

Intellectual Property Today™

Inequitable Conduct -- Alive and Well Post-*Exergen*...At Least for Now

By Salvatore P. Tamburo and Daniel P. Archibald

Salvatore P. Tamburo is a partner in the Intellectual Property Practice of Dickstein Shapiro LLP. His practice focuses on intellectual property litigation, but also encompasses IP licensing, counseling, patent prosecution and infringement/validity/enforceability opinions. Mr. Tamburo can be contacted at tamburos@dicksteinshapiro.com.

Daniel P. Archibald is an associate in the Intellectual Property Practice of Dickstein Shapiro LLP. His practice focuses on patent counseling and enforcement, as well as litigation matters, including managing discovery and preparing motions and briefs. Mr. Archibald can be contacted at archibaldd@dicksteinshapiro.com.

Introduction

Some have opined that the Federal Circuit, in deciding *Exergen Corp. v. Wal-Mart Stores, Inc.*, 575 F.3d 1312 (Fed. Cir. 2009), created a new, heightened inequitable conduct pleading standard that would lead to the demise of inequitable conduct as we know it. Thus far, this does not appear to be the case.¹ However, *Exergen* certainly has clarified the existing standard for pleading inequitable conduct and confirmed that a pleading must identify the specific *who, what, when, where, and how* of the material misrepresentation or omission and also include sufficient allegations of underlying facts from which the court may reasonably infer knowledge and intent. Such requirements have long been a part of pleading fraud under Fed. R. Civ. P. 9(b). What is more, post-*Exergen*, it seems district courts are more likely than not to grant motions to amend pleadings they find insufficient. That is not always the case, however, and there are certain minimal requirements every accused infringer intending to assert this defense should be aware of.

We examine the impact *Exergen* has had over the past several months on inequitable conduct pleadings and how district courts have treated motions to dismiss and/or strike such pleadings. We also offer specific tips for pleading inequitable conduct (as an accused infringer) and also for attacking such pleadings (as a patentee) post-*Exergen*.

We also discuss the issues that have been set out by the Federal Circuit in its recent Order granting *en banc* reconsideration in *Therasense, Inc. v. Becton, Dickinson & Co.*, No. 2008-1511 (Fed. Cir. Apr. 26, 2010). The Order issued on April 26, 2010 and briefs are yet to be filed as of this writing. However, the case has generated significant discussion and controversy and could

have a tremendous impact on the law and procedures applied to deciding inequitable conduct issues.

Rule 9(b) and *Exergen*

Fed. R. Civ. P. 9(b) requires that "[i]n alleging fraud or mistake, a party must state with particularity the circumstances constituting fraud or mistake." Fed. R. Civ. P. 9(b). The Federal Circuit, in *Exergen*, clarified the existing Rule 9(b) pleading standard as applied to inequitable conduct and explained that the "particularity" required is the specific *who*, *what*, *when*, *where*, and *how* of the material misrepresentation or omission that constitutes the alleged inequitable conduct. 575 F.3d at 1327. For instance, a party pleading inequitable conduct must name a specific individual *who* committed the inequitable conduct, *what* specific claims are tainted by the inequitable conduct, and *where* the relevant withheld material or misstatement may be found in the reference or conduct. *Id.* at 1329. The pleading must also assert *why* the withheld information or misstatement is material and *how* "an examiner would have used th[e] information in assessing the patentability of the claims." *Id.* at 1329-30.

With regard to the requisite knowledge and intent, *Exergen* explained that while knowledge and intent may be averred generally under Rule 9(b),² pleadings must "allege sufficient underlying facts from which a court may reasonably infer that a party acted with the requisite state of mind." *Id.* at 1327.

District Court Applications of *Exergen*

Since *Exergen* was decided, more than twenty district courts have cited it in connection with challenges to inequitable conduct pleadings. The good news for accused infringers is that, based on our review, district courts are more likely than not to find inequitable conduct pleadings sufficient under *Exergen*. In fact, district courts are nearly ten times more likely than not to find inequitable conduct pleadings, in their entirety, sufficient. In those cases where there were multiple allegations of inequitable conduct within the same pleading, some of which were found to be sufficient and others of which were not (approximately 30 percent of the total number of cases), courts were evenly split between the two outcomes. Despite these varying outcomes, however, successful inequitable conduct pleadings tend to share common characteristics. Below we discuss specific examples of pleadings found to be sufficient under *Exergen* and some common mistakes being made by those asserting the defense.

Minimum Pleading Requirements

When pleading the *who* element, most district courts appear to require that the allegations name the specific individual(s) accused of the inequitable conduct. *See Advanced Micro Devices v. Samsung Elecs. Co.*, 2010 U.S. Dist. LEXIS 24243, at *41 (N.D. Cal. Mar. 15, 2010) ("AMD"); *Konami Digital Entm't Co. v. Harmonix Music Sys., Inc.*, 2009 U.S. Dist. LEXIS 117468, at *7 (E.D. Tex. Dec. 14, 2009). However, at least one district court has held the pleadings may generally name the inventor(s), the prosecuting attorney(s), and/or other individual(s) who have a duty of disclosure under 37 C.F.R. § 1.56 where at least one person is specifically named and adequate additional facts are pleaded so as to allow the court to "reasonably infer deceptive intent." *Cal. Inst. of Tech. v. Canon U.S.A.*, 2009 U.S. Dist. LEXIS 126174, at *7- 10 (C.D. Cal. Oct. 26, 2009).

The *what* and *where* elements of pleading inequitable conduct appear to be closely related. Courts generally accept as sufficient pleadings that specifically identify the claims and limitations to which the alleged misconduct is relevant. Likewise, acceptable pleadings typically identify a specific reference containing the allegedly omitted material and include page numbers, chapters, or other identifiers within the reference that indicate where the allegedly omitted material may be found. *See AMD*, 2010 U.S. Dist. LEXIS 24243, at *41-42; *Konami*, 2009 U.S. Dist. LEXIS 117468, at *7. Where the alleged misconduct is a misstatement, the pleading should specify where the misstatement was made (e.g., to the PTO in a paper filing or orally during an interview) and where in the misstatement the misconduct may be found. At least one court looked favorably upon charts listing the claims, the claim limitations, and the specific instances of misconduct relevant to each limitation. *See Konami*, 2009 U.S. Dist. LEXIS 117468, at *7.

The *when* element is generally easily satisfied by pleading that the misconduct occurred during prosecution of the patent application (i.e., before the patent issues). For example, it has been found sufficient to allege that a person with a duty to disclose, in this case the inventors, attended several conferences at which a withheld reference was discussed and, therefore, learned of the reference prior to issuance of the patent. *See Aerocrine AB v. Apieron Inc.*, 2010 U.S. Dist. LEXIS 31176, at *4-8, 28-29 (D. Del. March 30, 2010). In the event of a material misstatement, the date of the misstatement should be identified in the pleadings. *See CIVIX-DDI, LLC v. Hotels.com, L.P.*, 2010 U.S. Dist. LEXIS 8073, at *30-31 (N.D. Ill. Feb. 1, 2010).

The *how* and *why* elements (i.e., *how* an examiner would have used the information and/or *why* the information is material) are typically grouped together by district courts as a single element. In *Konami*, the district court found the *how* element satisfied where the defendant incorporated into the pleadings the examiner's statements during prosecution regarding specific limitations missing from the cited prior art along with the same limitations disclosed in a withheld reference. 2009 U.S. Dist. LEXIS 117468, at *7. The same court also found the *how* element was established by charts identifying how each claim limitation was disclosed by a specific reference. *See id.* at *8-9.

Knowledge, a prerequisite to intent, can often be alleged by establishing the *who*, *where*, *when*, and *how* elements and further alleging facts that would indicate the individual was aware of the allegedly withheld reference or the falsity of an alleged misstatement. *See Power Integrations, Inc. v. Fairchild Semiconductor Int'l, Inc.*, 2009 U.S. Dist. LEXIS 118383, at *23-24, 26 (D. Del. December 18, 2009). That is, a basis for the alleged knowledge must be disclosed before intent can be successfully alleged. Then, intent may be pleaded by alleging that the action or omission, was committed with intent to deceive the PTO. *Correct Craft IP Holdings, LLC v. Malibu Boats, LLC*, 2010 U.S. Dist. LEXIS 13577, at *14-15, 17-18 (M.D. Fla. Feb. 17, 2010).

Examples of Pleadings That Failed *Exergen* Scrutiny

With regard to the *who* element, pleadings that fail to name a specific individual typically do not pass scrutiny. *See AMD*, 2010 U.S. Dist. LEXIS 24243, at *41; *c.f. Cal. Inst. of Tech.*, 2009 U.S. Dist. LEXIS 126174, at *7-10 (finding a pleading that generally alleged a group of individuals committed misconduct was sufficient where at least one individual was specifically named). For instance, a pleading that merely asserts that a reference was withheld by "patent attorneys" for the applicant without naming a specific attorney is likely to be deficient. *See*

Semiconductor Energy Lab. Co. v. Samsung Elecs. Co., 2010 U.S. Dist LEXIS 556, at *43.44 (W.D. Wis. Jan. 5, 2010).

The *what* requirement has been found lacking where the particular effected claims *and* claim limitations are not pleaded. *See Power Integrations*, 2009 U.S. Dist. LEXIS 118383, at *25. Likewise, a pleading will likely fail the *where* requirement if it merely identifies a reference or misstatement. For instance, where the reference cited is an article discussing numerous products, merely identifying the article but not the specific relevant products is likely insufficient. *See id.*; *Correct Craft*, 2010 U.S. Dist. LEXIS 13577, at *17.

There appear to be few, if any, instances in which pleadings have not satisfied the *when* element. Most likely, this element would be unmet where the pleading fails to allege that the conduct occurred during a time when the applicant had a 37 C.F.R. § 1.56 duty of disclosure to the PTO.

With respect to the *how* and *why* elements, merely stating that the references are material and not cumulative will not suffice. *See AMD*, 2010 U.S. Dist. LEXIS 24243, at *42.43. For instance, a pleading that describes the references in detail but merely states that the applicant "represented to the USPTO that none of the admitted prior art disclosed these teachings" fails to explain *how* the examiner would have used the disputed prior art. *See id.* (citation and internal quotation marks omitted).

Pleadings will also fail unless they create a reasonable basis to infer intent to deceive the PTO on the part of the applicant or its agents. *See Exergen*, 575 F.3d at 1327. For example, knowledge and, thus, intent will not be inferred where the pleadings merely allege that the withheld reference was prosecuted by the same law firm as the patent at issue. *See Power Integrations*, 2009 U.S. Dist. LEXIS 118383, at *26.27. Likewise, it is insufficient to merely allege that "[the accused], having an intent to deceive, did not disclose the [relevant fact] to the Patent Office." *Correct Craft*, 2010 U.S. Dist. LEXIS 13577, at *17.18 (citation and internal quotation marks omitted).

Leave to Amend the Pleadings

Notably, where inequitable conduct pleadings have been found insufficient, district courts have frequently granted leave to amend the pleadings to meet *Exergen* standards. Often, leave to amend the inequitable conduct pleadings is given immediately after a motion to dismiss or for judgment on the pleadings is granted. *See, e.g., AMD*, 2010 U.S. Dist. LEXIS 24243, at *43. Alternatively, the party pleading inequitable conduct may be permitted at a later date to amend the pleadings after taking some discovery. *See Braun Corp. v. Vantage Mobility Int'l, LLC*, 2010 U.S. Dist. LEXIS 6839, at *3.4, 29 (N.D. Ind. Jan. 27, 2010). This may be necessary, for example, where the pleading party cannot establish the requisite intent element. Still other courts have granted leave to amend to add inequitable conduct allegations where the pleading party first learns of the complete facts and circumstances of the inequitable conduct during discovery. *See, e.g., Aerocrine*, 2010 U.S. Dist. LEXIS 31176; *Kannar v. Alticor Inc.*, 2010 U.S. Dist. LEXIS 32681, at *10 (C.D. Cal. March 10, 2010).

Typically, leave to amend an inequitable conduct pleading will be denied where, amongst other things, amendment would be futile because the facts as asserted by the moving party simply do

not support an allegation of inequitable conduct. *See, e.g., Semiconductor*, 2010 U.S. Dist. LEXIS 556, at *30-31 (leave to amend denied where it was established that the examiner was already aware of the allegedly withheld reference).

Tips for Applying Rule 9(b)/*Exergen*

Tips for Defendants Asserting the Defense

There are numerous tactics that both defendants and plaintiffs can employ as they navigate through the Rule 9(b)/*Exergen* pleading standard. First, defendants in a patent infringement action asserting the defense should be sure to specifically and individually lay out the *who*, *what*, *when*, *where*, and *how* of the alleged inequitable conduct along with facts necessary to support the intent element. While not required, separate and clear paragraphs or a chart showcasing each element may be prudent.

Second, defendants should take a good hard look at the reasonableness of their pleadings. Courts look to whether the pleading puts the plaintiff on fair notice of the asserted inequitable conduct. In this regard, defendants should examine their pleadings for vague allegations (e.g., no specific person named) and puffery (e.g., "knowingly withheld" - based on what?) and buttress these areas with specific facts.

Finally, defendants should consider whether they have sufficient facts to adequately plead inequitable conduct at the time they serve their answer and counterclaims. If so, they should assert the defense at that time. By doing this, even if the pleadings are successfully challenged, you may at least ensure that the plaintiff is aware of your claim from the outset, making it more difficult to argue undue prejudice later on. This notice should also increase the likelihood that you will be able to take the discovery you need to further establish the defense. Then, after taking discovery, you should be able to amend your answer to include any facts determined to be missing from your original pleading.

Tips For Plaintiffs Attacking the Pleadings

All too often plaintiffs attack the facts alleged in the pleadings as false or unproven. In other words, they confuse the burden of proof at trial with the presumption of truth factual allegations in pleadings enjoy when faced with a motion to dismiss. Instead, plaintiffs should first seek out each of the elements in the pleadings (i.e., the *who*, *what*, *when*, *where*, *how*, and intent) and identify any that are missing. If even one element is missing, it could be the basis for a motion to dismiss the defense as pleaded.

In addition, the pleadings should be closely reviewed to determine whether they put the plaintiff on fair notice of the nature of the alleged inequitable conduct. If the plaintiff is unable to determine the conduct which is the subject of the allegations, the pleading is likely insufficient under Rule 9(b)/*Exergen*.

Finally, when preparing a motion to dismiss or to strike the inequitable conduct allegations, plaintiffs should examine the totality of the facts and assess whether the alleged misconduct, even if accepted as true and correct, is sufficient to establish inequitable conduct (e.g., failure to disclose a reference the examiner was already aware of cannot establish inequitable conduct). If

the answer is no, plaintiffs should be sure to include this basis in their motion to minimize the chances that the defendant will be able to amend its pleading.

Potentially Significant Changes Coming to the Law of Inequitable Conduct

On April 26, 2010, the Federal Circuit issued an Order granting *en banc* reconsideration of a panel decision affirming the district court's finding of invalidity in *Therasense, Inc. v. Becton, Dickinson & Co.*, No. 2008-1511 (Fed. Cir. Apr. 26, 2010). The Federal Circuit has requested briefing on the following six issues: (1) "should the materiality-intent-balancing framework for inequitable conduct be modified or replaced," (2) what is the appropriate standard and should it "be tied directly to fraud or unclean hands," (3) what is "the proper standard for materiality," (4) "[u]nder what circumstances is it proper to infer intent from materiality," (5) "should the balancing inquiry (balancing materiality and intent) be abandoned," and (6) should the standards for materiality and intent "in other federal agency contexts or at common law" provide guidance in the patent law context? *Id.* at 2-3.

Thus, although *Exergen* clarified the pleading standards for inequitable conduct, it did so in view of the current substantive law of inequitable conduct. Any changes to that substantive law, such as those being considered by the Federal Circuit, could in turn have an effect on the pleading standards for the defense. However, this is yet to be played out.

Conclusion

It remains to be seen what effect the *en banc* rehearing in *Therasense* will have on both the substantive law of inequitable conduct - if indeed the defense still exists - and, ultimately, the pleading standards for the defense. But for now, we can say that despite concerns that *Exergen* would greatly curtail allegations of inequitable conduct, at least as of yet, *Exergen* has not done so. Nor has *Exergen* reshaped the requirements for pleading inequitable conduct. Rather, *Exergen* explained that the existing Rule 9(b) heightened pleading standard for fraud requires the specific *who, what, when, where, and how* of the asserted inequitable conduct. Moreover, as we have seen, parties whose inequitable conduct pleadings are found to be deficient are likely to be granted leave to amend their pleadings to comply with the standards of Rule 9(b)/*Exergen*, unless amendment would be futile. Thus, regardless of the concerns expressed, inequitable conduct does, indeed, appear to be alive and well post-*Exergen*, at least for now.

1 What is unknown is whether the Federal Circuit will change the pleading standards and substantive law of inequitable conduct when it reconsiders its decision in *Therasense, Inc. v. Becton, Dickinson & Co.*, No. 2008-1511 (Fed. Cir. Apr. 26, 2010).

2 Rule 9(b) states that "[m]alice, intent, knowledge, and other conditions of person's mind may be alleged generally." Fed. R. Civ. P. 9(b).

© Copyright 2010 Intellectual Property Today