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THE EQUITABLE INEQUITABLE: ADDING PROPORTIONALITY AND PREDICTABILITY TO INEQUITABLE CONDUCT IN THE PATENT REFORM ACT OF 2008

I. INTRODUCTION

A scientist develops an amazing new invention – something so new and useful that the marketplace eagerly waits for it to be produced. He applies for and receives a series of patents that cover the invention and its entire related system, and he starts licensing the technology to other companies that want to use the technology in their own products. The scientist is financially successful. However, one company objects to the price, then debuts its own invention, which is remarkably similar to one of the scientist’s patented inventions. The scientist sues the company for infringing his patent. After a costly discovery process, it comes to light that during the application process, the scientist failed to notify the United States Patent and Trademark Office (“PTO”) that he had previously applied for a patent for a small piece of the system and it was rejected. Because of this, the court declares the patent unenforceable, and since many of the other parts of the system relied on the process described in that patent, those related patents become unenforceable, too. The company successfully defended itself using inequitable conduct.

Years of the inventor’s hard work and ingenuity are lost to a disproportionately small error of omission because a Federal district judge determined that the omission was intentional and material to the prosecution process. This is a common scenario under the current state of United States patent law. Such errors are compounded even more when the parties alleging infringement purchase patents from the inventors – their patents can be deemed unenforceable for defects in a process to which they were not even a party. On September 25, 2008, Senator Jon Kyl of Arizona tried to address these and other problems with the introduction of a bill titled the Patent Reform Act of 2008 (“2008 Act”).¹

1. Patent Reform Act of 2008, S. 3600, 110th Cong. (2008).

The bill, which will likely not reach the Senate's legislative calendar until 2009,² is a reaction to the issues and concerns raised with the Patent Reform Act of 2007 ("2007 Act"),³ which passed the United States House of Representatives on September 7, 2007⁴ but failed to make it off the Senate floor because its proposed limits on damages were met with stiff opposition.⁵ Among the changes that the 2008 Act proposes are revising damages for infringement to allow for substantial but reasonable remedies for patent owners,⁶ changes for determining the proper judicial venue,⁷ and a limit on post-grant opposition proceedings.⁸ The Act also addresses the concerns of the biotechnology industry,⁹ which, unlike the software and electronics industries, relies on a small number of patents and has a strong financial interest in it being difficult to challenge their validity.¹⁰ Ultimately, legislative patent reform may be some combination of the 2007 Act, the 2008 Act, and possibly a yet-to-come 2009 Patent Reform Act.¹¹

The changes to the doctrine of inequitable conduct in the 2008 Act amount to a substantial overhaul of its application. Currently, the PTO is the only federal agency that relies on the courts to police breaches of the duty of good conduct in dealings with an agency.¹² As a result, applicants have to anticipate pleasing at least two judging bodies in the course of the patent application process – initially the PTO, and then all future potential challenges in court, foreseeable or not. The bill proposes making the second phase of the inequitable conduct inquiry an administrative hearing

2. See Posting of Kevin E. Noonan to Patent Docs, <http://patentdocs.typepad.com> (Sept. 25, 2008, 23:40 EST).

3. Patent Reform Act of 2007, H.R. 1908, 110th Cong. (2007); see also S. 1145, 110th Cong. (2007).

4. H.R. 1908.

5. See Steve Tobak, *Patent Reform Act Stalls in the Senate*, CNET NEWS, May 12, 2008, http://news.cnet.com/8301-13555_3-9941241-34.html.

6. See S. 3600.

7. *Id.* at § 8.

8. See *id.* at § 5.

9. See IPWatchdog, <http://www.ipwatchdog.com> (Sept. 25, 2008, 13:46 EST).

10. Tooling Around in the IBM InfoSphere, <http://it.toolbox.com/blogs/infosphere/> (Oct. 10, 2008).

11. *Id.*

12. 154 CONG. REC. S9991 (daily ed. Sep. 27, 2008) (statement of Sen. Kyl).

in front of the PTO, while allowing applicants to resubmit corrected applications to the PTO rather than having the entire patent declared unenforceable.¹³

This Article argues that this legislation proposes a positive change to the application of inequitable conduct because it would result in decreased litigation and significantly ease penalties for innocent or immaterial mistakes made during patent prosecution. By moving away from unenforceability as the only remedy and instead focusing on patentability, the Act may open the door for some misconduct. However, the proposed changes add much needed proportionality and predictability to the doctrine for patentees and take away the incentive for alleged infringers to reflexively raise the defense in response to litigation.

The ensuing sections of this Article provide detailed analysis of the Act and how it affects the historical goals and perceived problems of inequitable conduct. Part II examines the history of inequitable conduct from its creation in the 18th century to its judicial development in the 1940s and 50s and recent judicial development and legislative attempts at significant reform. Part III provides detailed examination of the proposed changes in the Patent Reform Act of 2008. Part IV analyzes the potential beneficial and harmful effects of the Act and proposes further changes to meet the needs of all interested parties. Finally, Part V concludes that Congress should adopt these changes as part of patent reform.

II. BACKGROUND

This Section examines the development of the doctrine of inequitable conduct and recent legislative attempts to reform it. Its four parts focus respectively on the judicial creation of the doctrine, recent cases involving its successful use as a defense, judicial criticism of inequitable conduct, and its legislative precursors.

13. See S. 3600, at § 11.

A. Development of the Inequitable Conduct Doctrine

Inequitable conduct is derived from the doctrine of unclean hands,¹⁴ an equitable defense stating that the complaining party cannot be awarded equitable relief, usually an injunction,¹⁵ if it has engaged in some fraud or misconduct with regard to the subject of the complaint.¹⁶ Courts do not want to reward litigants that have behaved badly with relief because they do not want to be seen as aiding their misconduct.¹⁷

Inequitable conduct serves two distinct policy purposes: (1) encouraging patent validity and (2) deterrence of misconduct.¹⁸ Because the prosecution process is conducted *ex parte*,¹⁹ interested third parties have a limited ability to submit prior art materials to the PTO.²⁰ There is a tremendous duty on applicants and PTO examiners to ensure that all relevant materials are considered before a patent is issued.²¹ Applicants have the most available information about their inventions, prior art, and their area of expertise, so the burden of disclosure falls on them.²² However, given the high societal costs of bad patents – that is, a monopoly on what could be an obvious or anticipated invention – there needs to be an incentive for good faith disclosure and deterrent for willful, meaningful noncompliance.²³

14. Kevin Mack, Note, *Reforming Inequitable Conduct to Improve Patent Quality: Cleansing Unclean Hands*, 21 BERKELEY TECH. L.J. 147, 150 (2006).

15. An injunction is a court order commanding or preventing an action. BLACK'S LAW DICTIONARY 800 (8th ed. 2004). To get an injunction, the complainant must show that damages are an inadequate remedy and that an irreparable injury will result unless the relief is granted. *Id.*

16. Mack, *supra* note 14, at n.20.

17. See *Keystone Driller Co. v. General Excavator Co.*, 290 U.S. 240, 244-45 (1933).

18. Katherine Nolan-Stevaux, Note, *Inequitable Conduct Claims in the 21st Century: Combating the Plague*, 20 BERKELEY TECH. L.J. 147, 156 (2005).

19. An *ex parte* proceeding is one that is conducted for the benefit of one party only, without notice or argument from adverse parties. BLACK'S LAW DICTIONARY 616 (8th ed. 2004).

20. Kevin A. Meehan, *Shopping for Expedient, Inexpensive & Predictable Patent Litigation*, 2008 B.C. INTELL. PROP. & TECH. F. 102901, *1 (2008).

21. Nolan-Stevaux, *supra* note 18, at 156.

22. *Id.* at 158.

23. *Id.* at 156-60.

1. Statutory Development

Historically, inequitable conduct began as a private cause of action rather than as a defense.²⁴ The first U.S. patent law, the Patent Act of 1790, stated:

any patent which shall be issued in pursuance of this act, was obtained surreptitiously by, or upon false suggestion, and motion made to the said court, within one year after issuing the said patent, but not afterwards, it shall and may be lawful to and for the judge . . . to repeal such patents.²⁵

The Patent Act of 1793 extended the time limit for filing an action from one year to three years.²⁶ Neither Act, however, required significant examination of claims during the application process.²⁷

The absence of any examination procedure led to widespread fraud and misconduct.²⁸ The Patent Act of 1836 created the PTO²⁹ and attempted to address the problem by charging the PTO Commissioner³⁰ with the duty of examining patent applications for validity.³¹ The 1836 Act also changed the process for alleging improper patent procurement from a cause of action³² to a defense.³³

24. Patent Act of 1790, ch. 7, § 5, 1 Stat. 109, 111 (repealed 1793).

25. *Id.*

26. Patent Act of 1793, ch. 11, § 10, 1 Stat. 318, 323 (repealed 1836).

27. Robert J. Goldman, *Evolution of the Inequitable Conduct Defense in Patent Litigation*, 7 HARV. J.L. & TECH. 37, 40 n.14 (1993).

28. *See id.* at 40-41.

29. Patent Act of 1836, ch. 357, § 1, 5 Stat. 117 (repealed 1870).

30. The Commissioner, now known as the Director, supervises or performs the duties regarding issuance of patents, stipulates the rules for proceedings before the PTO, and is responsible for the day-to-day administration of the office. United States Patent and Trademark Office, General Information Concerning Patents, <http://www.uspto.gov/web/offices/pac/doc/general/index.html#uspto> (last visited Nov. 30, 2008).

31. Patent Act of 1836 § 1.

32. Goldman, *supra* note 27, at 41.

33. Patent Act of 1836 § 15.

The next major reform of U.S. patent law, the Consolidated Patent Act of 1870, broadened the inequitable conduct defense to include deceit in the application process, stating that defendants charged with infringement could raise as a defense that “for the purpose of deceiving the public the description and specification filed by the patentee in the patent office was made to contain less than the whole truth relative to his invention or discovery, or more than is necessary to produce the desired effect.”³⁴

The Patent Act of 1952, the current statement of U.S. patent law,³⁵ is silent as to inequitable conduct specifically. It merely lists defenses against infringement as “[n]oninfringement, absence of liability for infringement or unenforceability.”³⁶ Inequitable conduct probably falls under the vague language of “unenforceability,” but the Act does not explicitly codify it as a defense.

2. Judicial Development

Early on, courts required the government to protect the public from bad patents.³⁷ For example, in *United States v. Bell Telephone Co.*³⁸ in 1888, the Supreme Court held that since the government had given the exclusive market rights to an invention to the defendant, it was the government’s “obligation to protect the public from the monopoly of the patent which was procured by fraud.”³⁹

Things began to change in 1944 in *Hazel-Atlas Glass Co. v. Hartford-Empire Co.*,⁴⁰ where the plaintiff, Hartford, wrote a phony journal article raving about the technological advances of its

34. Consolidated Patent Act of 1870, ch. 230, § 61, 16 Stat. 198, 208 (repealed 1952).

35. United States Patent and Trademark Office, General Information Concerning Patents, <http://www.uspto.gov/web/offices/pac/doc/general/index.html#laws> (last visited Nov. 30, 2008).

36. 35 U.S.C. § 282 (2006).

37. Goldman, *supra* note 27, at 43.

38. 128 U.S. 315 (1888).

39. *Id.* at 367.

40. 322 U.S. 238 (1944).

method of pouring glass into molds for use in glass bottles.⁴¹ Hartford convinced the president of a glass workers' union to put his name on the article.⁴² It was published, and it used the article in support of its patent application for the method.⁴³ When Hartford sued Hazel-Atlas for infringement of the patent, Hazel-Atlas argued that it should not be held responsible for infringing a patent that was obtained by fraud.⁴⁴ Not only was it possible that the PTO had relied on the article when making the decision to issue the patent, the lower court had referred to it in the earlier proceeding where Hartford successfully alleged infringement of the patent.⁴⁵ The Court reversed the finding of infringement against Hazel-Atlas and stated, “[t]o grant full protection to the public against a patent obtained by fraud, that patent must be vacated. It has previously been decided that such a remedy is not available in infringement proceedings, but can only be accomplished in a direct proceeding brought by the government.”⁴⁶

The landmark change in inequitable conduct law arrived in 1945, in *Precision Instrument Manufacturing Co. v. Automotive Maintenance Machinery Co.*⁴⁷ There, the Supreme Court explicitly derived the inequitable conduct doctrine from “unclean hands”⁴⁸ and used it to dismiss an infringement complaint that the patentee had filed against the defendant.⁴⁹

In *Precision Instrument*, the plaintiff alleged infringement of three of its patents for torque wrenches.⁵⁰ The defendant responded with an affirmative defense of “unclean hands,” specifically that the plaintiff knew the applications for the patents in question contained statements that it knew to be perjured, including dates that were falsified to make some of the claims pre-date a competitor’s application.⁵¹ One of the defendant’s officers

41. *Id.* at 240.

42. *Id.*

43. *Id.* at 240-41.

44. *See id.* at 239.

45. *Id.* at 246-47.

46. *Hazel-Atlas*, 322 U.S. at 251.

47. 324 U.S. 806 (1945).

48. *Id.* at 819.

49. *Id.*

50. *Id.* at 807.

51. *Id.* at 807-09.

assigned his patent applications to the patentee as part of a settlement agreement in an earlier dispute, so the defendant participated in the misconduct that it now claimed rendered the patents unenforceable.⁵² The Supreme Court found that the patentee clearly should have known, as a party to the earlier dispute, that the applications were fraudulent on their face.⁵³ The Court then needed to determine the proper remedy, because both parties were potential wrongdoers in this instance – the defendants for allegedly infringing on the patents, and the plaintiff for fraudulently obtaining them.

The Court began by determining that the plaintiff's misconduct offended more than just the PTO or the defendant;⁵⁴ it offended the public interest.⁵⁵ It committed fraud against the whole of society because it knowingly withheld information that was important to the PTO's ability to accurately assess the application and the importance of the perjury to it.⁵⁶ As patents are a rare exception to the general rule against monopolies, allowing a plaintiff such as Precision to enforce the patent was against the public policy favoring open markets.⁵⁷ The Court decided not to enforce the patent by dismissing the complaint.⁵⁸

In extending unclean hands to inequitable conduct in patent proceedings, the Court stated:

where a suit in equity concerns the public interest as well as the private interests of the litigants this doctrine assumes even wider and more significant proportions. For if an equity court properly uses the maxim to withhold its assistance in such a case it not only prevents a wrongdoer from enjoying the fruits of his transgression but averts an injury to the

52. *See id.* at 813-14.

53. *See Precision Instrument*, 324 U.S. at 817.

54. *Id.* at 818.

55. *Id.* (“Public interest demands that all facts relevant to such matters be submitted formally or informally to the Patent Office, which can then pass upon the sufficiency of the evidence. Only in this way can that agency act to safeguard the public in the first instance against fraudulent patent monopolies.”)

56. *See id.*

57. *See id.* at 816.

58. *Id.* at 820.

public.⁵⁹

Precision Instrument, therefore, finally established inequitable conduct as a definitive defense to infringement.⁶⁰

3. *Post-Precision Developments*

Precision involved a clear case of perjury in the application process. However, it remained to be determined how courts would apply the standard to less obvious fraud in the prosecution process. Presently, a successful claim of inequitable conduct must show clear and convincing proof of deception, withheld information, or falsification in the application process that was both (1) material to the claims of the patent and (2) made with intent to deceive the PTO.⁶¹ If both elements of the test are satisfied, the court then weighs the two to determine if a finding of inequitable conduct is necessary:⁶² a strong showing of materiality will carry a lesser showing of intent, and vice versa. Because patents carry a presumption of validity,⁶³ the burden is on the defendant to find, through discovery, not only material failures in the application process, but also proof of subjective intent.⁶⁴

The materiality prong is based on the duty of candor and good faith imposed on applicants to the PTO.⁶⁵ Some confusion has arisen in recent years about what standard to apply to materiality.⁶⁶ Without guidance from the Supreme Court or the PTO, courts

59. *Precision Instrument*, 324 U.S. at 815.

60. Goldman, *supra* note 27, at 51.

61. *Molins PLC v. Textron, Inc.*, 48 F.3d 1172, 1178 (Fed. Cir. 1995).

62. *Id.*

63. 35 U.S.C. § 282 (2006).

64. *Purdue Pharma L.P. v. Boehringer Ingelheim GMBH*, 438 F.3d 1123, 1133-34 (Fed. Cir. 2006).

65. James Cronin, Comment, *Inequitable Conduct and the Standard of Materiality: Why the Federal Circuit Should Use the Reasonable Patent Examiner Standard*, 50 ST. LOUIS U. L.J. 1327, 1335 (2006).

66. See *Dayco Prods., Inc. v. Total Containment, Inc.*, 329 F.3d 1358, 1364 (Fed. Cir. 2003) (“[W]e have not decided whether the standard for materiality in inequitable conduct cases is governed by equitable principles or by the Patent Office’s rules.”).

early in the evolution of inequitable conduct used an objective “but for” test, a subjective “but for” test, and the “but it may have” test.⁶⁷ The objective “but for” test found misconduct to be material if it would have prevented the issuance of the patent.⁶⁸ The subjective “but for” test is more broad and looks at whether the examiner relied on the misconduct in issuing the patent.⁶⁹ The “but it may have” test is even more broad, as it finds materiality in any misrepresentations that may have affected the examiner during the course of prosecution.⁷⁰

The two prevalent modern standards are derived from Title 37, Rule 56 of the Code of Federal Regulations – the pre-1992 version⁷¹ and the post-1992 version.⁷² In 1977, the PTO codified the standard for materiality in proceedings before the PTO.⁷³ This “pre-1992 version” of Rule 56 uses a subjective standard of whether a reasonable patent examiner would view the disclosures as material to the claims in the patent.⁷⁴ In 1992, the PTO modified Rule 56 to be a more objective standard of whether the challenged information establishes “a prima facie case of unpatentability of a claim.”⁷⁵ Courts often use the version current on the effective filing date of the patents at issue,⁷⁶ but some courts feel free to apply any of the five materiality standards.⁷⁷ Patentees

67. *Digital Control, Inc. v. Charles Mach. Works*, 437 F.3d 1309, 1315 (Fed. Cir. 2006) (citing *Am. Hoist & Derrick Co. v. Sowa & Sons*, 725 F.2d 1350, 1362 (Fed. Cir. 1984)).

68. Cronin, *supra* note 65, at 1338-39 (citing *In re Multidistrict Litigation Involving Frost Patent*, 398 F. Supp. 1353, 1368 (D. Del. 1975), *rev'd on other grounds*, 540 F.2d 601 (3d Cir. 1976)).

69. *Id.* at 1340.

70. *Id.* at 1341.

71. 37 C.F.R. § 1.56(a) (1977).

72. 37 C.F.R. § 1.56(b)(1) (2008).

73. *Digital Control, Inc. v. Charles Mach. Works*, 437 F.3d 1309, 1315 (Fed. Cir. 2006).

74. 37 C.F.R. § 1.56(a) (1977).

75. 37 C.F.R. § 1.56(b)(1) (2008).

76. *See Purdue Pharma L.P. v. Boehringer Ingelheim GMBH*, 438 F.3d 1123, 1129 (“Because all of the patent applications at issue in this case were pending on or filed after March 16, 1992, we look to the current version of Rule 56, rather than the pre-1992 version of the rule.”).

77. *See Digital Control*, 437 F.3d at 1316 (stating that neither change to Rule 56 was meant to supplant the other standards used in precedent cases).

prefer the more stringent test of the post-1992 standard because the challenged or missing information from the holder's application must relate directly to patentability.⁷⁸

With respect to the element of intent, direct evidence of fraudulent intent is not required to show inequitable conduct.⁷⁹ Intent to deceive can be inferred from the surrounding circumstances.⁸⁰ Again, public policy concerns have a substantial impact on determinations of intent, as courts view the duty to the PTO and the public as a fiduciary-like duty.⁸¹ Courts have struggled with whether bad faith by the applicant is required.⁸² The Court of Customs and Patent Appeals⁸³ in *Norton v. Curtiss*⁸⁴ stated that, “[u]nder ordinary circumstances, the *fact* of misrepresentation coupled with proof that the party making it had knowledge of its falsity is enough to warrant drawing the inference that there was a fraudulent intent.”⁸⁵ The Federal Circuit has held, however, that honest mistakes should not be punished⁸⁶ and grossly negligent behavior is not always enough, by itself, to support an inference of deceitful intent.⁸⁷

B. Application of Modern Inequitable Conduct Doctrine

The penalties for inequitable conduct are severe. A finding of inequitable conduct as related to a single claim in a patent renders

78. Tom Brody, *Duty to Disclose: Dayco Products v. Total Containment*, 7 J. MARSHALL REV. INTELL. PROP. L. 325, 331 (2008).

79. *Bruno Indep. Living Aids, Inc. v. Acorn Mobility Servs., Ltd.*, 394 F.3d 1348, 1354 (Fed. Cir. 2005).

80. *Id.*

81. Goldman, *supra* note 27, at 63.

82. *See id.* at 62.

83. The Court of Customs and Patent Appeals heard appeals in patent cases until the Federal Circuit was created in 1982. BLACK'S LAW DICTIONARY 387 (8th ed. 2004).

84. 433 F.2d 779 (C.C.P.A. 1970).

85. *Id.* at 795-96 (emphasis added).

86. *Litton Indus. Prods., Inc. v. Solid State Systems Corp.*, 755 F.2d 158, 166 (Fed. Cir. 1985) (“Wholly inadvertent errors or honest mistakes . . . do not constitute the requisite level of intent.” (citing *Cataphote Corp. v. DeSoto Chem. Coatings, Inc.*, 450 F.2d 769, 772 (9th Cir. 1971))).

87. *Abbott Labs. v. Sandoz, Inc.*, 544 F.3d 1341, 1353 (Fed. Cir. 2008).

all claims unenforceable.⁸⁸ Additionally, any other patents that rely on the patent in question may also be unenforceable.⁸⁹

*Consolidated Aluminum Corp. v. Foseco International Ltd.*⁹⁰ illustrates the harsh consequences of the inequitable conduct doctrine.⁹¹ In *Consolidated Aluminum*, the plaintiff patentee sued four parties for infringement of six patents related to ceramic foam filters used with molten metals.⁹² The defendants charged the patentee with inequitable conduct in the process of procuring one of the patents.⁹³ The court agreed, stating that the evidence showed a clear inference that the inventors knew the best mode⁹⁴ for practicing the invention was omitted from the patent application.⁹⁵ The court found that patent unenforceable, then invalidated three other patents that relied on the one obtained by willful withholding of information.⁹⁶ Even though a special master in an earlier proceeding felt that the other patents would have been valid if the patentee disclosed the missing information as prior art,⁹⁷ the Federal Circuit determined that the patentee's hands were "soiled" by the breach of its duty of good faith and candor before the PTO.⁹⁸ The court declared, therefore, all patents-in-suit were unenforceable.⁹⁹ Thus, one intentional, material misrepresentation of one aspect of the application for one patent effectively prevented the company from asserting exclusive market rights to

88. *Kingsdown Med. Consultants v. Hollister, Inc.*, 863 F.2d 867, 877 (Fed. Cir. 1988).

89. *See Consol. Aluminum Corp. v. Foseco Int'l Ltd.*, 910 F.2d 804, 809 (Fed. Cir. 1990).

90. *Id.*

91. *Id.* at 806.

92. *Id.* at 806.

93. *Id.*

94. Best mode is the best way that the inventor knows to use the invention described in a patent application. BLACK'S LAW DICTIONARY 170 (8th ed. 2004). Failing to disclose the best mode in an application can render the application invalid. *Id.*

95. *Consol. Aluminum*, 910 F.2d at 807 ("Instead of disclosing the actual slurry used to make the filters tested and reported in the patent, a fictitious inoperable slurry was disclosed . . . which omitted key ingredients. . . .")

96. *Id.* at 812.

97. *Id.* at 812 n.8.

98. *Id.* at 809.

99. *See id.* at 812.

four patents.

Because the court found a strong showing of both materiality and intent to deceive in *Consolidated Aluminum*, the harshness of the penalty perhaps falls in line with the stated goals of inequitable conduct. Other cases, however, create concerns that there is an enormous disparity between the gravity of the misconduct, the culpability of the patentee during the application process, and the severity of the penalties.

One such problem occurs when the patentee is not the same party as the inventor, usually an assignee.¹⁰⁰ Since assignees are normally completely unconnected to the prosecution of the patents, enforcement of their rights can become treacherous when infringers respond with allegations of wrongdoing. Purchasers certainly have an opportunity to conduct a “due diligence” inquiry of all the application materials that are publicly available, but they have insufficient resources to investigate the inventor or prosecuting attorney’s subjective state-of-mind at the time of the application.¹⁰¹

*Hoffmann-La Roche v. Promega*¹⁰² illustrates this effect on third party purchasers.¹⁰³ A small biotechnology company developed a DNA polymerase used to replicate strands of DNA.¹⁰⁴ The plaintiff was a giant in the pharmaceuticals industry that purchased the rights to the patent for \$330 million.¹⁰⁵ The defendant had licensed the invention from the original patentee, and then, after the assignment, allegedly breached the license agreement.¹⁰⁶ The assignee sued the defendant to enforce its newly-purchased rights.¹⁰⁷ The defendant responded to the infringement charges

100. The rights to patents can be transferred like personal property. See 35 U.S.C. § 261 (2006).

101. Christopher M. Holman, *Biotechnology’s Prescription for Patent Reform*, 5 J. MARSHALL REV. INTELL. PROP. L. 318, 342 (2006).

102. 323 F.3d 1354 (Fed. Cir. 2003).

103. *Id.* at 1357-58.

104. *Id.* at 1358.

105. Teresa Riordan, *Who First Identified a Key Enzyme in Biotech Research? Hoffmann-LaRoche Has Money on It*, N.Y. TIMES, Sept. 16, 1996, at D2.

106. *Hoffmann-La Roche*, 323 F.3d at 1358.

107. *Id.*

with a counterclaim of inequitable conduct.¹⁰⁸ The defendant alleged misconduct in the prosecution of a patent it had presumably relied on when it was selling the invention under the license agreement.¹⁰⁹

The Federal Circuit held that the patentee described a particular experiment in the past tense, when evidence showed the procedure had not been performed as stated in the patent application.¹¹⁰ The inventors completed all of the steps listed in the example in a different sequence as part of two separate procedures, but the court found the specific order of the steps to be material and the description of the unperformed experiment to be intentionally deceptive, despite the fact that the experiment worked as written.¹¹¹ On remand, the district court determined that the patent was unenforceable.¹¹² Thus, inequitable conduct was used to invalidate a patent, causing potentially enormous economic damage to the assignee, because fifteen years earlier a different company used an improper verb tense in the patent application.

Hoffmann-La Roche contained a dissenting opinion that referred to the application of the defense as a prime example of the “plague” of inequitable conduct allegations,¹¹³ and then suggested that under this court’s application of the doctrine, it would be nearly impossible for any patent to survive this type of scrutiny.¹¹⁴

*Purdue Pharma v. Endo Pharmaceuticals*¹¹⁵ further illustrates the potentially devastating impact of inequitable conduct on an otherwise valid patent. In *Purdue Pharma*, the plaintiff sued for infringement of three patents covering a pain reliever.¹¹⁶ The detailed description section of each patent referred to the revelation that its new formulation of the drug controlled pain in a narrower range of doses as a “surprising discovery.”¹¹⁷ The

108. *Id.* at 1359.

109. *See* Riordan, *supra* note 106.

110. *See Hoffmann-La Roche*, 323 F.3d at 1366.

111. *Id.* at 1368.

112. *See Hoffmann-La Roche, Inc. v. Promega Corp.*, 319 F. Supp. 2d 1011, 1029 (N.D. Cal. 2004).

113. *Hoffmann-La Roche*, 323 F.3d at 1372 (Newman, J., dissenting).

114. *Id.* at 1381.

115. 410 F.3d 690 (Fed. Cir. 2005).

116. *Id.* at 695.

117. *Id.* at 694.

defendant, which wanted to market a generic version of the drug, focused on this language, and the Federal Circuit affirmed a district court’s determination that the “surprising discovery” language implied that clinical trials were performed that in fact were not.¹¹⁸ The court inferred intent from language that deliberately suggested the performance of the trials.¹¹⁹

Despite the validity of the patents, the decision opened the door for the defendant to market the generic version of the drug because the plaintiff could no longer enforce its exclusive rights in the patents.¹²⁰ The patentee corporation responded by laying off 825 employees (thirty-eight percent of its workforce), because the once-patented drug accounted for roughly seventy-five percent of its sales.¹²¹ Ultimately, the patentee filed a petition for a rehearing by the Federal Circuit Court, which was granted.¹²² On second look, the court still found that the evidence satisfied the materiality prong, but it was such a low degree of materiality that very little deceptive intent could be inferred from it.¹²³ Balanced together, the misconduct was insufficient to render the patents unenforceable.¹²⁴ Ultimately the parties settled the litigation over the infringement of the patents,¹²⁵ but the narrowly-averted astronomical financial and human costs of slightly ambiguous language in this otherwise valid patent application casts into doubt the equitability of the results.

In 2007, *McKesson Information Solutions v. Bridge Medical*¹²⁶ further muddied the waters of inequitable conduct by expecting a

118. *Id.* at 698.

119. *Id.* at 701.

120. *Id.* at 694.

121. Associated Press, *Purdue Pharma to Lay Off 825 Employees*, July 1, 2005, http://www.pharmacychoice.com/news/article.cfm?Article_ID=8036.

122. *Purdue Pharma L.P. v. Endo Pharms., Inc.*, 438 F.3d 1123, 1137 (Fed. Cir. 2006) (vacating and remanding the judgment regarding finding of inequitable conduct).

123. *Id.* at 1134.

124. *Id.* at 1134-35.

125. Press Release, *Purdue Pharma L.P., Purdue Pharma L.P. Announces Resolution of OxyContin Lawsuit with Endo Pharmaceuticals* (Aug. 28, 2006), available at <http://www.purduepharma.com/pressroom/news/20060828-1.htm>.

126. 487 F.3d 897 (Fed. Cir. 2007), *reh’g en banc denied*, 2007 U.S. App. LEXIS 17649 (July 10, 2007).

large amount of foresight from the patentee during prosecution in its decision to declare a patent unenforceable. In *McKesson*, the patentee sued the defendant for infringement of a patent for a barcode reading system that associated medical information with specific patients.¹²⁷ The defendant alleged inequitable conduct in the prosecution of the patent and both the district court¹²⁸ and the Federal Circuit agreed.¹²⁹

The problem for the patentee arose when it prosecuted three related patents.¹³⁰ One PTO examiner (Trafton) evaluated two applications and a second examiner (Lev) evaluated the third.¹³¹ While the court found three instances of failure to disclose material information,¹³² two of them are particularly interesting. The patentee disclosed the existence of the application that was pending before Lev to examiner Trafton.¹³³ Examiner Lev rejected claims in the application referring to a three-node communication system in a handheld device, and these claims were related to the other pending applications.¹³⁴ While Examiner Trafton was aware of the other application, the court held that the patentee needed to explicitly point out the rejected claims to the examiner.¹³⁵

The third finding of materiality related to the two patents evaluated by examiner Trafton. The patentee failed to remind Trafton of some claims in a continuation-in-part patent that were similar to claims in the pending application, and the Federal Circuit held that the patentee could not rely on the examiner's memory of a prior application when determining what information to disclose in a subsequent application.¹³⁶ The court felt that a reasonable examiner needed to know of the claims to properly

127. *Id.* at 902.

128. *Id.* at 901.

129. *Id.* at 926.

130. *See id.* at 902-07.

131. *Id.* at 903-06.

132. *See McKesson Info.*, 487 F.3d at 926.

133. *Id.* at 905.

134. *Id.* at 904-05.

135. *See id.* at 917-18.

136. *Id.* at 925-26 (“[The patentee] was not entitled to assume that Examiner Trafton would recall his decision . . . in the absence of a written disclosure to that effect.”).

evaluate the possibility of double patenting.¹³⁷ Despite the patentee's disclosure of the entire specification of the pending patent in the application for the continuation-in-part patent, the court found no clear error in the district court's finding that the failure to re-iterate the information was a material and intentional omission.¹³⁸

The effect of these two findings appears to be that applicants have a clear duty to keep the PTO informed of its own actions during the course of prosecuting related patents.¹³⁹ Any and all diligence or investigation falls on the duty of the patentee. Judge Newman's dissenting opinion criticized the majority's decision by saying "[t]his court returns to the 'plague' of encouraging unwarranted charges of inequitable conduct, spawning the opportunistic litigation that here succeeded despite consistently contrary precedent."¹⁴⁰

Sometimes, however, patentees engage in truly exceptional misconduct before the PTO. For example, in *Applied Materials, Inc. v. Multimetrix, LLC*,¹⁴¹ the plaintiff filed a complaint to dispute inventorship of a method for using sensors to determine the placement of a flat object¹⁴² and during testimony the court raised the issue of inequitable conduct.¹⁴³ One of the three inventors appeared to sign responses to the PTO in both 2003 and 2004 – but he died in 2002.¹⁴⁴ Despite an initial filing date of 2001,¹⁴⁵ the district court applied the pre-1992 "reasonable examiner" materiality standard¹⁴⁶ and found clear and convincing evidence that the true identity of the inventors would be important

137. *Id.* at 925.

138. *McKesson Info.*, 487 F.3d at 926.

139. Posting of Kevin E. Noonan to Patent Docs, <http://patentdocs.typepad.com/> (May 23, 2007, 23:53 EST) ("[T]he Federal Circuit's decision is properly understood to impose the additional requirement that an applicant (or her counsel) take affirmative steps to bring such parallel prosecution to the attention of each examiner in related applications.")

140. *McKesson Info.*, 487 F.3d at 926-27 (Newman, J. dissenting).

141. No. C 06-07372, 2008 WL 2892453 (N.D. Cal. July 22, 2008).

142. *Id.* at *1.

143. *Id.*

144. *Id.* at *3.

145. *Id.* at *2.

146. *Id.* at *4.

to a reasonable examiner¹⁴⁷ and that the defendants inexplicably forged his signature rather than correcting the application and submitting true information to the PTO.¹⁴⁸ The two separate instances of forgery were evidence of a clear intent to deceive the office,¹⁴⁹ and the court declared the patent in question unenforceable.¹⁵⁰

In 2007, 95 out of 357 patent suits with reported decisions (twenty-six percent) involved a determination of inequitable conduct.¹⁵¹ These numbers only reflect proceedings where a final judgment relating to inequitable conduct was entered. The patent owner prevailed fifty-five times and the alleged infringer prevailed forty times.¹⁵² These figures raise important concerns regarding the necessity of both these kinds of challenges and the harsh remedy of making all the claims on all related patents unenforceable.

C. Judicial Commentary

In evaluating claims of inequitable conduct, courts have often used strong language to condemn its current application, in particular by dissenting judges in cases where patents were held unenforceable. The automatic raising of the defense was first referred to as a “plague” in *Burlington Industries, Inc. v. Dayco Corp.*¹⁵³ The Federal Circuit wrote:

[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

147. *Applied Materials*, 2008 WL 2892453, at *5 (“That the misrepresentations did not relate to patentability does not change the court’s conclusion that the forged signatures are material.”)

148. *Id.* at *9.

149. *Id.*

150. *Id.* at *10.

151. Patstats.org, http://www.patstats.org/2007_full_year.htm (last visited Oct. 22, 2008).

152. *Id.*

153. 849 F.2d 1418 (Fed. Cir. 1988).

represent their client's interests adequately, perhaps. . . . 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. . . . The charge was formerly known as "fraud on the Patent Office," a more pejorative term, but the change of name does not make the thing itself smell any sweeter.¹⁵⁴

In *Aventis Pharma S.A. v. Amphastar Pharmaceuticals, Inc.*,¹⁵⁵ Judge Rader's dissent to a finding of the patentee's inequitable conduct referred to the remedy of unenforceability as an "atomic bomb,"¹⁵⁶ and pointed out that its purpose is to incentivize candor before the PTO rather than become a tool of litigators. The dissent stated:

[t]he allegation of inequitable conduct opens new avenues of discovery; impugns the integrity of patentee, its counsel, and the patent itself; excludes the prosecuting attorney from trial participation (other than as a witness); and even offers the trial court a way to dispose of a case without the rigors of claim construction and other complex patent doctrines.¹⁵⁷

He then continued to criticize the court's decision to find both materiality and intent in the inventor's inadvertent omission of information while assisting the attorney during prosecution because the inventor revealed the missing information to the PTO, thus contradicting a finding of intent to deceive.¹⁵⁸

154. *Id.* at 1422.

155. 525 F.3d 1334 (Fed. Cir. 2008), *reh'g en banc denied*, 2008 U.S. App. LEXIS 25103 (Sept. 25, 2008).

156. *Id.* at 1349 (Rader, J., dissenting).

157. *Id.* at 1349-50.

158. *See id.* at 1350-52.

D. Recent Attempts at Legislative Reform

Congress has recognized a need for patent reform by introducing legislation to that end in each of the last four years. However, achieving that reform faces many significant obstacles. Biotechnology and information technology companies have competing interests in patent law,¹⁵⁹ and each group wants its interests to be represented in any new legislation.¹⁶⁰ This section will examine congressional attempts to reform the doctrine of inequitable conduct in both 2005 and 2007.

1. The Patent Reform Act of 2005

On June 8, 2005, Congressman Lamar Smith of Texas introduced The Patent Reform Act of 2005 (“2005 Act”).¹⁶¹ It attempted to enact several recommendations from studies conducted by the Federal Trade Commission (FTC)¹⁶² and the National Academy of Sciences.¹⁶³ The bill was never enacted.¹⁶⁴

The 2005 Act attempted to codify the duty of good faith and candor in proceedings before the PTO and shift the whole of the burden of inequitable conduct decisions from the federal courts to the PTO.¹⁶⁵ Such a change in forum would likely meet some level of resistance due to the substantial extra funding that would be required.¹⁶⁶ However, the Act proposed narrowing when the defense of inequitable conduct may be asserted from all litigation

159. See Holman, *supra* note 101, at 337.

160. See John Markoff, *Two Views of Innovation, Colliding in Washington*, N.Y. TIMES, Jan. 13, 2008, § 3, at 3.

161. Patent Reform Act of 2005, H.R. 2795, 109th Cong. (2005).

162. FED. TRADE COMM’N, TO PROMOTE INNOVATION: THE PROPER BALANCE OF COMPETITION AND PATENT LAW AND POLICY 4-7 (2003), available at <http://www.ftc.gov/os/2003/10/innovationrpt.pdf>.

163. NAT’L RESEARCH COUNCIL OF THE NAT’L ACADS., A PATENT SYSTEM FOR THE 21ST CENTURY 3-13 (Stephen A. Merrill, et al. eds. 2004), available at <http://www.nap.edu/html/patentsystem/0309089107.pdf>.

164. Patently-O, <http://patentlaw.typepad.com/> (Dec. 8, 2005, 09:50 EST).

165. H.R. 2795, at § 5.

166. James G. McEwen, *Is the Cure Worse Than the Disease? An Overview of the Patent Reform Act of 2005*, 5 J. MARSHALL REV. INTELL. PROP. L. 55, 74 (2005).

involving current patent owners to four specific scenarios, namely when: (1) the conduct relates to the validity of a claim, (2) the court previously found that claim invalid, (3) the patent examiner relied on the misconduct, and (4) the patent holder is responsible for the fraud.¹⁶⁷

2. *The Patent Reform Act of 2007*

With the 2005 bill and a similar bill introduced in 2006¹⁶⁸ failing to come up for a vote, Congressman Howard Berman of California and Senator Patrick Leahy of Vermont introduced the Patent Reform Act of 2007.¹⁶⁹ While many provisions were substantially similar to the 2005 bill, the change to inequitable conduct was noticeably absent from the Senate bill. In introducing the Senate version of the bill with Senator Leahy, Senator Orrin Hatch of Utah lamented the missed opportunity for change:

Attorneys well know that the inequitable conduct defense has been overpleaded and has become a drag on the litigation process. I think last year's language struck the correct balance by focusing on the patentability of the claims in dispute and properly prevented parties from asserting the defense frivolously. . . . I believe that reforms to the inequitable conduct defense should focus on the nature of the misconduct and not permit the unenforceability of a perfectly valid patent on a meritorious invention.¹⁷⁰

The Senate version of the bill never reached a vote because the legislators could not come to an agreement on the provisions for damages in the bill.¹⁷¹ However, the House version of the bill was

167. H.R. 2795, at § 5.

168. Patent Reform Act of 2006, S. 3818, 109th Cong. (2006).

169. Patent Reform Act of 2007, H.R. 1908, 110th Cong. (2007); Patent Reform Act of 2007, S. 1145, 110th Cong. (2007).

170. 153 CONG. REC. S4691-92 (daily ed. Apr. 18, 2007) (statement of Sen. Hatch).

171. Dugie Standeford, *US Patent Reform Stalls as Senate Negotiations*

passed on September 7, 2007.¹⁷² The bill contained a section specifically included to address concerns about inequitable conduct.¹⁷³

First, the new section reiterated that any allegations of inequitable conduct must be pled with particularity in conformance with Rule 9(b) of the Federal Rules of Civil Procedure,¹⁷⁴ a rule that is already applied by the courts.¹⁷⁵ This should weed out any inherently frivolous claims before they begin to rack up significant discovery costs. Second, it reverted to the subjective “reasonable examiner” test, in direct contradiction with the objective test preferred by the PTO’s post-1992 Rule 56 of the Code of Federal Regulations.¹⁷⁶ Finally, the bill required that intent no longer be inferred solely from a finding of materiality.¹⁷⁷ This addressed the problem of courts automatically deducing intent from a strong showing of materiality, which then required an application of the balancing test and ultimately resulted in more, and possibly more questionable, findings of inequitable conduct.

III. THE CURRENT PROPOSED LEGISLATION

On September 25, 2008 Senator Kyl of Arizona introduced the Patent Reform Act of 2008.¹⁷⁸ Though the bill is unlikely to receive consideration before 2009,¹⁷⁹ it is significant because it proposes yet another way of overhauling inequitable conduct. These proposed changes represent a substantial shift away from both existing judicially-created law and the recent attempts to codify the doctrine. The changes to inequitable conduct are

Break Down, INTELL. PROP. WATCH, Apr. 15, 2008, available at <http://www.ip-watch.org/weblog/index.php?p=1007&print=1>.

172. H.R. 1908.

173. *Id.* at § 12.

174. *Id.* at § 12(b)(3)(B).

175. *See, e.g.*, *UTStarcom, Inc. v. Starent Networks, Corp.*, No. 07 CV 2582, 2008 WL 5142194, at *1, (N.D. Ill. Dec. 5, 2008) (“Inequitable conduct must meet the heightened pleading requirements of Fed. R. Civ. Pro. 9(b).”).

176. H.R. 1908, at § 12(b)(4).

177. *Id.*

178. Patent Reform Act of 2008, S. 3600, 110th Cong. (2008).

179. *See* Posting of Kevin E. Noonan to Patent Docs, <http://patentdocs.typepad.com/> (Sept. 25, 2008, 23:40 EST).

codified in proposed additions to the end of Chapter 29 of Title 35 of the United States Code.¹⁸⁰ This section will examine the proposed changes to the doctrine in depth, first by looking at the proposed statutory changes and then through Senator Kyl’s testimony before the Senate.

A. The Statutory Changes

Of the two recent attempts at patent reform, the 2008 Act is more similar to the sweeping changes advocated by the 2005 bill, which attempted to completely remove the inequitable conduct defense from the courts and place the entire burden on the PTO. The 2008 Act suggests leaving the initial burden with the courts and moving subsequent proceedings to the PTO.¹⁸¹ The bill proposes:

If a court in a civil action, upon motion of a party to the action, finds that it is more likely than not that a person who participated in a matter or proceeding before the Office knowingly and intentionally deceived the Office by concealing material information or by submitting false material information in such matter or proceeding, the court shall order the patent to be made the subject of a reissue application under section 251. The motion shall set forth any basis upon which the moving party contends 1 or more claims of the patent are invalid in view of information relating to the conduct at issue not previously considered by the Director.¹⁸²

If a court finds inequitable conduct, it must issue an order specifying the facts used to come to that conclusion.¹⁸³ The facts in the order cannot be used in any other proceedings.¹⁸⁴ Since the

180. See S. 3600, at § 11(a).

181. See *id.*

182. *Id.*

183. *Id.*

184. *Id.*

district court's ruling is not subject to appellate review,¹⁸⁵ the proposed change removes the Federal Circuit from the equation unless there is an appeal of the outcome of the subsequent reissue proceeding.¹⁸⁶

The proposed reissue application is a new feature absent from prior statutory proposals. While this proposal alone still allows for frequent assertion of inequitable conduct in the courts, the reissue procedure gives patent owners a second chance to avoid the severe consequences of unenforceability by limiting that sanction to cases of fraud.¹⁸⁷ Any and all remedies are now within the scope of the PTO.

The reissue proceeding gives the patentee two months to resubmit the application for the patent in question or the court enters a judgment by default that the patent is unenforceable.¹⁸⁸ If owners choose to resubmit the application, they are not limited to modifying the claims in question.¹⁸⁹ Instead, the Act proposes allowing owners to make some changes and bring new information to the attention of the PTO.¹⁹⁰

The patentee must, at a minimum, submit a statement to the PTO addressing the alleged misconduct.¹⁹¹ The statement "shall identify with specificity the issues of patentability arising from the information and the basis upon which the claims in the reissue application are believed by the applicant to be patentable notwithstanding the information."¹⁹² Additionally, the patentee can eliminate claims from the application, and applicants can also substitute one claim of "equivalent or narrower scope replacing any omitted claim of the original patent."¹⁹³

The PTO then evaluates the patent using these new materials in addition to all the information submitted during the original

185. *Id.*

186. S. 3600, at § 11(a).

187. *Id.*

188. *Id.*

189. *See id.*

190. *See id.* ("A patentee may request reissue of a patent on the basis of information not previously considered by the Director in connection with a patent, or the efforts to obtain such patent . . .").

191. *Id.*

192. S. 3600, at § 11(a).

193. *Id.*

prosecution of the patent.¹⁹⁴ Upon reconsideration of the patent in light of the misconduct found by the court and any modifications made by patent owner, the PTO can either reissue a modified patent or require the patentee to surrender it.¹⁹⁵ If the patent is reissued, then the proceeding terminates and no sanctions are imposed on the patentee.¹⁹⁶

The PTO may add financial penalties if it orders the surrender of the patent. If the office determines that there is probable cause that an applicant engaged in material, intentionally deceptive conduct before the office, it can order such sanctions.¹⁹⁷ In weighing the amount, the Director must consider the materiality of the misconduct and the impact of it on both the particular proceeding and the integrity of the PTO.¹⁹⁸ Sanctions may be up to \$150,000 for each individual act of misconduct, up to \$1 million for a pattern of misconduct, or, for truly egregious actions, the office can declare one or more claims of the patent to be unenforceable or impose a penalty of up to \$10 million.¹⁹⁹ These fines are also subject to joint and several liability,²⁰⁰ meaning that an attorney or law firm with an indigent client can be responsible for the entirety of these amounts.²⁰¹

It is important to note that the office can declare one or more claims unenforceable. This provision changes the existing system, where the entire patent and all other patents that rely on it are unenforceable if there is any material and intentional misconduct found by the court relating to claim in the patent.²⁰² Even in cases

194. *Id.*

195. *Id.*

196. *Id.*

197. *Id.*

198. S. 3600, at § 11(a).

199. *Id.*

200. *Id.*

201. Joint and several liability is liability that may be apportioned either among two or more parties or to only one or a few select members of the group, at the adversary's discretion. BLACK'S LAW DICTIONARY 933 (8th ed. 2004). Thus, each liable party is individually responsible for the entire obligation, but a paying party may have a right of contribution and indemnity from nonpaying parties. *Id.*

202. *Digital Control, Inc. v. Charles Mach. Works*, 437 F.3d 1309, 1313 (Fed. Cir. 2006) (citing *Norian Corp. v. Stryker Corp.*, 363 F.3d 1321, 1330-31 (Fed. Cir. 2004)).

of exceptional fraud, the entire patent would not necessarily be unenforceable under the Act, and those cases of exceptional fraud are the only instances that would render any of the individual claims unenforceable.

The Act leaves the initial district court proceeding largely the same, with one notable exception. The Act defines materiality as information that is “not part of the record or cumulative to information in the record and either establishes that a patent claim is not patentable or refutes a position that the applicant or patent owner took in response to a rejection of the claim as unpatentable.”²⁰³ This is the post-1992 standard for materiality, meaning that for a court to find material misconduct it would now have to use the same standard that the PTO uses.

The 2008 Act also, unlike the 2005 Act, allows for misconduct allegations to go forward even if the patent in the litigation is being enforced by a purchaser that was not a party to the original application, although sanctions are reserved for those that were party to the misconduct.²⁰⁴

One of the problems with the Patent Reform Act of 2005 was the question of funding for the PTO.²⁰⁵ The Act’s proposal to take the burden completely off the courts and place it with the PTO means that funding may have to increase to support the changes. Although these changes would increase the workload of the PTO, the bill proposes funding changes to at least partially pay for it rather than leaving the question open: Section 14 allows the PTO to retain any fees it collects.²⁰⁶ Additionally, the PTO can roll over any money it does not spend to the next fiscal year through the creation of a revolving fund.²⁰⁷

B. Legislative Commentary

Senator Kyl stated that inequitable conduct in its current form is

203. S. 3600, at §11(a).

204. *Id.* (“[T]he Director may levy a civil penalty against the party that committed such misconduct.”).

205. McEwen, *supra* note 166, at 74.

206. S. 3600, at §14(b)(1)(B)(ii).

207. *Id.* at §14(c)(1).

failing to produce its intended results.²⁰⁸ Its goal is to give applicants an incentive to be forthcoming with the PTO, however its current application – raised as a defense in a majority of litigated patent cases – indicates more sinister motives on the part of defendants and their attorneys.²⁰⁹ In introducing the Act, Senator Kyl pointed out that the current application of inequitable conduct gives accused infringers an opportunity to force patent owners to incur significant discovery and litigation costs, often for claims that are not material to the validity of the patents or the ongoing litigation.²¹⁰

Senator Kyl also pointed out the problem with the inconsistency of the materiality standard and the harsh consequences for owners, whether they are the inventors or purchasers:

Because inequitable conduct is a court-enforced doctrine, the assessment of what is material – of what would have been important to a reasonable patent examiner – is made by a U.S. district judge. But district judges very rarely have any firsthand knowledge of the patent-prosecution process or the workings of the PTO and are not in a position to accurately assess what information actually would have been important to a reasonable examiner.

The Federal courts’ sometimes hair-trigger assessments of materiality are a substantial injustice to those patent owners who lose the right to enforce what is an otherwise perfectly valid patent. This injustice can be particularly acute when the current owner of the patent is a good-faith purchaser who is not even alleged to have engaged in any type of

208. 154 CONG. REC. S9991 (daily ed. Sep. 27, 2008) (statement of Sen. Kyl).

209. *Id.* (“[T]he doctrine gives the accused infringer an opportunity to examine the inventor—often in the jury’s presence—and to paint him as deceptive and dishonest.”).

210. *Id.*

misconduct himself.²¹¹

Senator Kyl stated that the proposed changes are consistent with the history of inequitable conduct decisions in the courts.²¹² Additionally, the changes will not only continue to impose a duty of good faith and candor before the PTO, they will improve the quality and increase the quantity of information at the disposal of patent examiners in the initial prosecution proceedings:

The current state of inequitable conduct enforcement leads applicants to adopt one of two tactics: either they flood the Office with prior-art references but offer no explanation of how the invention is distinguished from that prior art or which prior art is most relevant, since by providing the reference they cannot be accused of concealing it, and by providing no explanation they cannot be accused of misleading the Office or mischaracterizing the information, or applicants provide no information at all with their applications, since providing some information would inevitably mean not supplying other information in the universe of existing information and thus could open the applicant to charges of having concealed something in that universe of information not provided.²¹³

Thus, according to Senator Kyl, the Act may limit the potential damage of successful misconduct claims, which will encourage truly good faith disclosure and provide less of an incentive for defendants to raise a frivolous defense if the cost to defendants of litigating it far outweighs the potential benefit of a finding of unenforceability. This contrasts with the attempt of the 2007 Act to explicitly limit the invocation of the defense.²¹⁴

211. *Id.*

212. *Id.* at S9992 (referring to Supreme Court decisions that the Federal Circuit has relied upon in its jurisprudence).

213. *Id.*

214. *See supra* Part II.D.2.

IV. ANALYSIS

The inequitable conduct doctrine is broken. Rather than encouraging honesty and material disclosure during patent prosecution, it is a procedural litigation tool used to cast patent holders in a negative light, drive up the costs of enforcing patents, and subject inventors and assignees to severe consequences that are often exceptionally disproportionate to the harm done to both the PTO and the general public. Senator Kyl's proposed legislation is a clear step in the right direction to remedy these problems. Combined with the codification of some of the judicially interpreted elements of the doctrine that were suggested in the 2005 and 2007 Patent Reform Acts, the changes in the Act can bring the doctrine back in line with its stated goals of ensuring the issuance of only valid patents by motivating honesty and candor in proceedings before the PTO.

Reform of inequitable conduct should accomplish four things: (1) maintain the integrity of the prosecution process without over-penalizing minor errors or innocent parties (2) ensure consistency and predictability by codifying a standard for use by both the Federal Circuit and the PTO (3) discourage reflexive raising of the defense by alleged infringers as a harassing litigation tool (4) properly fund the PTO to enact the changes. Each of these will be examined in turn as they apply to the Patent Reform Act of 2008.

A. The Duty of Candor and the Problem of Proportional Sanctions

Because of the ex parte nature of the patent prosecution process, PTO examiners rely on good faith on the part of applicants.²¹⁵ Inequitable conduct doctrine ensures honesty in the process by declaring all claims in all related patents unenforceable when a court finds misconduct that is both material and intentional. However, the all-or-nothing "atomic bomb" of unenforceability offers no scalability. Any and all misconduct, regardless of degree, gets treated equally. The process treats applicants that

215. Elizabeth Peters, Note, *Are We Living In a Material World?: An Analysis of the Federal Circuit's Materiality Standard Under the Patent Doctrine of Inequitable Conduct*, 93 IOWA L. REV. 1519, 1526 (2008).

fabricate an entire suite of patent applications the same as applicants that mistakenly rely on the established prosecution practices of their firms and the memory and collaboration of PTO examiners, as seen in *McKesson*.²¹⁶ The ultimate goal of this process should be valid, enforceable patents. The forced reissue proceeding proposed in the Act offers a wider range of punishments that range from unenforceability to fines, which allows valid claims to remain enforceable when they are untouched by allegations of misconduct.

Retaining the courts as a gatekeeper to the PTO is a sound strategy. Under the Act, the district courts make the initial finding of inequitable conduct,²¹⁷ and then the matter gets referred to the PTO for a reissue proceeding where the validity of the claims in the patent will be evaluated. The existing system entails exhaustive examination of the allegations of misconduct raised in the defendant's counterclaim, as the burden of proof is "clear and convincing evidence."²¹⁸ This can be an expensive proposition for plaintiffs, as they have to pay attorneys, dig up records and documents often years or decades old, and depose engineers, scientists, and prosecuting attorneys.²¹⁹ Those people may have little memory of the initial prosecution and may not even be affiliated with the inventor anymore. Finally, in the case of third-party assignees the assignee has to collaborate with the patentee to ensure the enduring validity of their investment. The patentee must revisit a patent in which it no longer has a vested interest in, and its cooperation is only ensured by the possibility that the assignee could file a fraud complaint. Avoiding this costly process remains a powerful incentive for patentees to make all good faith, material disclosures to the PTO even without the sword of mandatory unenforceability hanging over their heads.

The proposed reissue proceeding in the Act is a novel idea that continues to punish misconduct while allowing useful inventions to remain protected by patents when the degree of wrongdoing

216. See *supra* Part II.B.

217. Patent Reform Act of 2008, S. 3600, 110th Cong. § 11 (2008).

218. *Digital Control, Inc. v. Charles Mach. Works*, 437 F.3d 1309, 1318 (Fed. Cir. 2006) (citing *Baxter Int'l, Inc. v. McGaw, Inc.*, 149 F.3d 1321, 1329 (Fed. Cir. 1998)).

219. See Nolan-Stevaux, *supra* note 18, at 165.

falls short of “exceptional”²²⁰ and the claims in the patent are either unaffected by the transgressions or repairable in the codified process. In doing so, the Act wisely shifts the emphasis of the doctrine away from punishment to the continued validity of claims and patents as a whole by allowing valid claims to reissue. By forcing patentees to cancel claims or substitute one claim of equal or lesser scope, it creates a new remedy for inequitable conduct that falls into the category of willful ignorance or negligence and is not tantamount to fraud.

The reissue proposal is a positive change because it truly limits unenforceability to clear, obvious intent to defraud the PTO and the public. Lower standards of intent to deceive, as shown above,²²¹ are an attorney’s failure to foresee the level of inter-office communication at the PTO and the limits on the memory of an examiner in *McKesson* and the use of an improper verb tense in *Hoffmann-La Roche*.²²² In both cases there may have been intent to mislead; however, it is also true in both cases that the material information existed in the record before the PTO. The manner of presentation was deemed material and intentional. The changes proposed by the Act allow patentees in similar situations to simply reformulate the information in the reissue proceeding and keep the market rights to their inventions. By adding a distinction between these kinds of errors and things like perjury, forgery, and intentionally withholding obvious prior art, the Act encourages honest disclosure, continues to harshly penalize brazen misconduct, invalidates bad claims or patents, and allows valid claims in patents to remain protected.

It can also be argued that extreme consequences are just the deterrent that the system needs to “maintain the integrity of, and continuing public confidence in, the U.S. patent system.”²²³ If there is a perception that there are already too many bad patents in

220. S. 3600, at § 11.

221. *See supra* Part II.B.

222. *Id.*

223. Lisa A. Dolak, *Inequitable Conduct: A Flawed Doctrine Worth Saving*, at 2, Sept. 23, 2008, http://works.bepress.com/cgi/viewcontent.cgi?article=1003&context=lisa_dolak

the marketplace,²²⁴ then it may not be wise to weaken sanctions because any risk of increased deception before the PTO and the issuance of more bad patents is unacceptable. However, the Act does not take unenforceability off the table. It merely reserves it for clear misconduct or claims that should not have been issued in the first place. If the misconduct does not affect patentability, valid claims can remain enforceable.

Another positive change is limiting sanctions to parties that participate in misconduct before the PTO.²²⁵ Under the current regime, deceptive practices by anyone at any part of the prosecution process can result in unenforceability. If inventors misrepresent the results of an experiment to an attorney, the patent can be held unenforceable. If the patent attorney, as in *Hoffmann-La Roche*,²²⁶ combines two experiments into one and anticipates the results, the patent can likewise be held unenforceable. The text of the Act states “the Director may levy a civil penalty against the party that committed such misconduct,”²²⁷ which at least limits fines to the offending parties as opposed to unenforceability, which affects everyone with a financial interest in the patent.

One possible objection to the reissue proposal is that it creates the potential for an infinite loop of modifications to a patent if the same patent faces multiple independent challenges of inequitable conduct. If the patent survives the reissue proceeding with one modified claim in an enforceable patent, what happens the next time an alleged infringer sues for misconduct in prosecution or even worse, misconduct during the issuance of the modified claim? Presumably the PTO would take prior allegations into account when evaluating a reissue application under these circumstances, especially since after the first reissue there is no longer the potential for a third-party problem. During the reissue proceeding, sanctions are only available for the party that committed the misconduct.²²⁸ If an assignee participates in the reissue, then going forward it would be liable for any misconduct,

224. See Lisa A. Dolak & Blaine T. Bettinger, *The United States Patent System in the Media Mirror*, 58 SYRACUSE L. REV. 459, 488 (2008).

225. S. 3600, at § 11.

226. See *supra* Part II.B.

227. S. 3600, at § 11.

228. *Id.*

either in the form of fines or invalidated claims. This should hopefully serve as a deterrent to the unlikely scenario that a district court finds inequitable conduct and the PTO reissues a patent, only to have another district court find inequitable conduct in that reissue proceeding. And because the reissue proceeding evaluates all the claims in the patent,²²⁹ that initial scrutiny should lessen the chances of future successful, independent allegations of misconduct. In theory it is possible for multiple re-issuances of the same patent, but in practice, misconduct should be deterred or weeded out by the first reissue proceeding.

The addition of the reissue proceeding to supplement the existing court determination of inequitable conduct ensures that valuable inventions remain patented while continuing to give a strong incentive to applicants to provide comprehensive, honest, material disclosures to the PTO during prosecution. The Act's proposed changes appropriately mitigate the harsh remedy of unenforceability for any and all court findings of inequitable conduct by replacing it with a scalable system ranging from fines to invalidated claims that adds much needed proportionality to the doctrine and ensures that only the wrongdoers are punished.

B. Materiality, Intent to Deceive, and Predictability

The standard of materiality and the balancing test with the intent element have long been inconsistently applied by the courts, leading to a complete lack of predictability that leaves applicants wondering both what exactly they need to disclose during prosecution and whether their subjective intent even matters when balanced with a clear and convincing showing of materiality. The *Digital Control* decision is a particularly good example of the confusion regarding materiality because the court not only failed to limit itself to the pre-1992 and post-1992 standards of materiality but opined that any of five different standards was acceptable to apply.²³⁰

The problem with an inconsistent materiality standard is that patentees only know what "material" means during the application process before the PTO. That standard, defined in Rule 56 of the

229. *Id.*

230. *See supra* Part II.B.

Federal Code of Federal Regulations,²³¹ gives applicants guidance about what they need to disclose to comply with their duty of good faith and candor. Even if they fail to disclose all necessary materials to an examiner, they can at least make what they believe is a good faith effort. If the courts apply a different standard, how can applicants make good faith disclosures when they do not know what “material” means to a future court in some future challenge to their conduct before the PTO?

As Senator Kyl stated in introducing the Act,²³² applicants use one of two extreme strategies to avoid misconduct allegations: (1) they deluge the PTO with disclosures, hoping to err on the side of over-inclusion so that they are not accused of omitting material information, or (2) they deliberately omit any prior art references, anticipating that if one reference is included, the failure to include any other reference might imply intent to hide it from the PTO. Again, the goal is to encourage good faith disclosure to give PTO examiners the opportunity to make informed decisions about patentability, but the current system instead forces applicants to play strategic games with disclosures to avoid misconduct allegations. If the inequitable conduct system led to greater predictability, applicants that want to make good faith disclosures would be enabled to do so.

The Act makes that possible by codifying the post-1992 standard for the courts to use before they send allegations of misconduct to the PTO for the reissue proceeding. The court must find it more likely than not that the party intentionally submitted or concealed material information, and then the Act defines materiality as relating to patentability.²³³ This aligns the courts with the expectations of the PTO, and also produces further predictability for patentees in that the post-1992 standard is an objective test. Patentees would no longer lose patents due to a court’s subjective interpretation of what it determines a reasonable examiner would find material during prosecution. This change is essential to give applicants notice of what is expected of them at both prosecution and in inequitable conduct litigation. By giving

231. 37 C.F.R. § 1.56(b)(1) (2008).

232. 154 CONG. REC. S9991 (daily ed. Sep. 27, 2008) (statement of Sen. Kyl).

233. S. 3600, at § 11.

them notice of their expected conduct and level of disclosure, it gives them a real chance to comply with their duty before the PTO and makes future enforcement of breaches of that duty easier for the PTO because applicants cannot claim to be unaware or confused about expected behavior.

There is no mention of dates in the Act which might raise a problem with the expectations of patent applicants while prosecuting their patents prior to 1992. If they submitted those applications with any thought to the “reasonable examiner” standard used by the PTO at that time, their expectations could be frustrated by being held to a different standard of materiality years after their applications were processed. However, given the pro-patentee nature of the post-1992 objective test mandated by the Act, it seems unlikely that patentees would object to the change.

Another, more significant problem is that material misconduct that does not affect patentability would not necessarily be punished as severely under the Act as it is now. The reissue proceeding focuses on patentability, so if a patentee lies to the PTO throughout the process but the misrepresentations do not affect the validity of claims, the question remains whether the consequences for that conduct would be harsh enough to act as a deterrent to future applicants. Under the Act, once the PTO determines that there was misconduct, it weighs three factors to determine the sanction, one of which is “the impact of the misconduct on the integrity of matters or proceedings before the Office.”²³⁴ However, only in the case of fraud does invalidation of claims come into play. If the patentee’s acts are misconduct that needs to be strongly deterred but they have little to do with the validity of the patent and fall short of fraud, the sole sanction is fines. While up to a \$1 million fine is hardly insignificant, it is unfortunate that a strong showing of intent to deceive the PTO may not be enough to carry consequences to the patent.

However, this is a necessary byproduct of the Act’s focus on patentability and proportionality of penalties. By choosing the post-1992 materiality standard, the Act removes the subjective uncertainty inherent in the reasonable examiner standard and puts materiality to patentability at the heart of the reissue proceeding.

234. *Id.*

Since the reissue proceeding modifies, deletes, or invalidates claims, there is no scalable way to tie immaterial deception to specific claims in the patent in question. Without that relationship between conduct and claims, unenforceability of the patent as a whole becomes the only available penalty, and that would continue the proportional sanctions problem from the current regime because forgery related to patentability could result in a reissued patent while perjury unrelated to any claims could result in an unenforceable patent. If this system is implemented, Congress and the PTO will have to hope that the fines for immaterial deception that falls short of fraud are enough to motivate honesty and good faith before the PTO.

Aligning the materiality standard of the PTO with that now imposed on the courts brings much needed predictability to inequitable conduct and gives applicants a clear idea of what standard of disclosure they will be held to in proceedings before both the PTO and the courts.

C. Use as a Litigation Tool Rather Than Incentive for Good Conduct

In the Federal Circuit, opinion after opinion refers to the reflexive raising of inequitable conduct as a “plague.”²³⁵ The Act, unlike its 2005 antecedent,²³⁶ does not expressly limit the circumstances in which a defendant can raise it in response to a claim of infringement. Instead, the Act appears to combat this problem by limiting the situations in which a patent will be found unenforceable. This removes the incentive for automatically raising inequitable conduct as a defense.

Under the Act, the reissue proceeding allows patents to remain enforceable if patentees’ misconduct falls short of fraud.²³⁷ Since patents will remain valid (and defendants can still be found liable

235. See, e.g., *Aventis Pharma S.A. v. Amphastar Pharms., Inc.*, 525 F.3d 1334, 1349 (Fed. Cir. 2008) (Rader, J., dissenting), *reh’g en banc denied*, 2008 U.S. App. LEXIS 25103 (Sept. 25, 2008); *Hoffman-La Roche, Inc. v. Promega Corp.*, 323 F.3d 1354, 1372 (Fed. Cir. 2003) (Newman, J. dissenting); *Burlington Indus., Inc. v. Dayco Corp.*, 849 F.2d 1418, 1422 (Fed. Cir. 1988).

236. See *supra* Part II.D.1.

237. S. 3600, at § 11.

for infringement) in all except the most egregious cases of deception before the PTO, alleged infringers have no motivation to raise the defense most of the time. Under the current regime, inequitable conduct can be found that is short of fraud,²³⁸ and the result is an unenforceable patent (and a defendant that is off the hook for infringement), so it benefits alleged infringers to raise the defense and see if it sticks. However, absent a discovery of exceptional deception, the costs of litigating an inequitable conduct claim will not be worth it for defendants if the outcome of the process is a stronger, reissued patent.

The side effect of the Act is that if there is less motivation to raise the defense, then there will be fewer instances of true misconduct that go through the court system and arrive back at the PTO for sanctions and modified patent claims. If a patentee obtains a patent through deceit short of fraud, there is less incentive for a defendant infringer to litigate the issue because there is no benefit to the defendant if a patent reissues and the patentee is fined. While this moves inequitable conduct toward the true fraud standard advocated by some,²³⁹ it also moves it away from its origins as conduct that was more than just fraud. Additionally, it creates an incentive for the PTO to catch more deception during prosecution, which is good because then the public would be protected from bad patents without having to wait for someone to litigate.

The changes proposed by the Act will likely decrease the quantity of frivolous inequitable conduct claims, but they also give rise to a possible underenforcement problem where some types of misconduct leading to questionably valid patent claims could go uninvestigated and unpunished.

D. Funding and Fines

When the 2005 Act was proposed, there were some general concerns about the ability of the PTO to handle the entire burden

238. See Nolan-Stevaux, *supra* note 18, at 149-50.

239. *Aventis Pharma*, 525 F.3d at 1349 (Rader, J., dissenting) (stating “my reading of our case law restricts a finding of inequitable conduct to only the most extreme cases of fraud and deception”).

of policing inequitable conduct within its existing budget.²⁴⁰ The 2008 Act at least attempts to mitigate those concerns with the proposal to create a revolving fund that allows the PTO to keep the fines it collects.²⁴¹ By avoiding fee diversion, the Act's funding changes may allow inequitable conduct reform to pay for itself.

Most significantly, the district courts remain the initial step in the application of inequitable conduct, and it must find material and intentional wrongdoing before the PTO becomes involved. The gatekeeper role of the court shields the PTO from not only frivolous claims, but all claims that do not rise to the level of misconduct. This difference with the proposed changes in the 2005 Act will greatly reduce the number of actions the PTO will have to address through the reissue proceeding because the PTO does not have to administer the whole process and some claims have been weeded out. This is especially important given the reflexive raising of inequitable conduct in infringement suits, although under the Act that may slow.

Additionally, by applying joint and several liability to any fines leveled on patentees for misconduct, the Act ensures that any party to the misconduct that has the resources to pay the fine it could be responsible for the entirety of the penalty. The PTO should be able to collect the full amounts even if the attorneys or patentees are in bankruptcy or the patentee is a small entity without the capital to pay a substantial penalty.

Because the amount of incoming funding from fines each year will vary depending on the amount and degree of misconduct, it remains possible that the PTO will need to find additional funding to support the proposed changes, such as higher fees. However, with fines ranging from up to \$150,000 for smaller degrees of misconduct²⁴² to \$10 million for egregious misconduct,²⁴³ the Act is an improvement on its predecessors in that it at least proposes a way to pay for itself.

240. McEwen, *supra* note 166, at 74.

241. S. 3600, at § 11.

242. *Id.*

243. *Id.*

E. Court Decisions Revisited

Given the proposed changes in the Patent Reform Act of 2008, it is useful to see how this system works with previous decisions of interest, particularly *Purdue Pharma*, *McKesson*, and *Applied Materials*.

In *Purdue Pharma*, the patentee lost a patent to a popular pain reliever that accounted for seventy-five percent of its business and forced a significant workplace reduction.²⁴⁴ After a petition for rehearing, the Federal Circuit revisited the opinion and changed the weight it gave to the materiality and intent elements, as the court initially felt the clear showing of materiality overrode the less obvious intent to deceive.²⁴⁵

Under the proposed changes, the district court's initial finding of inequitable conduct would then go to the PTO for the reissue proceeding. Instead of spending time and money trying to convince the Federal Circuit to find that the district court's decision was clearly erroneous, the patentee could substitute the claim that contained the misleading "surprising discovery" language with one that remedied the problem. Then, the PTO could either find that there was a lack of probable cause to find inequitable conduct or it could reissue the patent with the modified claim. The PTO could also declare the patent unenforceable like the Federal Circuit initially did, but that remedy is only available in the Act for exceptional acts of misconduct that affect the integrity of the PTO, which the patentee's misleading language clearly did not do.

In *McKesson*, the patentee lost two patents when it failed to communicate information about co-pending applications to both PTO examiners that were evaluating the applications, and it relied on an examiner to remember a previous prosecution. The significance of the decision in the context of the Act is that the unenforceability of the patents turned on the inner workings of the PTO and the patentee's duty to remind the office of information that it already had. While it may be possible for the court to define that duty and it may even be reasonable to force applicants to err on the side of over-disclosure, however the PTO is obviously in a

244. *See supra* Part II.B.

245. *Id.*

better position to evaluate this kind of conduct because it is the agency in question.

Under the Act, that is exactly what would have happened. The patentee would have taken the district court's determination to the patent office and at least hoped that it would find a lack of probable cause in its conduct. Failing that, the patentee could either modify the claims to contain the missing information or cancel the claims relating to the three-node communication system in question. In either case, lack of foresight falling short of fraud would not render the patents protecting the patentee's inventions unenforceable. Additionally, the conduct in question was the omissions of the attorney during the prosecution process. The patentee corporation had nothing to do with what was essentially a procedural error on the part of the attorney, yet the corporation lost the patents. While corporations are sometimes liable for the actions of others acting within the scope of employment,²⁴⁶ in this case the reissue proceeding and variable sanctions in the Act ensure that patentees like McKesson will not necessarily lose their patents for conduct to which they are barely a party.

Contrast those results with *Applied Materials*, where the patentee forged the signature of a dead inventor in two responses to the PTO.²⁴⁷ The district court applied the "reasonable examiner" standard in that case, which is different from the materiality standard proposed in the Act. The standard in the Act requires material conduct to relate to patentability, which the forgeries did not; they related to inventorship. However, the district court can also send the matter to the reissue proceeding if the party "knowingly and intentionally deceived the Office by concealing material information or by submitting false material information in such matter or proceeding."²⁴⁸ The forged signatures seem to fit under "submitting false information."

Since the deception also appears to have been intentional, the PTO would likely find misconduct just as the court did. Then it

246. Vicarious liability is liability that a supervisory party (such as an employer) bears for the actionable conduct of a subordinate (such as an employee) based on the relationship between the two parties. BLACK'S LAW DICTIONARY 934 (8th ed. 2004).

247. See *supra* Part II.B.

248. S. 3600, at § 11.

would weigh the three factors and determine a sanction.²⁴⁹ The patents could still be held unenforceable if the PTO finds the misconduct rose to the level of fraud,²⁵⁰ otherwise, the two forged signatures and trial testimony disputing the date of the inventor's death could be found to be a "pattern of misconduct" that results in a fine of up to \$1 million. Given the knowing forgery of the signatures, the misconduct should be classified as affecting the integrity of the PTO and the patent should, as in the district court decision, be held unenforceable. Even though the forgeries did not affect patentability, the Act provides a way to sanction and deter this kind of behavior.

V. CONCLUSION

Inequitable conduct reform is long overdue, and the notorious "plague" of automatically raising inequitable conduct as a defense to allegations of infringement has long been a scourge to patentees in litigation. The Patent Reform Act of 2008 proposes many positive changes to the doctrine that should be enacted to continue to motivate candor before the PTO while continuing to harshly penalize truly egregious conduct. Specifically, the proposed reissue proceeding before the PTO allows misconduct that does not affect validity to be punished without invalidating all related patents, which both motivates appropriate disclosure and allows patentees to retain their rights to worthy inventions. Significantly, it also proposes a way to pay for its changes by allowing the PTO to keep the fines it levies against offending parties.

The Act may also allow some misconduct to go undiscovered or unpunished in two ways. First, the post-1992 materiality standard focuses on misconduct related to patentability, so immaterial misconduct may not be deterred to the degree it is now. Second, because unenforceability is unavailable for any conduct that falls short of fraud and that removes the incentive for defendants to raise the defense in most cases, there is no mechanism to bring lesser misconduct to the attention of the PTO. However, with the focus on patentability and with the harshest sanctions reserved for egregious behavior, some ordinarily sanctionable parties may have

249. *Id.*

250. *Id.*

to fall out to realize the benefits of the new system as a whole.

Sanctions that are proportional to the level of wrongdoing and greater predictability from prosecution to litigation are the two greatest features to the proposed changes. Together, these changes will bring much needed stability to the prosecution process by giving applicants a clearer idea of what inequitable conduct is and remove the need for any intentional under- or over-disclosure that is less about the patents at issue and more about creating a record that can be used against them in a future inequitable conduct proceeding. The Federal Circuit has applied the doctrine with an eye to protecting the public and the competitive marketplace from bad patents; this system continues to strive for that protection while limiting the harsh remedy of unenforceability to patents that are obtained by fraud on the PTO and the public.

-Matthew M. Peters