷⁵ The *Maxwell* court was right to point to reliance and settled expectations as warranting a higher level of proof in a cancellation action. In the technology patent context, however, these concerns would seem to point the other way or at least to be neutral. The default rule in our economy is competition and freedom from misappropriation (copying). Patent law deviates from both defaults and therefore may unsettle legitimate expectations of defendants to profit from their own work. And no patentee should have a recognized reliance interest in a patent obtained through material misrepresentation or omission. The sword

174. *Therasense, Inc. v. Beckton, Dickinson & Co.*, 2010 WL 1655391 (listing six questions for rehearings; questions 1, 4 & 5 relate to the discussion in the text).

175. *United States v. Maxwell Land-Grant Co.*, 121 U.S. 325 (1887).

of the defense should be available to ensure examiners have the information they need.

At a minimum, courts should alter the current doctrine to deprive patentees of the statutory presumption of validity if the patentee is shown to have materially misled the PTO, regardless of the patentee's intention. Logically, that presumption should not extend to patents procured through flawed processes because it is the presumed integrity of the process that justifies the presumption.¹⁷⁶ Courts have discarded this reasoning in light of the language of 35 U.S.C. § 282,¹⁷⁷ but absent compelling reason to believe Congress intended the presumption to extend to demonstrably flawed processes such holdings are unnecessary and unwise.

The best objection to these proposals is that the current doctrine encourages patentees to give examiners too much information, degrading patent quality by burying important references in a mountain of material the prosecuting attorney dumps on the examiner just to avoid being second-guessed later for not having done so. Chris Cotropia articulates this concern in a very fine, recent article.¹⁷⁸

This "information overload" argument aims in the right direction by pointing to the practical consequences of the doctrine. If and to the extent the argument is right, my proposals are undesirable. I do not think the argument provides a compelling objection to the recommendations discussed above, however. It is plausible that the incremental cost of dumping information on the PTO is very low. If that is true, then virtually any sanction for failures to disclose material information will produce dumping. And absent meaningful sanctions, breach of disclosure obligations becomes a free good.

It is true, as Cotropia points out, that there is no reason to believe the current penalties for inequitable conduct are optimal. Allowing courts greater discretion to tailor remedies might well be desirable, though beyond the scope of this discussion. There is little reason to believe that any penalty will reach the optimal middle ground in which neither too much information nor too little is

176. *Cf. KSR Int'l Co. v. Teleflex Inc.*, 550 U.S. 398, 412 (2007) (discussing that the party challenging a patent on the grounds that a claim was obvious must overcome the presumption that an issued patent is valid).

177. 35 U.S.C. § 282 (2006).

178. Cotropia, *supra* note 5, at 775–77.

produced, however. Even if deterrence is excessive in a given case, it does not follow that it is systematically suboptimal. The optimal penalty needs to take into account the probability of detecting violations, which is presumably less than one. How much less we do not know.

In the absence of such information, the “information overload” argument does not, in my view, present a compelling challenge to the reforms I recommend here. It would be better to deal with any such problem by limiting challenges to those with a solid factual basis, which is probably best done through more liberal use of fee awards for meritless assertions of the defense. Ideally, and to the extent possible, defendants who assert inequitable conduct claims without foundation should be made to pay the costs they have caused others to incur.

CONCLUSION

The inequitable conduct doctrine should aim at ensuring that examiners get the information they need to make the system work. The doctrine should not concern itself with the morality of participants in the application process. Still less should it express such concerns through pleading standards, which do a poor job of sorting good from bad claims. The trend of cases is in the opposite direction, but it is unlikely to bring certainty to the doctrine unless it brings the certainty that comes from essentially eliminating the defense. Both scienter and pleading standards are more subjective than the court opinions suggest. Ultimately, the present trend in the cases threatens to combat a perceived randomness in the doctrine by introducing randomness of a different sort. A less moral and more pragmatic, disclosure-oriented approach would be as predictable and as useful as any approach is likely to be.