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# The Future Of 'Egregious Misconduct' In Patent Cases

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Former Chief Judge Randall Rader's retirement on June 30 leaves a vacancy for the 12th seat of the Federal Circuit. As a result, on the issue of what constitutes a material omission or misrepresentation by an applicant that would render its issued patent unenforceable, the number of active judges remaining from the six-jurist majority of the 2011 Therasense opinion has dwindled to four. With Judge Rader's original majority occupying only a third of the seats, is the current incarnation of the inequitable conduct defense that the majority barely secured three years ago now at risk of being rewritten at the next en banc hearing?

To recapitulate, the Therasense court had come out 6-1-4 in favor of the adoption of a new, heightened standard for deciding the materiality of references withheld by an applicant seeking to deceive the patent office. A reference is material only if the patent examiner would have refused to issue the patent "but for" the applicant's having withheld the reference. To argue a patentee's inequitable conduct, an accused infringer must show, among other things, that the withheld reference was but-for material, unless there was affirmative egregious misconduct. This exception categorically satisfies the materiality inquiry. The opinion did not elaborate on how to determine whether misconduct was sufficiently egregious, however, instead offering the single example of "filing of an unmistakably false affidavit" with the patent office.

Judge Kathleen O'Malley's concurring opinion argued that the new test was too inflexible. Separately, the dissent argued that the new test was too restrictive and criticized the majority's formulation of the per se materiality exception as being too nebulous. How egregious must the conduct be to qualify as sufficiently egregious, were there lesser degrees of misconduct that were acceptable, and where does one draw the line?

In 2012, Judge Richard Linn, another member of the Therasense majority, elected to take senior status and was succeeded by Judge Raymond Chen to fill the Circuit's 10th seat. Given Judge Rader's retirement and the current composition of the court, how difficult would it be to overturn the materiality test set by the original opinion, embraced now by potentially no more than a third of the members on the active bench (i.e., Judges Pauline Newman, Alan Lourie, Kimberly Moore and Jimmie Reyna)? The number of panel opinions addressing the egregious misconduct carveout since Therasense may suggest an answer.

In Powell v. Home Depot USA (Fed. Cir. Nov. 14, 2011), the court dealt with an applicant's petition to make special his application and expedite its review. The basis for expediting review was Powell's manufacturing agreement that would result in the imminent sale of products practicing the claimed invention. He attested to these facts in a sworn declaration, but neglected to correct or retract his declaration when the agreement fell through, negating his application's eligibility for expedited review. The panel, comprising Judge Linn from the Therasense majority and Judges Timothy Dyk and Sharon Prost from the dissent, ruled unanimously that the failure to update or cancel the petition was neither but-for material nor per se material, because it did not affect the application's patentability, merely the speed of its processing.

Subsequently, the original disagreement between the Therasense factions was aired out in Outside the Box Innovations v. Travel Caddy (Fed. Cir. Sept. 21, 2012), which hinged on whether the applicant's distributor was actually its licensee. If so, the licensee's 500-employee head count would then deprive the applicant of its asserted small-entity status, retroactively resulting in the underpayment of fees to the patent office. The district court thought so and held the false declaration of small entity status and improper payment of small entity fee to be per se material.

Judges O'Malley and Prost, members of the Therasense concurrence and dissent, made sport of the Therasense majority's formulation by noting that "a false declaration of small entity status would fall within the definition of an 'unmistakably false affidavit.'" They ultimately sidestepped the issue and reversed the lower court's finding of inequitable conduct on other grounds. But the opinion's dicta forced Judge Newman from the Therasense majority to respond in defense of the new test.

Although agreeing with the result, she dissented in part, criticizing the panel majority's affirmance of the district court's per se materiality finding sub silento and its failure to limit the egregious misconduct exception to conduct actually "relate[d] to the substance of patentability." Additional analysis may be found in my previous Law360 Expert Analysis article, "Inequitable Conduct: Rethinking 'Egregious Misconduct'" (Jan. 9, 2013).

In Intellect Wireless v. HTC (Fed. Cir. Oct. 9, 2013), Judge Moore, a member of the Therasense majority, held that it was egregious misconduct to leave a false or misleading affidavit about the inventive date uncured. To swear behind prior art, the applicant initially submitted a Rule 131 declaration attesting to an earlier date of invention based on having built a working prototype. The applicant later submitted a revised declaration that called into question whether the invention had been actually reduced to practice, but nonetheless still referred to the prototype. Judge Moore was joined by Judges O'Malley and Prost, who affirmed the lower court's conclusion that the failure to affirmatively correct previous misrepresentations was per se material, even if the patent examiner ultimately ignored the alleged actual reduction to practice date and instead used the constructive reduction to practice date.

In Ohio Willow Wood v. Alps South (Fed. Cir. Nov. 15, 2013), Judge Reyna, a member of the Therasense majority, held that false representations to the Board of Patent Appeals and Interferences (BPAI) to discredit testimonial evidence corroborating an advertisement of a prior art product was egregious misconduct. During the patent's reexamination, the applicant overcame an advertisement for a prior art fabric and witness testimony about the fabric by undermining the witness's credibility. Specifically, the applicant argued that the witness had invented the fabric, had a financial interest in the outcome of the co-pending litigation, and was receiving royalties.

The BPAI did not know that these three representations were contradicted by other trial testimony. Judge Reyna was joined by members of the Therasense dissent, Judges William Bryson and Timothy Dyk,

equating these three false statements to “filing an unmistakable false affidavit.” The panel reversed the lower court’s grant of summary judgment of no inequitable conduct and remanded the issue for trial.

Viewing these opinions together, and excluding the two panel cases on which Judge Evan Wallach sat — 1st Media (Fed. Cir. Sept. 13, 2012) and Network Signatures (Fed. Cir. Sept. 24, 2013), neither of which addressed per se materiality — we see that there have not been any Federal Circuit opinions on inequitable conduct decided by more than one judge from the original Therasense majority. Rather, each panel included two members from either the Therasense concurrence or the dissent. But despite the majority’s representative being outnumbered in each case, after the early foray in dicta in Out of the Box, the members of the court seem to have some common ground in their treatment of the per se materiality inquiry. The unanimity of the rulings despite the wide variance in the fact patterns is instructive.

At one end of the spectrum, the Powell court unanimously agreed that there was no duty to cancel a petition to make special, as its improper submission did not amount to egregious misconduct. At the other end of the spectrum, the Intellect Wireless court agreed that there was a duty to cure a false Rule 131 affidavit. Finally, the Ohio Willow Wood opinion suggests the court is comfortable with expanding the egregious misconduct carveout to encompass situations similar to — rather than outright — filing false affidavits, such as mischaracterizing prior trial testimony before the BPAI.

Accordingly, even though only four of the original members of the Judge Rader’s majority are actively serving on the current bench, the consistent application of the Therasense framework over the past three years suggest that the doctrine is safe for the time being. This, especially since the Therasense dissent has also seen a commensurate reduction in its ranks — Judge Arthur Gajarsa having retired and Judge Bryson taking senior status.

Because Judges Raymond Chen, Richard Taranto and Todd Hughes (filling Judge Bryson’s seat) and Judge Rader’s successor have not yet had their opportunity to weigh in, future panel decisions on which they sit could very well change the direction of the doctrine’s development. As practitioners wait for additional data points, in closing it is worth noting the curious counterbalance in how the new chief judge at the helm is simultaneously the best candidate to veer the ship onto a different course — Judge Prost being one of two remaining members of the original Therasense dissent — but, given her positions in both Powell and Intellect Wireless, also the least inclined jurist to do so.

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