

LITIGATORS CORNER:

The Patent Reform Act and Inequitable Conduct



BY JOSEPH N. HOSTENY,
OF NIRO, SCAVONE,
HALLER & NIRO

Regular IP Today columnist Joseph N. Hosteny is an intellectual property litigation attorney

with the Chicago law firm of Niro, Scavone, Haller & Niro. A Registered Professional Engineer and former Assistant US Attorney, his articles have also appeared in Corporate Counsel Magazine, The Docket (American Corporate Counsel Association), American Medical News, Inventors' Digest, Litigation Magazine and Assembly Engineering Magazine. Mr. Hosteny is on the Board of Editors of Patent Strategy & Management (a monthly publication of American Lawyer Media), for which he writes periodic guest columns. Mr. Hosteny can be reached at (312) 236-0733, or by e-mail at jhosteny@hosteny.com, or by visiting his web site at <http://www.hosteny.com>.

The Patent Reform Act of 2005, H.R. 2795, would make major changes to how inequitable conduct is handled. But unfortunately, it wouldn't make the changes that need to be made to the inequitable conduct defense. The defense, as originally conceived, was different from what it is today, and the accretions to it have not benefited patent owners or litigants.

Inequitable conduct got its start with *Precision Instrument Mfg. Co. v. Auto. Maint. Mach. Co.*, 324 U.S. 806 (1945). Like many cases that lead to shifts in the law, this case was spurred by horrible facts. Automotive sold wrenches designed by an employee, H. W. Zimmerman. Snap-on Tools Corporation was a customer of Automotive. Another Automotive employee, George Thomsma, knew about the wrench and secretly disclosed information to an outsider, Kenneth R. Larson. Together they worked out plans for a new wrench.

Larson won the right to supply Snap-on with wrenches. He filed a patent application in his own name, and assigned it to Snap-on. Then Larson, his co-conspirator Thomsma from Automotive, and another outsider, Walter Carlsen, organized Precision Instrument Manufacturing Company to supply Snap-on's requirements. All three received stock and were elected officers and directors of the new company. Precision stole from Automotive all of Snap-on's business. Thomsma concealed his connection with Precision from Automotive and Snap-on.

The PTO found that Larson's application interfered with an application filed by Zimmerman, who had assigned his application to Automotive. Larson continued his criminal scheme. He lied about his conception, his reduction to practice of his claimed invention, and about other details, too. He lied when he said he was the only inventor; he knew Thomsma was an inventor, too. Larson got eight other witnesses to support his fabrications, but Automotive investigated and uncovered the scheme. Thomsma ratted Larson out; he told Automotive that Larson's patent application was a "frame-up." Larson confessed. His attorney withdrew. But the parties to the interference, knowing that Larson had committed perjury, concealed the crimes. They settled the interference. Automotive got Larson's patent, as well as Zimmerman's, even though everyone agreed that Zimmerman was the earlier inventor.

Automotive then claimed that a new wrench, made by Precision and sold by Snap-on, infringed the patents and also was a breach of one of the agreements. The Supreme Court affirmed the district court's dismissal of Automotive's suit for "want of equity." The Supreme Court said: "The history of the patents and contracts in issue is steeped in perjury and undisclosed knowledge of perjury." It held that "Those who have applications pending with the Patent Office or who are parties to Patent Office proceedings have an uncompromising duty to

report to it all facts concerning possible fraud or inequity underlying the applications in issue."

Any good prosecutor these days would jump on this case like a dog on a bone. The crimes were several, including perjury and conspiracy. The Supreme Court's stinging rebuke was justified.

Two other Supreme Court cases gave additional impetus to the concept of inequitable conduct. Both of them involved criminal conduct. In *Keystone Driller Co. v. General Excavator Co.*, 290 U.S. 240 (1933), the patent owner bought off a witness who provided a perjured affidavit that a use was experimental. In *Hazel-Atlas Co. v. Hartford-Empire Co.*, 322 U.S. 238 (1944), the patent owner's lawyers phoned an article praising the invention. These cases demonstrate serious wrongs, and share several characteristics: the offensive acts were conduct, not omissions or differences of opinion; the acts were only known to, and were concealed by, the parties committing them; and the acts were clearly and plainly wrong. These are all cases where the term "inequitable conduct" accurately applies.

But legal principles have a way of being extended and sometimes misused. Nowadays we have allegations of inequitable conduct based on silly grounds, such as the claim that the inventor provided too much art to the examiner, or that the inventor lied to the examiner because he disagreed with the examiner's interpretation of a reference. Those of you who are legal historians might find a parallel in the line of cases dealing with prejudicial pretrial publicity in criminal cases. Many years ago, Dr. Sam Sheppard was convicted in the press and before trial in a circus of adverse public remarks by officials and journalists who should have known better. See *Sheppard v. Maxwell*, 384 U.S. 333 (1966). Only after he spent 10 years in prison was Dr. Sheppard's conviction overturned by the U.S. Supreme Court. Now, that original decision is used to support arguments of prejudicial pretrial publicity that have little or nothing in common with the aggravated fact pattern giving rise to the original case.

The inequitable conduct pendulum, like the prejudicial pretrial publicity pendulum, has swung too far. As the CAFC has observed, "We add one final word: the

habit of charging inequitable conduct in almost every major patent case has become an absolute plague. Reputable lawyers seem to feel compelled to make the charge against other reputable lawyers on the slenderest grounds, to represent their client's interests adequately perhaps." *Burlington Industries, Inc. v. Dayco Corp.*, 849 F.2d 1418, 1422 (Fed. Cir. 1988).

What should we do? Restore the balance: scrape off some of the accretions. The provisions in the complicated Patent Reform Act of 2005 do not appear to do so. On the contrary, Section 136(c) complicates things and adds delay. It provides that any charge of inequitable conduct must be resolved only by the PTO. If a court concludes that there is an "issue of possible misconduct," Section 136(c)(4) requires that the court "shall" refer that issue to the Patent Office for resolution under that section. It provides monetary penalties that can be as high as \$5,000,000 for each violation. The procedures are elaborate. A court deals with the issue only after a claim has been found invalid.

We should be dubious about whether this legislation is wise. Given that Congress has not resolved the funding problems with the PTO, loading another burden on its back will accomplish nothing but aggravating its broken back. The legislation provides deadlines, but they won't be followed, just as the requirement of special dispatch in reexamination proceedings is ignored. I have referred to this problem in a few of my earlier columns, but most especially in September, 2003, Another Look at PTO Examiners; and August, 2004, Post-Grant Opposition: Building on Sand.

I don't know about you. But I would like to see the inequitable conduct defense remain in the courts, but with elimination of some of the mischievous ways it manifests itself. The gist of the Supreme Court's opinions in *Precision Instrument*, *Hazel-Atlas*, and *Keystone Driller* is that the parties covered up information known only to them. We should re-focus the inequitable conduct defense to insure that it deals primarily with information known only to the applicant, e.g., uses, sales, falsified affidavits and the like. It should no longer be the "you-didn't cite-it-so-you-must-have-lied" defense.

Here are a few ideas. Maybe they are radical, but we need to brainstorm. First, I'd

like to see the elimination of the notion that intent and materiality are balanced, with higher materiality resulting in an inference of intent. In criminal law, intent is always a separate element to be proven, in addition to the acts that constitute the crime. Inequitable conduct is serious enough to justify similar treatment. Obviously, pointing a gun at someone is circumstantial evidence of intent. But the elements remain distinct. That should be true in patent law, too. We are leaping too quickly from strained materiality arguments to an assumption of intent. Mixing the elements deprecates the importance of intent, which is what the duty of candor is all about.

The use of prior art patents — really second-guessing in the vast majority of cases — as a basis for inequitable conduct ought to be cut back. There are several ways to reduce its role. If an applicant has an independent search done, such as through a private or official searching authority, and provides the results of that search (as well as the results of a foreign search, if applicable) to the Patent Office, it ought to be impossible to prove inequitable conduct based on uncited patents, no matter who possesses them. Or there could be a presumption against inequitable conduct that can only be overcome by evidence beyond a reasonable doubt that an applicant possessed and did not provide a reference to the Patent Office. The burden to prove that reference was not cumulative to the references found in the search should also be beyond a reasonable doubt.

Litigation is something that only the parties may know about. Consequently, litigants should still advise the PTO. But I think the PTO should keep track of its own applications, and not let inequitable conduct charges be based on a failure to advise the PTO about other applications. That's the PTO's job.

Applicants are between Scylla and Charybdis regarding citations of prior art. We've all seen cases where the defendant alleges that the applicant didn't provide a reference to the PTO, and other cases where the defendant alleges that the applicant provided too much art to the PTO. I've seen at least one case where the defendant made both allegations. Eliminate the "burying" defense.

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Inc. v. The Charles Machine Works, Slip Op. 05-1128 (Fed. Cir. Feb. 8, 2006) reiterates about four standards that have applied over the years: the reasonable examiner standard, the standard of the PTO's Rule 56 adopted in 1992, the objective and subjective "but for" tests, the "but it may have" test, and on and on. Face it, folks: this is way too complicated for anyone, especially for lawyers. Let's pick one standard and go with it, both prospectively and retroactively.

Junk the defense that the applicant mischaracterized a reference in dealing with the examiner. There are a number of cases concluding that a difference of opinion is not inequitable conduct, but the defense is still being raised. Put an end to it.

Let juries decide inequitable conduct. They decide issues of intent in complex criminal cases all the time. They can do a better job than a court or an agency which lets the case languish. Juries decide now, and the relationship of prompt decision making to accurate decision making is greatly under-rated, as I described in my column in my August, 2002 column, The Wisdom of Juries.

Our patent system would be better served by focusing on simplicity and speedy resolution of cases. That serves the interests of both plaintiffs and defendants. Unfortunately, an under-funded PTO cannot do its job. Nor can it be held truly responsible for its failures. One way to simplify is to restore the inequitable conduct defense to a posture nearer its conception, by emphasizing the duty of applicants to disclose actions or information within their knowledge, and by de-emphasizing the role of prior art in inequitable conduct determinations. **IPT**