

## Inequitable Conduct: Rethinking ‘Egregious Misconduct’

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This article was co-authored by Gino Cheng and originally appeared on [Law360](#).

**Law360, New York (January 09, 2013, 12:16 PM ET)** -- The inequitable conduct doctrine, of which defendants in patent litigation have frequently availed themselves, has undergone considerable change recently. In the same month that it reiterated in *1st Media LLC v. Electronic Arts Inc.*, 694 F.3d 1367 (Fed. Cir. Sept. 13, 2012) the heightened substantive proof requirements for establishing an inequitable conduct defense, the Federal Circuit in a different panel passed on an opportunity to address the seldom-used “egregious misconduct” standard as a backdoor out of the materiality prong in proving up that defense. See *Outside the Box Innovations LLC v. Travel Caddy Inc.* 695 F.3d 1285 (Fed. Cir. Sept. 21, 2012).

The court’s *Outside the Box* majority decision punted on that question, with the dissent chastising the majority for letting the district court’s determination stand and inviting en banc review. Accordingly, the Federal Circuit again left the bar without any precedential opinion expressly and affirmatively finding that a patentee had committed egregious misconduct, which would have been per se material. Far from the inside track to leapfrog over the “but-for” materiality test set forth by the bare majority in *Therasense Inc. v. Becton, Dickinson & Co.*, 649 F.3d 1276, 1292 (Fed. Cir. 2011) (en banc), the defense tactic of alleging egregious misconduct<sup>[1]</sup> appears to be a detour — at least for now.

In *Therasense*, the en banc court agreed 11-0 that proving materiality and deceptive intent were two separate and distinct requirements in making out an inequitable conduct claim. However, the court was badly divided on how to evaluate materiality, coming out 6-1-4 in its adoption of a new but-for test except in cases of egregious misconduct that categorically satisfied the materiality inquiry. Judge Kathleen O’Malley’s concurring opinion and the dissent (comprising Judges Sharon Prost, Timothy Dyk, William Bryson and Arthur Gajarsa) argued for a broader standard, calling the bare majority’s but-for test too inflexible and too restrictive.

The court remanded the case to the district court to determine under the new framework whether the patentee’s failure to disclose to the U.S. Patent and Trademark Office information related to the prior art was but-for material<sup>[2]</sup> and whether the applicants (1) knew that the omitted information was material and (2) had deliberately decided to withhold it.

Notably the Federal Circuit did not direct the district court to reevaluate whether the omitted information constituted egregious misconduct; nor did the subsequent district court opinion venture to take the extra step and oblige. The takeaway from *Therasense*, then, is that the majority failed to clearly define egregious misconduct, offering instead, in easily misapplied dicta and as the single modicum of guidance on this issue, the exemplar of “filing of an unmistakably false affidavit.”<sup>[3]</sup>

## Post-Therasense Decisions

On the heels of *Therasense*, the Central District of California had the opportunity to address whether a deliberate misrepresentation regarding the delay of maintenance fee payments was egregious misconduct. In *Network Signatures Inc. v. State Farm Mutual Auto. Ins. Co.*, No. 11-00982 (C.D. Cal. June 13, 2012), one of the rare post-*Therasense* cases finding inequitable conduct, the court concluded that while the prosecuting attorney’s deliberate filing of the “unmistakably false” statement of unintentional delay did not “rise to the level of affirmative egregiousness of the cases *Therasense* references” to alone satisfy the materiality test, his misrepresentations of the underlying facts nonetheless satisfied the but-for materiality test.

The Federal Circuit had its first chance to shed more light on the egregious misconduct exception in *Powell v. The Home Depot U.S.A. Inc.*, 663 F.3d 1221 (Fed. Cir. 2011), where the defendant alleged that the inventor improperly maintained his petition to the USPTO to make special his patent application and expedite its review. Although the inventor initially sought expedited review on the ground that he was obligated to manufacture and supply devices embodying the claims, submitting a sworn declaration in support thereof, he never informed the USPTO prior to its grant of the petition that his manufacturing agreement had fizzled. A three-judge panel held that the failure to update or cancel the petition was neither egregious misconduct nor but-for material. Sadly, no justifications were given.

In *Outside the Box*, the Federal Circuit could have taken another stab at elucidating egregious misconduct. The dispute was whether Travel Caddy’s distributor, the Rooster Group, was actually a patent licensee, which would deprive Travel Caddy of its small-entity status under 37 C.F.R. Section 1.27. The district court had answered in the affirmative, finding that improper payment of small-entity fee is per se material to patentability. The Federal Circuit declined to address whether it was egregious misconduct or but-for material, reversing the inequitable conduct ruling based instead on the lack of proof of deceptive intent.

Dissenting in part, Judge Pauline Newman criticized the per curiam opinion as affirming sub silentio the district court’s finding that the conduct — filing of a false declaration of small-entity status — was per se material, and invited further review of this issue. Although concurring in result, Judge Newman lamented the lack of analysis on materiality and its misleading implications. She read *Therasense* as limiting the inequitable conduct defense to only those “instances where the patentee’s misconduct resulted in the unfair benefit of receiving an unwarranted claim,”<sup>[4]</sup> i.e., applicable to misrepresentation, or omission, related to the claimed subject matter.

She further considered the underpayment of the fee to have no effect on patentability and was therefore immaterial to the patent’s issuance. The dissent’s reasoning further suggests that even under the general but-for test, the misrepresentation as to small-entity status would not have been material.

## Observations

Although the path to finding materiality along the egregious misconduct shortcut is not riddled with landmines, it also lacks defining landmarks. *Network Signatures* is illustrative but not controlling.<sup>[5]</sup> Nevertheless, taking the two precedential Federal Circuit cases together, one sees that Judge Prost, who was part of the dissent in *Therasense*, was in the majority in both *Powell* and *Outside the Box*.

In *Powell*, Judge Prost was joined by Judge Dyk, another dissenting judge in *Therasense*, who together could have taken a different stance on egregious misconduct if it diverged from the majority’s view. Instead, the unanimous opinion indicates that notwithstanding the *Therasense* majority and dissent’s division on how to define materiality, they agreed that the passive omission of updating the USPTO that would have negated a petition to make special

was neither egregious misconduct nor but-for material.

Turning next to *Outside the Box*, Judge Prost sided with Judge O'Malley who had also taken issue with the Therasense majority's formulation of the egregious misconduct exception in her concurring opinion. By not expressly disavowing the portion of the district court's opinion that found falsely claiming small-entity status to be egregious misconduct, and by analogizing Travel Caddy's declaration to the singular Therasense exemplar,<sup>[6]</sup> the *Outside the Box* majority capitalized on the opportunity to critique the Therasense majority's formulation with relative impunity.<sup>[7]</sup>

Here, the false declaration of small-entity status appeared to fall squarely within the letter of law, if not the spirit, set out by the Therasense majority (i.e., "an unmistakably false affidavit"), an advantageous fact pattern that was not lost on Judges Prost and O'Malley.<sup>[8]</sup> In response, whether because her hand was forced, to reinforce that the letter should not be separated from the spirit of the law, or out of an abundance of caution, Judge Newman of the Therasense majority attempts to rectify the *Outside the Box* court's subtle suggestion and circumscribe the exception in her dissent, lest the jack be let out of the box inopportunistically.

## Conclusion

*Outside the Box*, alone and collectively with *Powell*, offers some much-needed insight as to the utility and applicability of per se material conduct. But with neither *Powell* nor *Outside the Box* yielding an affirmative finding of inequitable conduct (much less conduct that was "egregious"), the egregious misconduct argument is the pinch hitter who has struck out twice in the batter's box. Although facially attractive (as was the best mode defense to invalidity), it may be more expedient for defense counsel to bench this player and devote more resources to proving but-for materiality, at least until the Federal Circuit can offer more guidance as to the applicability of this exception to the Therasense majority's but-for rule.<sup>[9]</sup>

Also important, as *Outside the Box* reinforces, defendants should still be mindful that clear and convincing evidence of the applicant's specific intent to deceive, which Therasense made a separate element regardless of how material or egregious the alleged misconduct is, remains a formidable hurdle in prevailing on an unenforceability defense.<sup>[10]</sup>

<sup>[1]</sup> See, *Therasense*, 649 F.3d at 1292:

Although but-for materiality generally must be proved to satisfy the materiality prong of inequitable conduct, this court recognizes an exception in cases of affirmative egregious misconduct. This exception to the general rule requiring but-for proof incorporates elements of the early unclean hands cases before the Supreme Court, which dealt with "deliberately planned and carefully executed scheme[s]" to defraud the PTO and the courts. When the patentee has engaged in affirmative acts of egregious misconduct, such as the filing of an unmistakably false affidavit, the misconduct is material.

<sup>[2]</sup> Here, the omitted information comprised the applicant's briefs to the European Patent Office that argued specific language that appeared in a foreign counterpart reference to prior art used by the USPTO to reject the U.S. application had a certain "unequivocal" meaning, against which the prosecuting attorney had subsequently argued and its expert had advanced in a sworn affidavit the contrary interpretation of the exact same language in the U.S. prior art. See *id.* at 1283-84.

<sup>[3]</sup> See *id.* at 1292.

<sup>[4]</sup> See *Outside the Box*, 695 F.3d at 1306-07 (citing *Therasense*, 649 F.3d at 1292); but see *Nilssen v. Osram Sylvania, Inc.*, 440 F.Supp.2d 884, 903 (N.D. Ill. July 5, 2006) ("False declarations and improper fee payments may constitute inequitable conduct. A false declaration of small entity status is material as a matter of law because the PTO's acceptance of a declaration and the resulting reduced fees is material to the survival of the patent."). *Nilssen* was decided pre-*Therasense* and may not be authoritative under the current standard.

<sup>[5]</sup> It is also interesting because the misconduct was not related to the novelty or nonobviousness of the claimed

invention, albeit it was directly tied to the life of the patent.

[6] See, *Outside the Box*, 695 F.3d at 1294 (“Although on its face, it appears that a false declaration of small entity status would fall within the definition of an ‘unmistakably false affidavit,’ particularly since a party that claims entitlement to small entity status does so in a sworn written declaration, we need not decide that question.”) with *id.* at 1294 n.2 (“Indeed, when asked whether he agreed that ‘the nature of the certification is essentially an affidavit,’ counsel for Travel Caddy responded ‘I do. It’s a sworn statement. I do your honor.’”).

[7] It had the luxury of knowing that the same result would ultimately be reached because of the lack of proof of deceptive intent. See, *Outside the Box*, 695 F.3d at 1294.

[8] See, *id.* at 1294 & n.2.

[9] This may mean waiting for the fallout between the Therasense majority’s future attempts to reign in any other forms of misconduct and misrepresentations that the Therasense concurrence and dissent would categorically consider egregious. An affirmative finding by a Therasense-dissent-dominant panel would, on balance, be more instructive, because it is more likely to pick up the stakes put down by the majority when testing the boundaries of egregious misconduct.

[10] See, e.g., *1st Media*, 694 F.3d at 1377 (“Because Appellees cannot prove on this record that either Lewis or Sawyer made a deliberate decision to withhold references from the PTO and because Appellees acknowledged that the record is complete, this court reverses.”); see also, e.g., *Fujitsu Ltd. v. Tellabs Operations Inc.*, No. 09-cv-4530, at \*3-4 (N.D. Ill. July 31, 2012) (dismissing all of defendant’s claims of inequitable conduct on summary judgment for lack of proof of deceptive intent, even drawing all reasonable inferences from the undisputed facts in favor of the defendant).

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