

LITIGATORS CORNER: Inequitable Conduct: A Time Waster



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Excessive expense is the bane of modern patent litigation. Most of us are familiar with the data gathered annually by the American Intellectual Property Law Association that a patent suit costs about one and a half-million dollars through trial. This estimate may even be low. We had one suit where our adversary, represented by a major national law firm, was spending two million dollars in each calendar quarter defending a single lawsuit. It settled the case because it could not bear the cost. Its earnings per share would have been positive, except for the litigation. Our client, I am happy to say, was incurring significantly less expense than its adversary.

In another of our suits, the defendant was again represented by a large firm, which had seven lawyers working on this one case. They were uncoordinated and disorganized, and therefore duplicated each other's efforts. There was no semblance of teamwork. The only result was huge bills, and the firm was replaced by different lawyers. These costs are just one reason why individuals, and now some companies, opt for contingent fee representation.

So what is the patent litigator's solution to this expense? Why, obviously to make suits even more complicated, expensive and prolonged. How is this wonderful benefit

achieved? By a variety of means: useless discovery squabbles, excessive discovery, and meaningless allegations, including inequitable conduct. I want to focus in this column on just one of these problems: inequitable conduct.

Inequitable conduct is a nasty defense. So few defendants ever prove it that the Federal Circuit has gone out of its way to slam it several times. In *Burlington Industries, Inc. v. Dayco Corp.*, 849 F.2d 1418, 1422 (Fed. Cir. 1988), the court said:

[T]he habit of charging inequitable conduct in almost every major patent case has become an absolute plague. Reputable lawyers seem to feel compelled to make the charge against other reputable lawyers on the slenderest grounds, to represent their client's interests adequately, perhaps. They get anywhere with the accusation in but a small percentage of the cases, but such charges are not inconsequential on that account. They destroy the respect for one another's integrity. . . . 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.

Even in *Molins PLC v. Textron, Inc.*, 48 F.3d 1172, 1182 (Fed. Cir. 1995), one case where inequitable conduct was proven, the court said, "Unjustified accusations may deprive patentees of their earned property rights and impugn fellow professionals. They should be condemned." *E.I. DuPont de Nemours & Co. v. Phillips Petroleum Co.*, 849 F.2d 1430, 1439 (Fed. Cir. 1988) said, "Fraud in the PTO' has been overplayed, is appearing in nearly every patent suit, and is cluttering up the patent system."

Do we litigators pay attention? Apparently, not enough. I have been doing patent litigation for over fifteen years, and have yet to be involved in a case where an inequitable conduct allegation was proved. Yet the same watery, thread-bare accusations of inequitable conduct are still appearing in the pleadings of defendants in some of our cases.

What exactly is inequitable conduct? Patent lawyers enjoy quibbling over the nuances, no doubt to the grim distaste of many busy judges. Simply put, however, inequitable conduct occurs when someone with a duty of disclosure — say the prosecuting attorney or

the inventor — intentionally withholds prior art from the Patent Office, or intentionally deceives the examiner. The prior art has to be of a sort that would likely have made a difference to the examiner's decision. The duty begins with the filing of an application and ends with issuance of the patent. The defense is tough to prove; the evidence must be clear and convincing.

The mischief often starts when a defendant pleads that a patent being asserted in the lawsuit is "unenforceable." This is a frequent indicator of a looming inequitable conduct defense. Sometimes the defendant will plead a conclusion or two: that the plaintiff "knowingly" withheld "material" information. This isn't an adequate pleading of the defense, since it states no facts. An increasing number of courts have dismissed allegations of inequitable conduct because they do not comply with Rule 9(b) of the Federal Rules of Civil Procedure. This rule requires that any "circumstances constituting fraud or mistake" must be stated with "particularity." A trio of good cases from across the country includes *Regents of The Univ. of California v. Oncor, Inc.*, 1997 U.S. Dist. Lexis 15068, *30-*31, 44 USPQ 2d 1321, 1330 (N.D. Cal. 1997), which said that the general trend requires that inequitable conduct be pleaded in accordance with Rule 9(b). A second case, *Engel Industries, Inc.*, 183 F.R.D. 49, 51 (D. Mass. 1998), held that "these courts have reasoned that Rule 9(b) should apply since inequitable conduct is a form of fraud." The Midwest hasn't been left out: See *Miller Pipeline Corp. v. British Gas PLC*, 69 F.Supp.2d 1129, 1134-35 (S.D. Ind. 1999).

The failure to enforce Rule 9(b) has ugly consequences for everyone. Even though Inequitable conduct is usually unmeritorious, this defense isn't toothless; it causes enormous problems in discovery, even if there is little merit to the defense, and especially if it isn't properly pleaded.

In one of our cases, the defendant pleaded that the patents were "unenforceable." It refused to plead any more circumstances or details, but a stream of memoranda replete with accusations — even including perjury — made it pretty apparent to us that a main defense was inequitable conduct, or at least a smear campaign. We fought it, and asked the court to dismiss the defense, or require the defendant to plead its defense with some reasonable detail. We lost.

The result was a torrent of discovery lasting nearly five years. According to a February 28, 2000 article in the *National Law Journal*, Bill Gates was deposed for 27 hours in the Microsoft case, surely the most significant antitrust case in the last twenty or thirty years. That is three or four days. The inventor in our case was deposed for eighteen days, even

though the three patents in the case all have the same specification. Seventy-nine people — that's right, seventy-nine — have been deposed. A special master appointed by the court was deluged with nine briefs from the defendant alone, arguing and re-arguing inequitable conduct, over and over. The magistrate had to rule on additional discovery disputes that would have not arisen but for the defense. Every defendant's brief accused someone associated with our client of wrongdoing.

This defense leads to blind alleys that waste money, time, and resources, like paving a road that ends at a brick wall. One blind alley is the typical effort to pierce the attorney-client privilege, resulting in significant additional burdens to the court and parties. *In re Spalding Worldwide Sports, Inc.*, 203 F.3d 800 (Fed. Cir. 2000) is one example.

Ignorance of the basic standards of inequitable conduct is another problem. In one of our cases, the defendant's expert — a very experienced attorney — stated in his report that the entire corporation was responsible for the inequitable conduct. That is absurd; the duty of disclosure extends only to those persons involved in the prosecution of a patent.

Failure to show intent is another frequent failure, with defendants piling unreasonable inference upon unreasonable inference, or simply guessing at intent. As the Federal Circuit has told us, in the *Molins* case, second-guessing is easy:

We are mindful of the complexities of conducting a worldwide patent prosecution in a crowded art, attempting to represent one's client or company properly, and yet fulfill one's duty to various patent offices. Things can "fall through the floorboards" and not arise from an intent to deceive.

Yet patent litigators, who should be sensitive about the misuse of hindsight when the patentability of an invention is at stake, regularly second-guess the actions of patent prosecuting attorneys and inventors.

Another common failing is to argue about references that were, in fact, before the examiner. In another of our cases, the defendant argued that an affiant omitted important language from a reference he identified and quoted in his affidavit. But the reference itself, identified in the affidavit, was provided to the examiner. It is not inequitable conduct to disagree with an examiner, or to advocate a view of a reference that does not coincide with an examiner's view. *Al-Site Corp. v. Opti-Ray Inc.*, 28 U.S.P.Q.2d 1058 (E.D. NY 1993). In *Northern Telecom v. Datapoint*, 908 F.2d 931 (Fed. Cir. 1990), the Federal Circuit reversed a district court's holding of inequitable conduct where "pertinent information was squarely before the Examiner" who was "free to reach his own conclusion." The Federal Circuit also warned the district court to consider "the realities of patent practice," the ease with which the patentee's conduct during prosecution can be "magnified out of proportion by one accused of infringement," and how easily "a relatively routine act of patent prosecution can be portrayed as intended to mislead ..."

Document discovery, substantially in pursuit of facts that could be used to destroy the reputations of good lawyers and a proficient inventor, was staggering in our case. The discovery deadline was extended five times, and continued for two years after one magistrate observed that we were at the apex of the pyramid and past the point of diminishing returns.

What can be done about the over-use of this defense? Several things.

First, force a defendant to plead inequitable conduct, or forgo it. Employ those cases that

require a pleading of inequitable conduct to comply with Rule 9(b). That means that, at the outset of the case, the parties and the court have a theory that will guide discovery, and allow intelligent use of the principles in Rule 26(b)(2) to discover only what is reasonably necessary.

Second, if you are a defendant and believe that inequitable conduct might become a defense, seek a scheduling order that will allow you to amend your pleading a bit later in the case, after some discovery has been taken, but well before fact discovery is over. Many courts' early scheduling orders require that amendments to the pleadings be accomplished too early in discovery. That, in turn, pushes a defendant to plead anything and everything, for fear of losing a potentially meritorious defense. With a later date for amendments, a defendant has less reason to plead defenses that lack merit.

Third, make a party provide its contention in discovery. Use interrogatories and document requests to get the theory and supporting evidence out on the table.

Fourth, preclude a party from advancing a theory of inequitable conduct not reasonably disclosed during fact discovery. There are cases that will help you. One example is *Nat'l Football League Properties, Inc. v. Prostyle, Inc.*, 16 F.Supp. 2d 1012, 1016 (E.D. Wisc. 1998). Another is *Thorne EMI North America, Inc. v. Intel Corp.*, 936 F. Supp. 1186, 1191 (D.Del. 1996).

There is a place for this defense. Sometimes inequitable conduct does occur. But we should not see the bogey-man behind every door, particularly when doing so can damage or destroy the careers of honest lawyers and industrious inventors. We have to admit to ourselves that it is wrong to do so, and beyond the limit of zealous advocacy. **IPT**