Exergen v. Wal-Mart: A Costly Cure for the Plague of Inequitable Conduct Claims

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EXERGEN V. WAL-MART:
A COSTLY CURE FOR THE PLAGUE OF INEQUITABLE CONDUCT CLAIMS

I. INTRODUCTION

This note discusses the recent Federal Circuit case of Exergen Corp. v. Wal-Mart Stores, in which the Federal Circuit adopted very strict pleading standards for the patent infringement defense of inequitable conduct. For purposes of providing context, this note begins with a brief summary of inequitable conduct’s substantive doctrine and pleading standards, and an explanation of how the defense came to be a “plague” upon patent litigation. Section III will explain the holding in Exergen, and Section IV criticizes the court’s rationale therein. Finally, Section V of this note discusses the implications of Exergen’s strict pleading standards.

The Federal Circuit’s justification for imposing such strict pleading standards is questionable. The Federal Circuit cited no authoritative precedent requiring it to apply the heightened pleading standards of FED. R. CIV. P. 9(b), and the court entirely failed to consider the policy implications of doing so. Furthermore, the court derived inflexible rules for the application of Rule 9(b) from questionable interpretations of tangentially related precedent.

While these strict pleading standards will curtail the “plague” of frivolous inequitable conduct allegations, the standards will also prevent discovery of information required for many legitimate inequitable conduct claims. Although discovery directed towards other, relatively easily pled defenses to infringement can be used to uncover certain information regarding inequitable conduct, such discovery is insufficient to uncover all information necessary to formulate an adequate pleading under Exergen. This will result in a reduction in the accuracy and fairness of patent examinations due

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to under-enforcement of applicants’ duty to disclose information to the PTO, as well as inequity for alleged infringers who are unable to plead legitimate inequitable conduct claims.

II. BACKGROUND

A. Inequitable Conduct: Substantive Doctrine

I. Origins

Early U.S. patent statutes provided private actions and remedies against fraudulently procured patents, but courts marginalized these provisions. The modern doctrine is instead a judicial creation stemming from principles of equity, the beginnings of which lie in *Keystone Driller Co. v. General Excavator Co.* In *Keystone*, the appellate court dismissed a patent infringement action, because the patentee concealed from the PTO information concerning invalidating prior use of its invention. The court based its holding upon the equitable principle that a party seeking equitable relief must come to court with clean hands. The Supreme Court affirmed the dismissal.

In *Precision Instrument Manufacturing Co. v. Automotive Maintenance Machinery Co.*, the Supreme Court first explicitly recognized inequitable conduct as a defense to infringement. Upon the basis of the unclean hands doctrine, the Court held that a patent procured by the inequitable conduct of the applicant is

4. *Id.* at 38-39.
6. *Id.* at 243-247.
7. *Id.* Note that this presumes infringement suits to be suits “in equity.” Under English law, an infringement suit could be brought in equity or at law. By definition, suits brought in equity were those seeking an injunction, whereas suits at law were those seeking damages. This distinction is also recognized in the U.S. See *Ebay v. MercExchange*, 547 U.S. 388 (2006).
rendered unenforceable. The Court recognized that a patentee’s right to exclude the public from practicing the invention posed a great threat to public interest. This implicitly addressed the reluctance of earlier courts to allow a private party to assert the plaintiff’s inequitable behavior toward a non-party to the action (the PTO) as its own defense.

2. Modern Substantive Doctrine

The creation of the Federal Circuit in 1982 signaled the beginnings of a uniform patent law and led to some attempts at clarification of inequitable conduct doctrine. Current Federal Circuit doctrine defines inequitable conduct as: “(1) an affirmative misrepresentation of material fact, a failure to disclose material information, or submission of false material information [to the PTO], and (2) an intent to deceive the [PTO] examiner by such material falsity.” Whether pled as an affirmative defense or a counterclaim, a finding of inequitable conduct with respect to an application for a patent may render that patent unenforceable to the world.

10. *Id.* at 814-15, 819.
11. *Id.*
12. Goldman noted:

   The *Bell Telephone Co.* Court vigorously asserted that because the government “had taken from the public rights of immense value and bestowed them upon the patentee” and because it was the government that had been deceived and misled, that it was appropriate for the government to be the party to secure a remedy in the case.


a. Materiality

The Federal Circuit noted the agreement among the circuit courts and the PTO that the primary policy behind requiring applicants to disclose material information to the PTO was to facilitate fair examinations of patent applications and accurate determinations of patentability. The court adopted the definition of materiality of the PTO’s Rule 56, as amended in 1977, which sets forth the duty to disclose information material to patentability to the PTO. The rule defined information as material “where there is [1] a substantial likelihood that [2] a reasonable examiner [3] would consider it important [4] in deciding whether to allow the application to issue as a patent.” This standard was broader than any standard of materiality previously applied by any court.

In 1992, the PTO revised Rule 56. The new standard defined information as “material” only if it “is not cumulative to information already of record . . . in the application, and [i]t establishes, by itself or in combination with other information, a prima facie case of unpatentability of a claim; or [i]t refutes, or is inconsistent with, a position the applicant takes” in arguments made to an examiner regarding patentability. The Federal Circuit, however, found no reason to defer to the PTO and continued to apply the “reasonable examiner” standard of the 1977 rule as an all-encompassing standard of materiality. Concurrently, the Federal Circuit applied four other holdover standards, which the court explained were encompassed by the reasonable examiner standard. As of the publication of this note,
all five standards are still in use.\textsuperscript{24} Under these standards of materiality, many different types of conduct fell within the scope of inequitable conduct.\textsuperscript{25}

\textbf{b. Intent}

Since its inception, the Federal Circuit recognized the difficulties arising from the typical scarcity of direct evidence of intent to deceive the PTO. The court held that intent “may be proven by a showing of acts the natural consequences of which are presumably intended by the actor” and that “[s]tatements made with gross negligence as to their truth may establish such intent.”\textsuperscript{26} Under this view, inferences of intent could be drawn from proof that: (1) an applicant \textit{actually} knew of the existence of material information\textsuperscript{27}; and that (2) the applicant knew or \textit{should have known} that such information was material to the application.\textsuperscript{28}

This “gross negligence” approach was marginalized\textsuperscript{29} and ultimately discarded in \textit{Kingsdown Med. Consultants, Ltd. v. Hollister Inc.} for a strict requirement of intent to deceive.\textsuperscript{30} \textit{Kingsdown} required proof that the applicant \textit{actually knew} that the information was material.\textsuperscript{31} In other words, proof that the

\begin{footnotesize}

\textsuperscript{24} Id. at 394 (citing Digital Control, 437 F.3d at 1314-15).

\textsuperscript{25} Id. at 395.

\textsuperscript{26} Kansas Jack, Inc. v. Kuhn, 719 F.2d 1144, 1151 (Fed. Cir. 1983).

\textsuperscript{27} American Hoist, 725 F.2d at 1363-64.

\textsuperscript{28} In re Jerabek, 789 F.2d 886, 891 (Fed. Cir. 1986).

\textsuperscript{29} Goldman, \textit{supra} note 3 at 81-82 (discussing FMC Corp. v. Manitowoc Co., Inc., 835 F.2d 1411, 1415 (Fed. Cir. 1987)).


\end{footnotesize}
applicant "should have known" that the information was material became insufficient. 32 Later Federal Circuit cases, however, have wavered in their application of Kingsdown. Some permitted inferences of intent to be drawn merely from the fact that an applicant was aware of omitted material information, without proof that the applicant actually knew that the information was material. 33

B. Inequitable Conduct Pleading Standards

Pleadings in federal actions generally require short and plain statements of jurisdiction, cause of action, and demand for relief as delineated in FED. R. CIV. P. 8(b). 34 An exception to this standard is set forth in FED. R. CIV. P. 9(b), which requires that pleadings of fraud or mistake "state with particularity the circumstances constituting fraud or mistake." 35 Prior to the existence of Federal Circuit, all but one district court considered whether Rule 9(b) applied to inequitable conduct pleadings and held that Rule 9(b) did apply. 36

Because Rule 9(b) offers no guidance specific to cause of action, courts applied an ad hoc approach as to the requirements of Rule 9(b) with regard to inequitable conduct pleadings. 37 Some jurisdictions applied Rule 9(b) strictly, requiring the pleading of nearly all relevant facts, while other jurisdictions applied a more

32. Id.
33. Hanft, supra note 32, at 1; see, e.g., Ferring v. Barr, 437 F.3d 1181, 1190-94 (Fed. Cir. 2006) (finding intent on the basis that the inventor "should have known" the materiality of declarant's previous employment); Hoffmann-La Roche, Inc. v. Promega Corp., 323 F.3d 1354, 1366-67 (Fed. Cir. 2003) (finding deceptive intent based on the inventor's use of the past tense in an example thereby illustrating the court's negative inference against the inventors by assuming a deceptive intent under circumstances that can be interpreted equally in either); Novo Nordisk Pharm., Inc. v. Bio-Tech. Gen. Corp., 424 F.3d 1347, 1359-60 (Fed. Cir. 2005) (applying "should have known" reasoning to impute inventor's knowledge of materiality of the use of prophetic data).
34. FED. R. CIV. P. 8(a)-(b).
35. FED. R. CIV. P. 9(b).
37. Id. at 935.
lenient standard.\textsuperscript{38} Courts and, in turn, the litigants, were left uncertain of the proper pleading standards regarding intent and the specificity required in identifying allegedly material information.\textsuperscript{39} In addition, courts disagreed as to whether the inequitable conduct pleading must stand on its own or whether other materials, such as interrogatory responses, could supplement the pleading.\textsuperscript{40}

Courts did agree that a bald assertion of fraudulent or intentionally misleading conduct in the patent application process did not satisfy Rule 9(b)'s pleading standards.\textsuperscript{41} On the opposite end, courts widely held sufficient specific identification of the allegedly material information and individuals who were under to a duty to disclose and who knew of the allegedly material information.\textsuperscript{42}

C. The Plague

The ever-increasing scope of conduct considered inequitable by courts and the willingness of many courts to infer intent made inequitable conduct an increasingly popular defense.\textsuperscript{43} It became attractive to courts as well, because disposing of an infringement case by finding inequitable conduct was decidedly easier than dealing with the complex and technical issues of patent validity and infringement.\textsuperscript{44}

By 1984, the Federal Circuit had recognized that the “gross negligence standard of intent combined with the lower standard of materiality was inducing parties to assert the inequitable conduct defense” to the point that it was “overplayed . . . appearing in nearly every patent suit, and . . . cluttering up the patent system.”\textsuperscript{45} In the 1988 case of Burlington Industries, Inc. v. Dayco Corp., the Federal Circuit opined that “the habit of charging inequitable


\textsuperscript{39} \textit{Id.}

\textsuperscript{40} Hricik, \textit{supra} note 36, at 935-44.

\textsuperscript{41} \textit{Id.} at 935.

\textsuperscript{42} \textit{Id.}

\textsuperscript{43} Goldman, \textit{supra} note 3, at 70.

\textsuperscript{44} \textit{Id.} at 67.

\textsuperscript{45} \textit{Id.} at 85.
conduct in almost every major patent case has become an absolute plague.\textsuperscript{46}

Overpleading of inequitable conduct can cause a variety of problems. A claim of inequitable conduct can lead to extensive discovery that is both expensive and invasive to the patentee, largely due to the relevance of intent and knowledge of the applicant and its agents involved in the application.\textsuperscript{47} In addition, the defense raises complex attorney-client privilege issues and detracts from the primary issues of infringement and validity.\textsuperscript{48}

III. EXERGEN CORP. V. WAL-MART STORES, INC.

A. The Facts

In \textit{Exergen Corp. v. Wal-Mart Stores, Inc.}, Exergen sued Systems Application of Advanced Technology, Ltd. and Daiwa Products, Inc. (collectively “SAAT”) for infringement of three of Exergen’s patents (‘813, ‘205, and ‘685).\textsuperscript{49} In its answer, SAAT asserted noninfringement and invalidity.\textsuperscript{50} Nearly one year later, SAAT moved to amend its answer pursuant to Rule 15(a) to add inequitable conduct as an affirmative defense to its alleged infringement of the ‘813 and ‘685 patents.\textsuperscript{51} The district court denied the motion to amend for failure to plead the elements of inequitable conduct with sufficient particularity to satisfy Rule 9(b).\textsuperscript{52} On appeal, SAAT focused on its proposed inequitable conduct pleading with regard to only one of Exergen’s patents, ‘685.\textsuperscript{53}

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\begin{enumerate}
\item \textsuperscript{46} \textit{Burlington}, 849 F.2d at 1422.
\item \textsuperscript{47} Christopher A. Cotropia, \textit{Modernizing Patent Law’s Inequitable Conduct Doctrine}, 24 BERKELEY TECH. L.J. 723, 739-40 (2009).
\item \textsuperscript{48} \textit{Id.}
\item \textsuperscript{49} \textit{Exergen}, 575 F.3d at 1317. Exergen’s patents claimed thermometers that detect radiation from different locations on the surface of the human body, such as the skin covering the temporal artery, and calculate and display the internal temperature based on the surface measurements. \textit{Id.} at 1316-17.
\item \textsuperscript{50} \textit{Id.} at 1317.
\item \textsuperscript{51} \textit{Id.} at 1316.
\item \textsuperscript{52} \textit{Id.} at 1317.
\item \textsuperscript{53} \textit{Id.} at 1325.
\end{enumerate}
\end{scriptsize}
SAAT's proposed amendment alleged that the patent was "unenforceable due to [two independent instances of] inequitable conduct by Exergen, its agents and/or attorneys during the prosecution of the application for the '685 patent before the PTO." First, SAAT alleged that Exergen failed to submit to the PTO material prior art references of which it was aware. Specifically, SAAT alleged that prior to the filing of the '685 application, Exergen filed two prior patent applications that were material to the '685 patent, because they "disclose[d] a technique of scanning a radiation detector across a target to measure the maximum emitted radiation, and [were] not cumulative to the information already of record in the prosecution history of the '685 patent."

The second alleged act of inequitable conduct was that Exergen made an affirmative misrepresentation: "Exergen made a number of arguments to the PTO to overcome rejections of the pending claims based upon various prior art references related to tympanic temperature detectors." SAAT alleged that these arguments were contradicted by certain material appearing on Exergen's website.

B. The Holding

The Federal Circuit affirmed the district court's denial of SAAT's Rule 15(a) motion to amend its pleading. The Federal Circuit reviewed the denial under the First Circuit's abuse of discretion standard, as appellate review of such a denial is governed by the law of the regional circuit in which it occurs. However, Federal Circuit law governs the underlying question of whether inequitable conduct has been pled with sufficient particularity, and so the Federal Circuit took the opportunity to clarify the standard.

54. Id. at 1325.
55. Exergen, 575 F.3d at 1325-26.
56. Id.
57. Id. at 1325.
58. Id. at 1326.
59. Id.,
60. Id. at 1331.
61. Exergen, 575 F.3d at 1318.
62. Id. at 1326.

Writing for the majority, Judge Linn cited the court’s 2003 holding in *Central Admixture Pharmacy Services, Inc. v. Advanced Cardiac Solutions* that, although inequitable conduct is broader in scope than fraud, it must nevertheless be pled with particularity as required by Rule 9(b). The court adopted the 7th Circuit’s approach to pleadings subject to Rule 9(b), holding that inequitable conduct pleadings must point out the “who, what, when, where, and how of the [alleged] material misrepresentation or omission committed before the PTO.” Pleadings that allege the substantive elements of inequitable conduct without setting forth the particularized factual bases for the allegation do not suffice.

Regarding “who,” the pleadings must specifically identify the individual who had a duty to disclose material information to the PTO and who allegedly knew of and withheld material information. Regarding “what” and “where,” the pleadings must identify the material information itself and where the material portion can be found, as well as the claims and limitations to which the omitted or misrepresented information pertains. Regarding “how,” the pleadings must explain why the information is material and not cumulative to information already in the record, and how an examiner would have applied the information to the

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63. Inequitable conduct markedly differs from fraud, because it does not require that the victim (the PTO) rely upon the misrepresentation or omission. Hricik, *supra* note 36, at 913. The elements of common law fraud are “1) a representation of a material fact; 2) the falsity of that representation; 3) the intent to deceive; 4) the complainant’s justifiable reliance upon the representation; and 5) an injury resulting from that reliance.” Weidinger, *supra* note 38, at 1182.


65. *Exergen*, 575 F.3d at 1327.

66. *Id. (quoting DiLeo v. Ernst & Young*, 901 F.2d 624, 627 (7th Cir.1990)).

67. *Id. at 1326-27.*

68. *Id. at 1329.*

69. *Id.*
examination of the claims at issue.  

In applying the above standard to SAAT’s pleading, the court found the pleading factually deficient for three reasons.  

First, the pleading failed to specifically name the individual who “knew of the material information and deliberately withheld or misrepresented it” for the purpose of misleading the PTO (the “who”).  

Simply naming “Exergen, its agents and/or attorneys” was insufficient.  

Second, the pleading failed to identify the claims (the “what”) of Exergen’s patent and the limitations therein (the “where”) to which the references were relevant.  

Third, the pleading failed to identify the material portions of the claims in the reference patents that Exergen allegedly withheld (the “how” and “why”).  

The court held that these three factual deficiencies were by themselves fatal to SAAT’s amended pleading.

2. Requisite States of Mind

In addition, the court held that although Rule 9(b) permits knowledge, intent, and other states of mind to be averred generally, the facts alleged must allow the court to “reasonably infer” the requisite states of mind.  

The requisite states of mind are: “(1) knowledge of the withheld material information or of the falsity of the material misrepresentation, and (2) specific intent to deceive the PTO.”

a. Knowledge of Withheld Material Information

Regarding the withheld patent references, the court held that the

70. *Id.* at 1329-30.
71. *Exergen*, 575 F.3d at 1329.
72. *Id.*
73. *Id.*
74. *Id.*
75. *Id.*
76. *Id.* at 1330.
77. Rule 9(b) allows for more general allegations with regard to elements of “intent, knowledge, and other conditions of a person’s mind.” Hricik, *supra* note 36, at 913.
78. *Exergen*, 575 F.3d at 1330.
79. *Id.*
facts as pled did not give rise to a reasonable inference of knowledge of withheld material information.\textsuperscript{80} The court first found fault with SAAT's allegation that "Exergen" was aware of the two earlier patents,\textsuperscript{81} noting that "Exergen" itself was not a specific individual who owed a duty of disclosure to the PTO with respect to the prosecution of the '685 patent.\textsuperscript{82} In addition, the court held that even if an individual knew that the reference patent existed, knowledge of its existence could not, without more, give rise to an inference that the individual knew of the specific material portion therein.\textsuperscript{83} Thus, SAAT's pleading failed to establish that any individual knew of the allegedly material information.

\textit{b. Knowledge of the Falsity of a Material Misrepresentation}

The court made even quicker work of SAAT's allegation regarding inconsistency between information on Exergen's website and certain statements that Exergen made to the PTO. Judge Linn explained that SAAT's pleading lacked any facts indicating that any individual who made these statements to the PTO was actually aware of the allegedly contradictory statement on the website.\textsuperscript{84} In other words, the pleading did not support the requisite inference that an individual knew that the statements were false. Such an individual could not be charged with knowledge of the allegedly contradictory information on Exergen's website, because the duty of disclosure does not require an applicant to disclose material information of which he should be aware.\textsuperscript{85} Nor is there a duty to inquire as to the existence of such information, unless "sufficient information [is] presented to the attorney to suggest the existence of specific information[,] the materiality of which may be ascertained with reasonable

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80. \textit{Id}.
81. \textit{Id}.
82. \textit{Id}.
83. \textit{Id}.
84. \textit{Exergen}, 575 F.3d at 1330.
85. \textit{Id}.
\end{flushright}
inquiry." Thus, the court found SAAT’s pleading of inequitable conduct deficient in nearly every substantive respect.

c. Intent to Deceive

The court then turned to the “specific intent to deceive” requirement, finding fault with SAAT’s pleading there as well. SAAT pled the element of intent upon information and belief. However, the court held that SAAT’s pleading lacked any plausible reasons for its “belief,” because the pleading did not indicate a “deliberate decision to withhold a known material reference or to make a knowingly false misrepresentation.”

SAAT’s basis for inferring deceptive intent was that Exergen did not disclose to the PTO a reference patent in the prosecution of the ‘685 patent that it had disclosed in prosecution of the related ‘205 patent. However, the court refused to infer that a reference material to one patent was material to another patent merely because the two patents were related. The court noted two further deficiencies that precluded an inference of intent. First, SAAT made no allegations that the individual who had cited the reference patent in the ‘205 application knew of the information in that reference that was allegedly material to the ‘685 application. Second, SAAT made no allegations that this individual then decided to deliberately withhold that information from the relevant examiner.

IV. ANALYSIS

In Exergen, the Federal Circuit required the utmost level of

86. Id.
87. Id. “Pleading on ‘information and belief’ is permitted under Rule 9(b) when essential information lies uniquely within another party’s control, but only if the pleading sets forth the specific facts upon which the belief is reasonably based.” Id.
88. Id. at 1330-31.
89. Id. (internal quotation marks omitted).
90. Exergen, 575 F.3d at 1331.
91. Id.
92. Id.
93. Id.
thoroughness and specificity of inequitable conduct pleadings, and it did so upon questionable grounds. First, the court provided virtually no justification for its application of Rule 9(b) to inequitable conduct. Furthermore, the court selected what appear to be the strictest possible standards from the circuits’ differing interpretations of Rule 9(b), entirely ignoring the more lenient Rule 9(b) interpretations adopted by some jurisdictions for inequitable conduct pleadings. Moreover, the court did not consider any of the policy implications of its harsh application of Rule 9(b).

A. Application of Federal Rule of Civil Procedure 9(b)

The court’s determination that inequitable conduct pleadings must satisfy Rule 9(b) rested upon the court’s dicta in Ferguson Beauregard, which simply took for granted the application of Rule 9(b) without analysis of the issue. Curiously, despite adopting that view as a holding, the court did not provide justification in Exergen either.

The typical justification for the application of Rule 9(b) to inequitable conduct is that inequitable conduct constitutes fraud on the Patent Office, and application of 9(b) to inequitable conduct would further public policy of ensuring the disclosure. It should be noted, however, that inequitable conduct markedly differs from fraud because it does not require the victim (the PTO) to have relied upon the misrepresentation or omission.


Exergen gives a clear roadmap of the requirement of pleading “who, what, where, when, and how.” Although the court clearly articulated the standards for each, its justifications for the

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94. Id.at 1326 (citing Ferguson Beauregard/Logic Controls, Div. of Dover Resources, Inc. v. Mega Sys., LLC, 350 F.3d 1327, 1344 (Fed.Cir.2003)); See also Ferguson Beauregard, 350 F.3d at 1343-44.
95. Exergen, 575 F.3d at 1326.
96. See supra note 63.
97. Hricik, supra note 36, at 913.
98. See Exergen, 575 F.3d at 1329-30.
standards it adopted were decidedly lacking. Upon close inspection of the court’s reasoning in this area, it becomes clear that the court was simply cherry-picking language in order to establish the strictest pleading standards possible.

The requirement that an individual be specified (“who”), as opposed to a business entity patentee may be clear, but it is poorly justified. The court based this requirement on the fact that Rule 56 requires “individuals,” of which classes are specifically provided, to disclose material information to the PTO. However, inequitable conduct is founded not upon the PTO’s Rule 56 duty of disclosure but the equitable doctrine of “unclean hands,” which bars equitable remedies for a party that has acted in a deceitful or unfair manner in connection with the cause of action. The court used this very distinction as justification for retaining the “reasonable examiner” standard of materiality despite the PTO retiring that standard from Rule 56 in its 1992 amendment.

Therefore, it is especially questionable that the court treats Rule 56 as authoritative here.

Also poorly justified is the requirement that the pleadings identify specific claims and limitations therein to which the material references are relevant (“what” and “where”). Again, the court turned to Rule 56. The court reasoned that because the current Rule 56 states that the duty to disclose “exists with respect to each claim,” pleadings must specifically identify the claim and the limitation therein to which the material information pertained. However, the current, overarching standard of materiality used by the Federal Circuit is not that of the current Rule 56, but instead the “reasonable examiner” standard from

99. Id. at 1329 (citing 37 C.F.R. § 1.56(a), (c); Manual of Patent Examining Procedures (“MPEP”) § 2001.01 (8th ed., rev. 2, May 2004)).

100. See Keystone, 290 U.S. 244-45.

101. “[T]here is no reason [ ] to be bound by any single standard...” Digital Control, 437 F.3d at 1316 (quoting Am. Hoist, 725 F.2d at 1363 in referring to Rule 56’s standard of materiality). See also supra note 21, and accompanying text.

102. “The duty to disclose information exists with respect to each pending claim until the claim is cancelled or withdrawn from consideration, or the application becomes abandoned.” Exergen, 575 F.3d at 1329 (citing 37 C.F.R. § 1.56) (court’s emphasis).

103. Am. Hoist, 725 F.2d at 1363.
the 1977 version of Rule 56, which refers to the application as a whole, and makes no mention of "claims."\textsuperscript{104} If the court had consulted 1977 rule, which is more relevant, it would have found no indication that claims should be specified in the pleadings.

In addition, the court pointed to its holding in \textit{Regents of University of California v. Eli Lilly & Co.}, which held that "[i]nformation is material if a reasonable examiner would have considered it important to the patentability of a claim."\textsuperscript{105} However, \textit{Eli Lilly} involved inequitable conduct on the merits, not pleading standards. It is a great leap in logic for the court to apply reasoning regarding the burden of proof directly to pleading standards. Intent must be established by clear and convincing evidence to meet the burden of proof at trial,\textsuperscript{106} whereas pleadings must merely support a reasonable inference of intent.\textsuperscript{107} Furthermore, the authority that \textit{Eli Lilly} cites for this proposition, \textit{J.P. Stevens & Co. v. Lex Tex Ltd.}, refers to the application as a whole, not "claims,"\textsuperscript{108} and neither case was actually concerned with this distinction.

In defining the above standards standards, the court drew heavily from language of Rule 56 as well as a case dealing with inequitable conduct on the merits. Both of these sources define substantive standards, making no mention of pleading standards whatsoever. At no point did the court make any attempt to explain why the language in these sources should be directly applied to pleading standards. The court’s motives are most transparent in its preference of the 1992 version of Rule 56 over the unequivocally more relevant 1977 version; the court selected the 1992 version simply because its language supported stricter pleading standards.

\textsuperscript{104} "[I]nformation 'is material where there is [1] a substantial likelihood that [2] a reasonable examiner [3] would consider it important [4] in deciding whether to allow the application to issue as a patent.'" \textit{Am. Hoist}, 725 F.2d at 1362 (citing 37 CFR 1.56(a) (1983)).

\textsuperscript{105} \textit{Exergen}, 575 F.3d at 1329 (citing Regents of Univ. of Cal. v. Eli Lilly & Co., 119 F.3d 1559, 1570 (Fed.Cir.1997)).

\textsuperscript{106} \textit{Star Scientific, Inc. v. R.J. Reynolds Tobacco Co.}, 537 F.3d 1357, 1365 (Fed. Cir. 2008) (citing Impax Labs., Inc. v. Aventis Pharm., Inc., 468 F.3d 1366, 1374 (Fed. Cir. 2006)).

\textsuperscript{107} \textit{Exergen}, 575 F.3d at 1330.

\textsuperscript{108} \textit{J.P. Stevens & Co. v. Lex Tex Ltd.}, 747 F.2d 1553, 1559 (Fed. Cir. 1984).
2. Requisite States of Mind

a. Knowledge of Withheld Material Information

*Exergen* articulates a very strict standard for pleading knowledge of withheld material information. The crux is that the court must look to the specific material information, not the entire reference in which that information exists. Even if knowledge of a specific reference can be attributed to an individual involved with the prosecution, the court held knowledge of a specific, material portion of the reference does not necessarily follow. The court explained that “[a] reference may be many pages long, and its various teachings may be relevant to different applications for different reasons.” Thus, where the pleadings support a reasonable inference that the prosecuting individual is aware of a reference, additional facts must be pled to indicate that the individual knew of specific material portions therein.

The court cited *FMC v. Manitowoc* for the proposition that pleadings must indicate specific material “information,” as opposed to an entire reference or document in which such information appears. However, the court conveniently failed to mention that, with one exception, every time the word “information” appears in that opinion, it appears in the phrase “art or information” or “documents and information.” In the sole exception, *FMC* used “information” interchangeably with “documents.” Thus, pleadings that indicate an entire document or reference should suffice as well. Moreover, *FMC* dealt with inequitable conduct on the merits as opposed to the pleadings, and the level of specificity required in identifying material information was not even at issue in *FMC*. Requiring an assertion that the individual knew of a specific, minute portion of a reference is a pointlessly mechanical rule that could operate to confound the

110. *Id.*
111. *Id.*
112. *Id.* (citing *FMC*, 835 F.2d at 1415).
114. *Id.* at 1415.
ultimate issue: whether one could reasonably infer that the individual knew of that information.

b. Knowledge of the Falsity of a Material Misrepresentation

Pleading knowledge of the falsity of a material misrepresentation is also burdensome. The court illustrates this requirement by recounting the decision of the Court of Customs and Patent Appeals in *King Automotive*, a trademark inequitable conduct case. There, an alleged trademark infringer asserted that the trademark registrant, who registered the mark “SPEEDY MUFFLER KING,” committed inequitable conduct by falsely declaring to the PTO that it was unaware of any third-party use of a confusingly similar trademark. The court held the pleadings insufficient because the defendants failed to create a reasonable inference that the registrant knew his declaration to be false. The court reasoned that even if one could reasonably infer from the pleadings that registrant knew of another’s use of the mark “MUFFLER KING,” this did not give rise to a reasonable inference that the registrant believed the marks to be confusingly similar.

Considering the strong similarity of the marks involved in *King Automotive*, *Exergen* set a very strict standard for pleading knowledge of the falsity of a material misrepresentation to the PTO. It is true that “SPEEDY MUFFLER KING” and “MUFFLER KING” are not necessarily confusingly similar. However, pleadings must only support a reasonable inference, not an inescapable conclusion. It seems reasonable to infer that a registrant would find “SPEEDY MUFFLER KING” and “MUFFLER KING” similar enough to confuse customers. Nonetheless, regarding this issue, the *Exergen* court managed to cite a case that considered inequitable conduct pleading standards as opposed to the burden of proof, and the court appeared to correctly characterize the precedent. By setting such a high

115. *Exergen*, 575 F.3d at 1328 (citing *King Auto., Inc. v. Speedy Muffler King, Inc.*, 667 F.2d 1008 (CCPA 1981)).
117. *Id.* at 1011.
threshold for drawing reasonable inferences, *Exergen* essentially requires smoking gun evidence of knowledge.

c. Intent to Deceive

*Exergen* also makes it very difficult to plead sufficient facts to support a reasonable inference of intent to deceive the PTO. Pleadings must support a reasonable inference of a "‘deliberate decision to withhold a known material reference’ or to make a knowingly false misrepresentation . . . ."\(^{118}\) Although the Federal Circuit indicated that it would "decline to infer facts to support a claim that must be pled with particularity,"\(^{119}\) intent must generally be "inferred from the facts and circumstances surrounding the applicant’s conduct."\(^{120}\) In other words, intent must generally be inferred from circumstantial evidence, because direct evidence of intent is rarely available.\(^{121}\)

The court found that the pleadings failed to adequately allege intent for two reasons. First, although an individual disclosed the allegedly patent application in the course of the earlier, related patent application, there was no indication that at the time, he was aware of specific information in the reference that was material to the current patent application.\(^{122}\) This is merely a reiteration of the "knowledge of withheld material information" requirement. Second, the pleadings contained no specific allegations indicating that the individual then "decided to deliberately withhold [the information] from the examiner."\(^{123}\) Therefore, even if the pleadings demonstrate that an individual knew of withheld material information, *Exergen* appears to require further allegations to demonstrate that the individual made a "deliberate decision to withhold a known material reference."\(^{124}\)

Unfortunately, the court did not explain what additional facts might indicate a decision to deliberately withhold information.

\(^{118}\) *Exergen*, 575 F.3d at 1331.

\(^{119}\) *Id.* at 1328 (citing *Ferguson Beauregard*, 350 F.3d at 1344).

\(^{120}\) *Molins PLC v. TeXtron, Inc.*, 48 F.3d 1172, 1180-81 (Fed. Cir. 1995).

\(^{121}\) *Id.* at 1172.

\(^{122}\) *Exergen*, 575 F.3d at 1331.

\(^{123}\) *Id.*

\(^{124}\) *Id.*
McKesson Information Solutions, Inc. v. Bridge Medical, Inc., which presents circumstances similar to Exergen, provides a useful example of circumstances that evince intent. Although McKesson deals with a trial on the merits, as opposed to pleadings, facts that satisfy the “clear and convincing evidence” burden of proof necessarily satisfy the lower pleading standard of “facts supporting a reasonable inference.” In McKesson, the court found clear and convincing evidence of intent to deceive where the individual responsible for the application omitted information regarding a reference that was material to a related application. There were two circumstances present in McKesson that were not alleged in Exergen, allowing the court to find intent. First, in McKesson, the same individual was involved with both applications. Second, claims in the withheld reference patent in McKesson were deemed sufficiently similar to claims in the patent at issue. Such additional circumstances may very well have been present in Exergen, but if so, SAAT failed to plead them.

V. IMPLICATIONS: STOPPING THE PLAGUE VERSUS CRIPPLING INEQUITABLE CONDUCT

Exergen adopts a very strict standard for pleading inequitable conduct, even compared to standards of other jurisdictions that had adopted Rule 9(b) for inequitable conduct pleadings. Because Exergen requires defendants to all but present their entire case of inequitable conduct at the pleading stage, it will render insufficient the frivolous claims that were previously able to slip by in more generalized pleadings. Thus, the Federal Circuit may have finally managed to cure the so-called plague of inequitable conduct.

The problem is that Exergen may achieve this result at the cost of hindering a large amount of legitimate claims, because an alleged infringer may not have pretrial access to the information necessary to adequately plead inequitable conduct. Unfortunately, “at the outset of the suit the accused infringer will have at most a

125. 487 F.3d 897 (Fed. Cir. 2007).
126. Id. at 911-12, 924-25.
127. Id. at 907.
128. Id. at 911.
129. See supra notes 37-38 and accompanying text.
thimble-full of facts and the need to discover whether the full facts reveal misconduct."\(^{130}\) Information pertaining to "who, what, where, when, and how," as well as additional facts evincing intent to deceive, will not necessarily be publically accessible in all circumstances. Therefore, this requirement will hinder meritorious allegations of inequitable conduct, crippling enforcement of the duty to disclose material information to the PTO. This directly countervails the Federal Circuit’s adamant adherence to its broad view of materiality.\(^{131}\) Where inequitable conduct claims are stifled, so too is the doctrine’s ability to facilitate efficient and accurate determinations of patentability. Instead, Exergen’s hindrance of so many legitimate inequitable conduct claims may create incentives for unscrupulous applicants and attorneys to conceal material information from the PTO.

**A. Obstacles to Pleading**

Even where a patentee has actually committed inequitable conduct, an opposing party’s ability to plead inequitable conduct depends largely upon the matter of whether information necessary for pleading lies uniquely within the patentee’s control.\(^{132}\) Much of the information pertinent to patent applications is public; the claims, specification, and prosecution history of a patent are public record.\(^{133}\) The prosecution history “contains the complete record of all the proceedings before the Patent and Trademark Office, including any express representations made by the applicant regarding the scope of the claims.”\(^{134}\)

But not all information relating to a patented invention is necessarily public. For example, test results or records of prior sales of the invention may be uniquely within the patentee’s control.\(^{135}\) Thus, without discovery, a party asserting inequitable conduct may not be able to discern whether certain representations

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131. *See* *Am. Hoist*, 725 F.2d at 1363.
134. *Id.* at 1582.
regarding such information are, in fact, false.\textsuperscript{136} The same problem arises with omissions as well. A patentee may have withheld any type of material information, not just prior art, which is by definition publicly available.\textsuperscript{137} Omissions of material information uniquely within the knowledge and control of the patentee may have occurred, such as abandonment of the invention.\textsuperscript{138} In the absence of discovery, such circumstances preclude adequate pleading of the “who, what, when, where, and how of the [alleged] material misrepresentation or omission committed before the PTO.”\textsuperscript{139}

Factual bases for attributing knowledge and intent to an individual may also be uniquely within the knowledge and control of the patentee or the specific individual, and therefore unobtainable without discovery. For example, SAAT’s allegation of inequitable conduct based upon affirmative misrepresentation failed, because there was no indication that the individual who made the representation knew of contradictory statements on Exergen’s own website.\textsuperscript{140} The individual may have viewed that information on Exergen’s website without telling anyone. Without means of compelling that individual to admit his knowledge and find evidence such as examining his internet browsing history, an opposing party would be unable to adequately plead knowledge.

**B. “Piggybacking” Discovery**

Discovery is, of course, predicated on the pleadings; only nonprivileged matter that is relevant to any party’s claim or defense and reasonably calculated to lead to discovery of admissible evidence is discoverable.\textsuperscript{141} The practical implication is that discovery regarding inequitable conduct is not available until a

\begin{itemize}
\item \textsuperscript{136} Id.
\item \textsuperscript{137} Even prior art references, though publically available by definition, 35 U.S.C.A. § 102, may be extremely inconspicuous. See, e.g., In re Hall, 781 F.2d 897 (Fed. Cir. 1986) (holding that a single catalogued thesis in one university library constituted prior art).
\item \textsuperscript{138} 35 U.S.C.A. § 102(c).
\item \textsuperscript{139} Exergen, 575 F.3d at 1327 (quoting DiLeo v. Ernst & Young, 901 F.2d 624, 627 (7th Cir.1990)).
\item \textsuperscript{140} Id.
\item \textsuperscript{141} FED. R. CIV. P. 26(b)(1).
\end{itemize}
party pleads inequitable conduct and that pleading withstands contest. It may seem, then, that there is no way to obtain information critical to an inequitable conduct pleading if that information is uniquely within the control of the patentee.

However, it may be possible to obtain some privately-held information regarding instances of inequitable conduct through discovery directed towards other, more easily pled defenses, such as invalidity and noninfringement. For example, test results that are material to a claim could be obtained through discovery regarding an invalidity defense, whether or not the results would ultimately render the claim invalid. It may then be possible to add inequitable conduct to the pleading by amendment.

Information bearing upon the substantive requirements of patentability, such as novelty, nonobviousness, and utility, is clearly discoverable to support an invalidity defense, but what about information that is material to an application but unrelated to patentability, such as "incorrect filing status, failure to pay maintenance fees, or relationships with affiants?" Some such issues are related to other easily pled defenses, such as failure to pay maintenance fees, which causes early expiration of the patent, and may thus be discovered in the context of those defenses. However, there is information that is simply not subject to discovery outside of an inequitable conduct defense. The Federal Circuit has taken the position that incorrectly specifies the applicant as a "small entity," rendering the patent unenforceable if the failure constitutes inequitable conduct.

142. Specifically, those subject to FED. R. CIV. P. 8(b), as opposed to 9(b). See supra notes 34-42, and accompanying text.
143. "If... circumstances are not known at the beginning of the case but are only learned in discovery, then Fed. R. Civ. P. 15 permits the amendment of pleadings, with consent of the opposing party or leave of court 'freely given when justice so requires.'" Wayne L. Stoner, Rocket Dockets: Still an Alternative?, 572 PLI/Pat 73, 85-86 (1999).
144. See Nicole M. Murphy, Inequitable Conduct Doctrine Reform: Is the Death Penalty for Patents Still Appropriate?, 93 MINN. L. REV. 2274, 2300 (2009).
145. 37 C.F.R. § 1.20(e)-(g).
146. FED. R. CIV. P. 26(b)(1).
While "piggybacking" inequitable conduct discovery onto easily pled defenses may be effective at uncovering actual material information regarding patentability, it is largely ineffective for uncovering evidence of knowledge and intent pertaining to such information. The knowledge and intent of the individual involved in the prosecution are irrelevant to substantive patentability issues such as novelty, nonobviousness, and utility.\textsuperscript{148} Although a response to discovery necessarily reveals the respondent’s current knowledge, it does not indicate whether the requisite knowledge or intent existed at the relevant time: the time the misrepresentation or omission was made. Knowledge at the time of the lawsuit (i.e., when the response to discovery occurs) is generally irrelevant to substantive patentability or validity issues, because there is no duty to disclose information material to a claim unless that claim is currently pending or under examination.\textsuperscript{149}

VI. CONCLUSION

In\textit{ Exergen}, the Federal Circuit imposed strict pleading standards without providing convincing justification or any policy considerations. These burdensome pleading standards may prove very effective at eliminating frivolous inequitable conduct claims and thus stem the “plague.” However,\textit{ Exergen} will also stifle many types of legitimate inequitable conduct allegations. This will lead to lead to inequity for alleged infringers as well as a reduction in the accuracy and fairness of patent examinations resulting from ineffective enforcement of applicants’ duty to disclose material information to the PTO.

\textit{Adam R. Andrea}

\textsuperscript{149} 37 C.F.R. § 1.56.