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Broadest Scope of 'Inequitable-Conduct' Materiality Is Endorsed

A charge of inequitable conduct before the United States Patent and Trademark Office (PTO) may sound like a threat that would only be of concern to patent lawyers and their high technology clients.

However, because anyone can be sued for patent infringement without notice and patents can issue for any novel, non-obvious and useful invention, all attorneys should be aware of the increasingly common, and thanks to the U.S. Court of Appeals for the Federal Circuit, increasingly broad defense of inequitable conduct before the PTO.

Inequitable conduct is a defense that renders a patent unenforceable as a matter of equity due to an intentional, material misrepresentation or omission during prosecution of patent. Because the doctrine is rooted in equity, the defense can be invoked when there is either a high level of materiality or a high level of intent, even if the other element is low. If there is a sufficiently high level of both materiality and intent, the patentee can also be subject to antitrust liability,¹ and not just an inability to enforce the patent.

Issue of Intent

The issue of intent has always been recognized as fact-specific and subjective. By contrast, on its face the issue of materiality has the potential of being part of an objective standard. However, as the Federal Circuit recently explained in *Digital Control Inc. v. The Charles Machine Work*,² the rules or scope of what is "material" have changed over time and have not always been consistently applied.

From 1977 until 1992, both the case law and regulation, 37 Code of Federal Rules (CFR) §1.56, (also referred to as Rule 56, which is the PTO's description of the duty of candor) recognized the broadest scope of materiality as whether a reasonable examiner would consider the information important, though not necessarily crucial to the decision of whether to issue a patent. However, in



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1992 the PTO specified and markedly narrowed the definition of materiality, and amended §1.56 to provide that materiality is based on whether the information establishes

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a prima facie case of unpatentability or refutes a position that an applicant took with respect to patentability. Thus, until *Digital Control* there was an open issue as to whether the change in §1.56 had an impact on the availability of the defense of inequitable conduct: did the Patent Office rule change the standard in courts during litigation?

In *Digital Control*, the patents in suit were directed to technologies for creating horizontal bores in the ground through which utility lines could be laid. The inventor filed a series of 18 related patent applications regarding this technology. During prosecution of the application that would issue as U.S. Patent No. 5,767,678, the PTO issued an obviousness rejection based on prior art, and the inventor, using a common process for overcoming this type of rejection, submitted a sworn declaration to establish that he invented his invention prior to the effective date of the prior art reference.

On summary judgment, the trial court determined that the inventor made: (i) a material misrepresentation both in his declaration with respect to conception and reduction to practice, which included the "invented prior" basis for overcoming the rejection; and (ii) a material omission by failing to cite certain prior art. The trial court did not grant summary judgment on the issue of intent but later, after a bench trial, held that there was sufficient intent to find inequitable conduct.

The Federal Circuit reviewed both the summary judgment holding with respect to materiality and the bench trial holding with respect to intent. With respect to the materiality issue, the Federal Circuit began with a discussion of the PTO's Rule 56.

Historically Applied Standards

The Federal Circuit summarized four different standards that courts had historically applied for determinations of materiality before the 1992 amendment:

- (i) the objective "but for" test in which the misrepresentation was so material that the patent should not have issued;
- (ii) the subjective "but for" test, where the misrepresentation actually caused the examiner to approve the patent application when he would not have otherwise done so;
- (iii) the "but it may have" standard, where the misrepresentation may have influenced the patent examiner during prosecution; and
- (iv) the Rule 56 standard that was promulgated in 1977.

However, although there were these different standards, the court thought that, as a matter of practicality once an event qualified for materiality under the broadest standard, there was little cause to discern among the different standards. Instead, the balancing of intent and materiality could at that time take place. Further, if information were sufficiently important, it would invalidate the patent and the issue of inequitable conduct under those circumstances would often not be reached.

The court reviewed the 1992 PTO amendment to the rule as described above, which created what the Federal Circuit noted was "an arguable narrower standard of

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materiality.” This provided the Federal Circuit with the opportunity to “determine[] whether the new Rule 56 is the same as the “reasonable examiner” standard of the old Rule 56, or, if the new standard is narrower, whether a misstatement that is material under the “reasonable examiner” standard, but arguably not material under the new Rule 56 standard still meets the threshold materiality for a finding of inequitable conduct.

1977 Rule 56 Standard

As noted above, the Federal Circuit interpreted the 1977 Rule 56 standard as the broadest (“may have”) standard for materiality. It also emphasized that when the PTO enacted the 1977 version of Rule 56, which provided that information is material when there is a substantial likelihood that a reasonable examiner would consider it material, the PTO did not claim that it was replacing existing standards. The court extended the proposition statement of a change in PTO rule in 1977 not altering existing standards espoused by the courts, to the proposition that the change in 1992 also would not alter or take away standards created by the courts. Accordingly, the Federal Circuit held that regardless of whether the new Rule 56 language provides for a narrower test for materiality, a change in the rule does not affect the scope of what is a requisite level of materiality for the old Rule 56 for purposes of inequitable conduct in the courts. Thus, this holding establishes that the change in the rule did not take away from defendants any defenses with respect to inequitable conduct.

Although defendants’ rights remain unchanged, it is important to note that the PTO, has other uses for its duty of candor, e.g., disciplining of patent practitioners. Further, issues of inequitable conduct can arise in interference and reissue proceedings where the PTO and not the courts is the arbitrator.

With respect to the alleged material misrepresentations at issue, the Federal Circuit affirmed the summary judgment finding of materiality of the misrepresentations in the declaration concerning conception and reduction to practice. The declaration stated that the prototype board functioned to send boring tool orientation information from the boring tool underground, to an above-ground locator and actually did so prior to the critical date. The declaration also noted that the system had been shown to another declarant prior to the critical date and what had been shown to the declarant comprised the invention.

At a deposition, the inventor indicated that he did not demonstrate the invention underground, and the sensor was not within the boring tool. Thus, the declaration contained a misstatement. On appeal the patent holder argued that the statement was not material under a “but for” standard, asserting that the patent would have issued regardless of the

misstatements in the affidavit.

The Federal Circuit applied the “reasonable examiner” standard, noting that omissions and misstatements can be material even if they would not have rendered the invention unpatentable. The court emphasized that affirmative misrepresentations are more likely to be material than omissions, particularly in an affidavit because “the submission of a false affidavit may be determined to be inherently material.” Accordingly the district court was affirmed with respect to the issue of the materiality of the misrepresentations in the declaration.

With respect to the materiality of the omission of the prior art reference, the Federal Circuit held that awarding summary judgment was improper because there was a factual issue as to whether the withheld reference was cumulative of what was already of record.

Trial Court’s Evidence

The Federal Circuit also summarized the extensive evidence that supported the trial

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court’s finding of intent, including:

- (i) the inventor was “an extremely experienced inventor,” who at the time that he submitted his declaration had applied for numerous patent applications and had testified as an expert in patent litigation;
- (ii) the inventor had control over the contents of the declaration, even though it had been drafted by an attorney because the inventor was provided with a draft, was asked for specific feedback and possessed the final draft for weeks prior to signing it under oath;
- (iii) the misstatements in the declaration were apparent from a comparison between the declaration and the document on which it was based;
- (iv) the inventor had a motive to mislead the PTO because he was under severe pressure from his largest customer to acquire and to enforce patent rights; and
- (v) the inventor’s testimony lacked credibility.

Nevertheless, the Federal Circuit reversed the finding of inequitable conduct because the district court’s finding relied in part on the fact that it was presented with two acts of material misstatement or omission, and the record was

not clear whether despite being material, the misrepresentation in the declaration was a sufficient event to base a finding of inequitable conduct, i.e., whether there was sufficient intent.

‘Digital Control’ Keys

Because misrepresentations and omissions relating to affidavits and declarations are typically viewed as being more egregious than those relating to prior art, and have been referred to as *per se* material,³ one would expect that upon remand, the district court would again find inequitable conduct. However, it is important to emphasize three significant ramifications of *Digital Control*:

- First, the threshold of materiality for a finding of inequitable conduct is the “reasonable examiner” standard, which is only that a reasonable examiner would merely have considered particular information to be important. The information need not be crucial to his decision. Of course, the lower the level of materiality that is present, the higher the level of intent that is necessary. However, as a practical matter, the Federal Circuit opened the door to the broadest circumstances for charges of inequitable conduct.
- Second, the Federal Circuit affirmed that its own case law can take priority over changes made by the PTO to the Code of Federal Regulations. By maintaining that the broadest level of materiality would guide an analysis of materiality, even when acknowledging that the PTO has modified its standard to make it more narrow, the Federal Circuit has cautioned that agency standards are not the same as standards set by the courts.
- Finally, proponents of patent reform will have another arrow in their quiver as they lobby Congress to have the Patent Office, rather than the courts, address issues of inequitable conduct. Since the Patent Office arguably has a narrower view of the scope of materiality, and patent reformers seek to streamline the resolution of disputes, they may argue that the reform of removing the issue of inequitable conduct from the courts is needed because without it, *Digital Control* will encourage more charges of inequitable conduct, which will be a cost on innovative businesses that try to enforce and to defend their patents.

1. *Walker Process v. Food Machinery*, 86 SCt 347 (1965).
 2. 2006 WL 288075 (Fed. Cir. Feb. 8, 2006).
 3. *Rohm and Haas Co. v. Crystal Chem. Co.*, 722 F2d 1556, 1571 (Fed. Cir. 1983), cert. denied, 489 US 851 (1984).