

**Special Issue: Six Years of the CAFC**

**FEDERAL CIRCUIT LAW ON INEQUITABLE CONDUCT**  
**THE FIRST SIX YEARS**

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I. Introduction

The Federal Circuit has on several occasions during its first six years [n.1] criticized the defense of inequitable conduct before the Patent and Trademark Office (PTO) as "overplayed" and "cluttering up the patent system." [n.2] Most recently, in *FMC v. Manitowoc*, the Court cautioned:

"Inequitable conduct" is not, or should not be, a magic incantation to be asserted against every patentee. Nor is that allegation established upon a mere showing that art or information having some degree of materiality was not disclosed. To be guilty of inequitable conduct, one must have intended to act inequitable. [n.3]

Despite this observation, it has been estimated that the defense of inequitable conduct is raised in 80% of patent infringement cases. [n.4] In addition \*218 findings of inequitable conduct have been affirmed by the Federal Circuit thirteen times during its first six years. [n.5] Accordingly, it is necessary that the patent practitioner have an understanding of the Federal Circuit position on the subject. This article is designed to convey that information as best as possible in a survey of the Federal Circuit opinions on inequitable conduct.

In the first place it should be noted that the Federal Circuit has expressed a clear preference for the term "inequitable conduct" to identify generically a breach of the duty of candor and good faith to the PTO which will render a patent unenforceable. The selection of that phrase over "fraud" was to make clear its distinction from common law fraud. *Korody-Colyer Corp v. General Motors Corp.*, 828 F.2d 1572, 1578, 4 U.S.P.Q. 2d 1203, 1207 (Fed. Cir. 1987); *Argus Chemical Corp. v. Fibre Glass-Evercoat Co.*, 812 F.2d 1381, 1384-85, 1 U.S.P.Q. 2d 1971, 1973-74 (Fed. Cir. 1987). As the Court stated in *FMC Corp. v. Manitowoc Co.*, 835 F.2d 1411, 1417 5 U.S.P.Q. 2d 1112, 1117 (Fed. Cir. 1987): "this court [has] noted the distinction between inequitable conduct that can lead to a declaration of patent nonenforceability and fraud that can lead to antitrust damages under the Walker Process [n.6] rationale-those seeking unenforceability were seen as raising a shield and those seeking antitrust damages as unsheathing a sword." The Court's discussions on this subject make clear that it is the need to impute harm that distinguishes

"inequitable conduct" in procuring a patent from common law fraud. Indeed, the Court has made it clear that if the term "fraud" \*219 is used in a patent, non- antitrust context, the phrase should be "fraud n the PTO," rather than "fraud on the PTO," to reflect that it is the public, not the PTO, that is harmed. [n.7]

A distillation of Federal Circuit cases also makes it clear that an inequitable procurement charge will not be upheld unless supported by all of the three substantive pillars of materiality, reliance (except in unusual circumstances) and culpable intent (or gross negligence). All those pillars have many delicate structural interconnections, as will be discussed below under the respective headings of materiality, reliance and intent. The Federal Circuit has also stressed that there is a need to establish a balancing process whereby the elements of materiality, reliance and intent are determined separately and, then, weighed together to ascertain whether the patentee engaged in inequitable conduct. See, *American Hoist & Derrick Co. v. Sowa & Sons, Inc.*, 725 F.2d 1350, 220 UPQ 763 (Fed. Cir.), cert. den., 469 U.S. 821, 224 U.S.P.Q. 520 (1984) and *Laitram Corp. v. Cambridge Wire Cloth*, 785 F.2d 292, 228 U.S.P.Q. 935 (Fed. Cir. 1986). Accordingly, before discussing the three elements of inequitable conduct, the principles of balancing will first be discussed.

## II. Balancing the elements of inequitable conduct

Recent decisions emphasize the fact that the Federal Circuit remains strongly committed, at least in principle, to the balancing approach. As the Court stated in *Akzo N.V. v. E.I. duPont deNemours*, 810 F.2d 1148, 1153, 1 U.S.P.Q. 2d 1704, 1708 (Fed. Cir. 1987):

The elements of materiality and intent must be determined separately and then weighed together to ascertain whether the patentee engaged in equitable conduct. The tribunal must then carefully balance the materiality and intent: the less material the proffered or withheld that information, the greater the degree of intent must be proven. In contrast, a lesser degree of intent must be proven when the information has a great degree of materiality. Indeed, gross negligence can be the intended level of intent when misrepresentation has a high degree of materiality. Simple negligence, however, or an error in judgment is never sufficient for a holding of inequitable conduct.

In *Akzo* no inequitable conduct was found even though there was a material misrepresentation to the PTO. This was because the district court was unable to conclude by clear and convincing evidence that the requisite intent was present. As the Federal Circuit stated in affirming: "The result was that the court held itself unable to find the necessary threshold level intent at all, not even gross negligence on the \*220 part of *Akzo*." [n.8] In so stating the Federal Circuit reaffirmed its position that a threshold level of intent, namely gross negligence, must be met before the balancing is to take place.

There is also a threshold level of materiality which must exist before the balancing takes place. In *J.P. Stevens Co. v. Lex Tex, Ltd.*, 747 F.2d 1553, 223 U.S.P.Q. 1089 (Fed. Cir. 1984), the Federal Circuit stated that a finding of inequitable conduct requires proof by

clear and convincing evidence of a threshold degree of materiality of the nondisclosed or false information. It has been indicated that the threshold can be established by any of four tests: (1) objective "but for"; (2) subjective "but for"; (3) "but it may have been"; and (4) PTO Rule 1.56(a), i.e., whether there is a substantial likelihood that a reasonable examiner would have considered the omitted reference or false information important in deciding whether to allow the application to issue as a patent. In *J.P. Stevens* the Court held that the PTO standard is the appropriate starting point because it is the broadest and because it most closely aligns with how one ought to conduct business with the PTO.

Thus, before the balancing process of *American Hoist and Laitram Corp.* can take place, there must be a process of inquiry into whether threshold levels of materiality, reliance and intent have been met. As the Court recently stated in *Allen Organ Co. v. Kimball International, Inc.*, 839 F.2d 1556, 1567, 5 U.S.P.Q. 2d 1769, 1778 (Fed. Cir. 1988) "The withholding of information must meet the threshold of both materiality and intent -- and absent intent to withhold it is not controlling whether the reference is found to anticipate or otherwise to be material." Likewise, if either the threshold of materiality is not exceeded or there has been no reliance, then there can be no inequitable conduct and there need not be further inquiry into intent. See, e.g., *Pacific Furniture Mfg. Co. v. Preview Furniture*, 800 F.2d 1111, 1114, n. 7, 231 U.S.P.Q. 67, 69, n.7 (Fed. Cir. 1986). This means that even the most evil intent is legally irrelevant, absent both materiality and reliance, to the issue of the patent's enforceability. See *State Industries, Inc. v. Rheem Mfg. Co.*, 769 F.2d 762, 227 U.S.P.Q. 375 (Fed. Cir. 1985) (but not to the issue of patent attorney disciplinary proceedings). However, if both the pillars of materiality and reliance are found, then the inquiry is undertaken into the requisite level of intent.

### \*221 III. Materiality

Rule 1.56 specifies that "material information" must be disclosed and, by implication (and case law), must not be misrepresented, during prosecution. Material information is defined in that subsection as existing:

where there is a substantial likelihood that a reasonable examiner would consider it important in deciding whether to allow the application to issue as a patent.

The generic definition must be applied to the consideration of what prior art is material, on the one hand, and what other types of facts are material, on the other. These two categories of information have been treated quite differently by the Federal Circuit.

#### A. Prior Art

Where the prior art involved is a public use or an on sale activity by the patentee more than a year before the patent filing date, the Court has on a number of occasions found materiality, usually based on the circumstances that the use or sale was by itself an independent basis for invalidating the patent. Examples of Federal Circuit decisions falling into this category include *Argus Chemical Corp. v. Fibre GlassEvercoat Co., Inc.*,

759 F.2d 10, 225 U.S.P.Q. 1110 (Fed. Cir. 1985); Hycor Corp. v. Schlueter Co., 740 F.2d 1529, 222 U.S.P.Q. 553 (Fed. Cir. 1984); Reactive Metals and Alloys Corp. v. ESM, Inc., 769 F.2d 1578, 226 U.S.P.Q. 821 (Fed. Cir. 1985); Gardco Mfg. Inc. v. Herst Lighting Co., 820 F.2d 1209, 2 U.S.P.Q. 2d 2015 (Fed. Cir. 1987), and FMC Corp. v. Hennessey Industries, Inc. 836 F.2d 521, 5 U.S.P.Q. 2d 1272 (Fed. Cir. 1987). It should be noted, however, that even though the non-disclosed prior art was found to be material in Hycor, Reactive Metals, and FMC Corp., no inequitable conduct was found because another element, namely intent, was missing.

The above-mentioned cases should be compared with Pacific Furniture Mfg. Co. v. Preview Furniture, 800 F.2d 1111, 231 U.S.P.Q. 67 (Fed. Cir. 1986) where an alleged prior use and sale of a different style chair was found not to be material; with FMC Corp. v. Manitowoc Co. 835 F.2d 1411, 5 U.S.P.Q. 2d 1112 (Fed. Cir. 1987) where an alleged offer for sale was found not to be material because it was not established to be prior art, the device not having been in existence at the time of the alleged offer for sale, and with Baker Oil Tools, Inc. v. Geo Vann Inc., 828 F.2d 1558, 4 U.S.P.Q. 2d 1210 (Fed. Cir. 1987) where summary judgment was denied because the issue of the materiality of an asserted use and sale was held to be a disputed issue of fact to be determined at trial.

Where the non-disclosed prior art is a prior patent, printed publication, or third party use the Court has looked at a number of factors to \*222 establish materiality or non-materiality. One such factor is whether or not the originally missing prior art reference was ultimately relied upon by the Patent Examiner to reject the claims in a later proceeding. Thus, in J.P. Stevens & Co. Inc. v. Lex Tex Ltd., Inc., 747 F.2d 1553, 223 U.S.P.Q. 1089 (Fed. Cir. 1984), and in In re Jerabek, 789 F.2d 886, 229 U.S.P.Q. 530 (Fed. Cir. 1986), the non-disclosed prior art was found to be material because during a reissue proceeding the PTO disallowed at least some of the claims of the issued patent on the basis of the withheld references. Likewise, in A.B. Dick Co. v. Burroughs Corp. 798 F.2d 1392, 230 U.S.P.Q. 849 (Fed. Cir. 1986), the Court had little difficulty finding the withheld references material where: (1) in various correspondence with his patent attorney and in certain articles, the applicant had stated or otherwise indicated that he considered the references relevant and important, and (2) where the Examiner, after independently discovering these references, considered them important enough to be used as a basis for rejection of previously allowed claims. On the other hand, the fact that the Patent Examiner in a protested reissue proceeding found that the previously withheld reference did not render the claimed invention obvious was considered evidence of the non-materiality of that prior art in State Industries, Inc. v. Rheem Mfg. Co. 769 F.2d 762, 227 U.S.P.Q. 375 (Fed. Cir. 1985).

The Court has also held merely cumulative prior art which is no more relevant than that considered by the Examiner to be non-material. Examples of this are found in Orthopedic Equip. Co. v. All Orthopedic Appliances, 707 F.2d 1376, 217 U.S.P.Q. 1281 (Fed. Cir. 1983); Environmental Designs Ltd. v. Union Oil Co. of California, 713 F.2d 693, 218 U.S.P.Q. 865 (Fed. Cir. 1984); Rolls-Royce Ltd. v. GTE Valera Corp., 800 F.2d 1101, 231 U.S.P.Q. 185 (Fed. Cir. 1986), and Shiley, Inc. v. Bentley Laboratories, 794 F.2d 1561, 230 U.S.P.Q. 112 (Fed. Cir. 1986).

Finally, it is also clear that information which is not prior art is not material. See, SSIH Equipment S.A. v. USITC, 718 F.2d 365, 218 U.S.P.Q. 678 (Fed. Cir. 1983). As the Court stated in Environmental Designs:

Withheld information must be material, a condition we find here lacking. The disclosure not being prior art, it would not have been material to the patentability of the Beavon process. [n.9]

It is therefore not surprising that the Court in \*223Hartness International, Inc. v. Simplimatic Engineering Co., 819 F.2d 1100, 2 U.S.P.Q. 2d 1826 (Fed. Cir. 1987) did not find it material that the inventor had "heard of" an alleged prior third-party use of equipment (which the infringer asserted to be relevant) but had not told the PTO about it. The inventor testified that he had never seen that equipment, did not know the name of the manufacturer, and did not consider it relevant to his claimed invention. Under the circumstances the district court found that such limited knowledge would only have been of limited materiality and that failure to disclose such information to the PTO was not inequitable conduct. That finding was affirmed as not being clearly erroneous.

#### B. Information and Data

In the area of information or data it is often not a withholding of information which is in issue, but rather a mischaracterization or false characterization of data. In such instances, the Federal Circuit has held that "In contrast to cases where allegations of fraud are based on the withholding of prior art, there is no room to argue that submission of false affidavits is not material." Rohm & Haas Co. v. Crystal Chemical Co., 722 F.2d 1556, 1571, 220 U.S.P.Q. 289, 300 (Fed. Cir. 1983). Rohm & Haas has led to the view that the patent practitioner cannot rely on the Patent Examiner to evaluate the information or data for himself.

The concept that otherwise presented information must be thrust directly in front of the Examiner in the specification or in a document placed before the Examiner was offset somewhat by the Federal Circuit in Environmental Designs. There, the information was already known to and of record before the Examiner because the same information was in a book submitted by the applicant (although without specific reference to the crucial information). The Court stated, in this context, that "Fraud cannot consist of a failure to duplicate what is in the file wrapper." [n.10]

On the other hand as the Court held in KangaROOS U.S.A. v. Caldor, 778 F.2d 1571, 1575, 228 U.S.P.Q. 32, 35 (Fed. Cir. 1985) a "lapse on the part of the examiner does not excuse the applicant." That is illustrated somewhat by FMC Corp. v. Hennessy Industries, Inc., 836 F.2d 521, 526, 5 U.S.P.Q. 2d 1272, 1276 (Fed. Cir. 1987), where the Federal Circuit remanded with regard to the inequitable conduct attack on one of the patents in suit because "the duty of candor requires more than an assumption that the examiner will recall something from a previous application."

\*224 In *FMC v. Hennessy* the district court held that when the Examiner represents that he has reviewed specific prior art, the duty of candor does not require the applicant to advocate that the Examiner should have cited that art as material. The Federal Circuit specifically refused to either agree or disagree with that holding. Rather it remanded because in this case the Examiner had not indicated that he had reviewed the specific prior art in question. The district court had assumed that the Examiner had looked at the prior art in issue because he searched in the class and subclass where the omitted prior art is found and because he cited it in an earlier, non-related patent application. The Federal Circuit basically held that it cannot be assumed from these facts that the specific prior art was actually considered by the Examiner and found not to be material.

#### IV. Reliance

At common law, the perpetrator of a fraud was liable only if someone justifiably relied upon the fraudulent representation and was injured as a result. [n.11] The most common form of reliance in inequitable procurement cases is the issuance of the patent, although conduct short of issuance, such as withdrawal of a rejection or allowance of certain claims, might legitimately be said to have been induced by reliance on a misrepresentation. In instances of omission therefore, issuance of the patent constitutes a form of reliance by the Examiner on the nonexistence of the material information that was withheld.

The Federal Circuit endorsed a requirement for reliance in the case of misrepresentations made in procurement of an issued patent in *Rohm & Haas Co. v. Crystal Chemical Co.*, 722 F.2d 1556, 220 U.S.P.Q. 289 (Fed. Cir. 1983). Then in *Driscoll v. Cebalo*, 731 F.2d 878, 221 U.S.P.Q. 745 (Fed. Cir. 1984), it expressly rejected the need for reliance, in the sense of issuance of claims, when fraud was evaluated in a pending patent application in an interference. Promptly thereafter, it reaffirmed the need for reliance in the sense of issuance of claims in an issued patent context in *Kimberly-Clark Co. v. Johnson & Johnson*, 745 F.2d 1437, 223 U.S.P.Q. 603 (Fed. Cir. 1984).

In 1986, however, the Federal Circuit decided *A.B. Dick Co. v. Burroughs Corp.*, 798 F.2d 1392, 230 U.S.P.Q. 849 (Fed. Cir. 1986), a case which calls into question the extent to which reliance is still a criterion for determining inequitable conduct. In that case, the Court found a patent \*225 applicant's non-disclosure during prosecution to be sufficient to render the patent unenforceable since the patent claims would have issued unamended but for an interference. Inequitable conduct was found to exist even though the uncited prior art was independently discovered by the Examiner after the interference and the claims were ultimately allowed over the newly discovered prior art (after amendment).

The patentee had argued that *Kimberly-Clark* required reversal. The Federal Circuit disagreed, stating that the effect of nondisclosure was dissimilar, since the applicant in *A.B. Dick* had been forced to amend as a direct result of the withheld articles. The Court stated that *Driscoll v. Cebalo* "is more nearly analogous." The Court specifically stated further:

That the claims may be patentable over the withheld prior art...is not relevant. What is relevant is that, as the district court found, a reasonable examiner considered such prior art material under Rule 56(a) in deciding whether to allow the application. See Driscoll, 731 F.2d at 884, 221 U.S.P.Q. at 750. [n.12]

## V. Intent

As mentioned, the threshold level for the intent element is gross negligence. Simple negligence in failing to disclose material information has never been recognized as sufficient to render a patent unenforceable. The law in the Federal Circuit is in accord, as shown by *Orthopedic Equipment Co., v. all Orthopedic Appliances, Inc.*, 707 F.2d 1376, 1383-84, 217 U.S.P.Q. 1281, 1286 (Fed. Cir. 1983), where the Court held:

Although inequitable conduct requires less stringent proofs as to both materiality and intent than common law fraud, mere evidence of simple negligence, oversight, or an erroneous judgment made in good faith not to disclose prior art is not sufficient to render a patent unenforceable.

Moreover, in *Hycor Corp. v. Schleuter Co.*, 740 F.2d 1529, 222 U.S.P.Q. 553 (Fed. Cir. 1984), the Federal Circuit expressly held that nondisclosure of even anticipatory prior art cannot constitute inequitable procurement unless done through at least gross negligence.

In *Hycor*, the appellate process resulted in a holding that the trial court's finding of a § 102(b) public use bar was not "clearly erroneous," but that the evidence on whether the use was experimental or not was somewhat ambiguous. Under these circumstances, the Federal Circuit \*226 refused to find gross negligence on the part of the attorney of record and reversed the trial court's contrary holding in granting attorney fees. Thus, the determination of materiality, even at its highest level, can require a very close judgment call that can be wrong but reasonable and in good faith.

This approach should be compared with the approach taken in *Argus Chemical Co. v. Fibre Glass-Evercoat Co.*, 759 F.2d 10, 225 U.S.P.Q. 1100 (Fed. Cir. 1985) (*Argus I*), where the Court found that counsel's "subjective good faith" does not negate inequitable conduct. Rather, it was stated in *Argus I* that the question is whether a reasonable person in the position of applicant's counsel knew or should have known that the information was material.

At the time *Argus I* created considerable concern that intent or at least gross negligence could be inferred from a high degree of materiality alone. However, even more recently the Federal Circuit has seemingly backed away from *Argus I* and required specific proof of gross negligence, culpable intent or of facts sufficient to lead to an inference of intent.

In *Allen Archery, Inc. v. Browning Mfg. Co.*, 819 F.2d 1087, 2 U.S.P.Q. 2d 1490 (Fed. Cir. 1987) the Court specifically rejected the contention that *Argus I* held that "subjective good faith" is never a defense to a claim of inequitable conduct. In doing so, the Federal Circuit refused to accept an inference of intent as sufficient to create inequitable conduct.

This should be distinguished from *Argus I* where the Court inferred sufficient intent to reach the threshold level. In *Argus I* the Court did so on the basis that *Argus'* attorney should have known of the importance of the withheld reference. On the other hand in *Allen Archery* the Court refused to infer fraudulent intent even though the withheld reference had in other litigation been held to anticipate certain claims of the *Allen* patent (which were subsequently disclaimed). Thus, the Court in *Allen Archery* held that there can be no inequitable conduct where there is no evidence that patentee's counsel knew or should have known that the uncited art was material; but, rather, the evidence shows that patentee's counsel in good faith considered the uncited art radically different from the claimed invention.

Then, in *FMC Corp. v. Manitowoc Co.*, 835 F.2d 1411, 1416, 5 U.S.P.Q. 2d 1112, 1115-1116 (Fed. Cir. 1987), the Court set forth the tests for when intent can be inferred and when "subjective good faith" is sufficient to prevent the drawing of an inference of intent to mislead. In a tutorial on inequitable conduct; the Court stated:

[One] who alleges a "failure to disclose" form of inequitable conduct must offer clear and convincing proof of: (1) prior art or information that is material; (2) knowledge chargeable to applicant of the prior art or information \*227 and of its materiality; and (3) failure of the applicant to disclose the art or information resulting from an intent to mislead the PTO. That proof may be rebutted by a showing that: (a) the prior art or information was not material (e.g., because it is less pertinent than or merely cumulative with prior art or information cited to or by the PTO);

(b) if the prior art or information was material, a showing that applicant did not know of that art or information; (c) if applicant did know of that art or information, a showing that applicant did not know of its materiality; (d) a showing that applicant's failure to disclose art or information did not result from an intent to mislead the PTO.

Thus, a balancing of overlapping considerations is involved in determining, in view of all the circumstances, the presence or absence of inequitable conduct. The level of materiality may be high or low. Applicant must be chargeable with knowledge of the existence of the prior art or information, for it is impossible to disclose the unknown...

Similarly, an applicant must be chargeable with knowledge of the materiality of the art or information; yet an applicant who knew of the art or information cannot intentionally avoid learning of its materiality through gross negligence, i.e., it may be found that the applicant "should have known" of that materiality.

After having set forth that summary of the law of inequitable conduct, the Court addressed the issue of when intent could be inferred, stating:

Considerations touching materiality and applicant's knowledge thereof overlap those touching applicant's intent because of inferences of intent that may be drawn from the former; -- and an applicant who knew or should have known of the art or information, and of its materiality, is not automatically precluded thereby from an effort to convince the fact finder that the failure to disclose is nonetheless not due to an intent to mislead the PTO; i.e., that, in light of all the circumstances of the case, an inference of intent to mislead is not warranted.

No single factor or combination of factors can be said always to require an inference of intent to mislead; yet a patentee facing a high level of materiality and clear proof that it

knew or should have known of the materiality, can expect to find it difficult to establish "subjective good faith" sufficient to prevent the drawing of an inference of intent to mislead. A mere denial of intent to mislead (which would defeat every effort to establish inequitable conduct) will not suffice in such circumstances.

In *FMC v. Manitowoc* the Federal Circuit upheld the finding that the applicant had no knowledge of materiality, that his lack of knowledge was not due to gross negligence, and that no intent to mislead the PTO could be inferred.

In *FMC Corp. v. Hennessy Industries Inc.*, 836 F.2d 521, 5 U.S.P.Q. 2d 1271 (Fed. Cir. 1987), the Federal Circuit repeated its position that an overwhelming showing of materiality plus an applicant's knowledge of that materiality may raise an inference of intent so strong as to require a convincing showing of subjective good faith to offset it. It went on to emphasize, however, that when evidence of "subjective good faith" \*228 is presented to rebut any inferences it must be considered in deciding whether there was an intentional nondisclosure. The Court also emphasized that "subjective good faith" could offset evidence of gross negligence.

In terms of gross negligence, FMC argued that it existed because Hennessy and its attorney did not require sufficiently into the prior art (an alleged statutory bar under Section 102(b)). In that regard, the Court refused to decide whether there was or was not a duty to inquire [n.13] and held simply that in this case nothing known to Hennessy and its attorney created a duty to undertake the extensive inquiry FMC made in its attack on the patent.

An analysis on *Argus I*, *Allen Archery* and *FMC* confirms that, as pointed out above, the issue of intent has become one of burdens of proof. The party asserting inequitable conduct in order to render a patent unenforceable has the burden of proving facts sufficient to establish at least gross negligence or an inference of culpable intent. The patentee then has the burden to show "subjective good faith" sufficient to rebut the proof of gross negligence or the inference of culpable intent.

However, with regard to disciplinary proceedings, the burden is different. In *Jaskiewicz v. Mossinghoff*, 822 F.2d 1053, 3 U.S.P.Q. 2d 1294 (Fed. Cir. 1987) the Court made it clear that in disciplinary proceedings there must be proof of an intent to deceive. In addition the Court there held that in such proceedings there must be clear and convincing evidence sufficient to sustain the administrative findings of fraud and deliberate intent. There is, thus, apparently a difference in the degree of proof of scienter necessary in disciplinary proceedings. It has been suggested that this is because the consequences of effective disbarment are especially serious. The attorney is not only deprived of professional honor but also stripped permanently of his chosen means of livelihood. [n.14] As will be explored more fully below, differing standards for judging a patentee's misconduct appear to exist not only in disciplinary proceedings, but also in antitrust cases and in assessing claims for attorneys fees.

\*229 VI. Differing standards for judging a patentee's misconduct

In the additional views by Judge Nies in *Argus Chemical Corp. v. Fibre Glass-Evercoat Co.*, 812 F.2d 1381, 1387, 1 U.S.P.Q. 2d 1971, 1976 (Fed. Cir. 1987) (*Argus II*), the statement is made that:

-- our cases reflect three standards for judging the misconduct by a patentee dependent upon the extent of relief which opposing litigant seeks: (1) misconduct which makes a patent unenforceable conduct"); (2) misconduct which is sufficient to make a case "exceptional" under 35 U.S.C. 285 so as to warrant, in the discretion of the trial judge, an award of attorney fees, and (3) misconduct which rises to the level of common law fraud and which will support an antitrust claim. As litigant moves from a purely defensive position, to a recoupment request, to an affirmative claim for damages, it is reasonable to impose more stringent requirements.

Recent cases emphasize that the Federal Circuit has indeed adopted different standards for judging a patentee's misconduct dependent upon the extent of relief being sought. In addition to *Jaskiewicz and Argus II*, reference should be made to *J.P. Stevens Co. v. Lex Tex Ltd.*, 822 F.2d 1047, 3 U.S.P.Q. 2d 1235 (Fed. Cir. 1987) (*J.P. Stevens II*) and *Gardco Mfg. Inc. v. Herst Lighting Co.*, 820 F.2d 1209, 2 U.S.P.Q. 2d 2015 (Fed. Cir. 1987).

*J.P. Stevens II* and *Gardco* are attorneys' fees cases. In *J.P. Stevens II* the district court refused to award attorneys fees to *J.P. Stevens* even though the *Lex Tex* patent had been declared unenforceable because of inequitable conduct. *J.P. Stevens & Co., Inc. v. Lex Tex Ltd., Inc.*, 747 F.2d 1553, 223 U.S.P.Q. 1089 (Fed. Cir. 1984), cert. denied sub. nom. 106 S.Ct. 73 (1985) (*J.P. Stevens I*). With regard to the attorneys fees issue, the Federal Circuit pointed out that in *J.P. Stevens I* the district court had found no "deliberate fraud or deceptive intent" and that it was only on appeal that the *Lex Tex* patent was held unenforceable for inequitable conduct. The Court, thus, seemed to distinguish between "inequitable conduct" which will render a patent unenforceable and "deliberate fraud" which will lead to an award of attorneys' fees.

In *Gardco* a similar distinction was made. There Chief Judge Markey, writing for the Court, stated:

The district judge, who saw and heard the witnesses, found that *Gardco* had filed to establish that *Peerless* acted in bad faith or intentionally misled the PTO. *Gardco* brought the suit and proved inequitable conduct, yet it has not been held that every case of proved inequitable conduct must result in an automatic attorney fee award, or that every instance of inequitable conduct mandates an evaluation of the case as "exceptional." [n.15]

\*230 That statement was made immediately following an affirmance of the holding of inequitable conduct. It was also made following the statement that the patentee's appeal on that issue was so hopeless that it would have been deemed frivolous had not a jury issue been included. Thus, the patent in *Gardco* was found to be clearly unenforceable after weighing materiality and gross negligence, but attorneys fees were not awarded because there had been no proof of "bad faith" by the patentee.

A similar distinction has been made with regard to antitrust counterclaims. In *Argus II* the Federal Circuit affirmed both a denial of attorneys' fees and a dismissal of an antitrust counterclaim even though the patents had in *Argus Chemical Co. v. Fibre Glass-Evercoat Co.*, 759 F.2d 10, 225 U.S.P.Q. 1100 (Fed. Cir. 1985) (*Argus I*) been held unenforceable because of inequitable conduct. In that regard, the Court stated:

--our prior opinion held the patents unenforceable not because they had been procured by fraud but because of *Argus'* "inequitable conduct" in obtaining them. We there stated that "conduct before the PTO which may render a patent unenforceable is broader than the common law tort of fraud."

There is accordingly lacking in this case the essential element of a Walker Process [n.16] claim that the patent must have been procured by "intentional fraud" on the Patent Office. [n.17]

Thus it is clear that a differing standard exists for antitrust counts; there intentional fraud must be established to support the asserted violation of the antitrust laws.

## VII. Conclusion

In view of the language and holdings in *Gardco*, *J.P. Stevens II*, and *Argus II* it probably can be concluded that while gross negligence represents a sufficient level of intent to render a patent unenforceable, a differing intent level, amounting to deliberate fraud, is necessary for an award of attorneys fees or to support an antitrust counterclaim. Even in terms of inequitable conduct, it is possible that *Allen Archery* and the *FMC* cases signal that the Court may believe that fraud charges have gone too far. The outcry which followed *Argus I* and *A.B. Dick* has not only led to the proposed for a new PTO rule on inequitable conduct, [n.18] \*231 but has perhaps also led the Federal Circuit to reassess its position as well. Certainly the suggestion in the *FMC* cases that substantive good faith can rebut any inferences of wrongful intent should help provide a more reasonable balance -- the type of balancing which *Am. Hoist* requires. The next six years should be most revealing in that regard.

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[n.1] For a discussion of the Federal Circuit law on inequitable conduct after the first three years, see, Pretty, "Inequitable Conduct Before the PTO -- The Law in the Federal Circuit," 12 *AIPLA Quarterly Journal* 240 (1985).

[n.2] See, e.g. *Kimberly-Clark Corp. v. Johnson & Johnson*, 745 F.2d 1437, 1454, 223 U.S.P.Q. 603, 621 (Fed. Cir. 1984).

[n.3] *FMC Corp. v. Manitowoc Co.*, 835 F.2d 1411, 1415, 5 U.S.P.Q. 2d 1112, 1115 (Fed. Cir. 1987).

[n.4]. See, Lee, "Introduction: The Special Ad Hoc AIPLA Committee on Rule 56 and the Evolution of Proposed Rule 57," 16 *AIPLA Quarterly Journal* 1 (1988). Volume 16, Issue No. 1 of the *AIPLA Quarterly Journal* is devoted entirely to the subject of the duty of Candor under Rule 56 and the Evolution of Proposed Rule 57. The policy arguments there discussed will not be repeated here. Rather this article is intended to be simply a survey of the Federal Circuit cases on the subject of inequitable conduct without critical comment.

[n.5] *Rohm & Haas Co. v. Crystal Chemical Co.*, 722 F.2d 1556, 220 U.S.P.Q. 289 (Fed. Cir. 1983); *Driscoll v. Cebalo*, 731 F.2d 878, 221 U.S.P.Q. 745 (Fed. Cir. 1984); *J.P. Stevens & Co., Inc. v. Lex Tex Ltd.*, 747 F.2d 1553, 223 U.S.P.Q. 1089 (Fed. Cir. 1984); *Korody-Colyer Corp. v. General Motors Corp.*, 760 F.2d 1293, 225 U.S.P.Q. 1099 (Fed. Cir. 1985); *Argus Chemical Corp. v. Fibre Glass-Evercoat Co., Inc.*, 759 F.2d 10, 225 U.S.P.Q. 1110 (Fed. Cir. 1985); *Mathis v. Hydro Air Indus., Inc.*, Appeal No. 86-1181 (Fed. Cir. 1986); *Allied Tube & Conduct Corp. v. General Signal Corp.*, Appeal No. 85-2408 (Fed. Cir. 1986); *Gilbreth Int'l Corp. v. Lionel Leisure, Inc.*, Appeal No. 86-575 (Fed. Cir. 1986); *In re Jerabek*, 789 F.2d 886, 229 U.S.P.Q. 530 (Fed. Cir. 1986); *A.B. Dick Co. v. Burroughs Corp.*, 798 F.2d 1392, 230 U.S.P.Q. 849 (Fed. Cir. 1986); *Donaldson Co., Inc. v. Pneumafil Corp.*, Appeal No. 87-1039 (Fed. Cir. 1987); *Gardco Mfg. Inc. v. Herst Lighting Co.*, 820 F.2d 1209, 2 U.S.P.Q. 2d 2015 (Fed. Cir. 1987), and *Jaskiewiez v. Mossinghoff*, 822 F.2d 1053, 3 U.S.P.Q. 2d 1294 (Fed. Cir. 1987). For a brief discussion of the facts in each of these cases see, Dunner "Inequitable Conduct: Is the Sky Really Falling," 16 *AIPLA Quarterly Journal* 27 (1988).

[n.6] *Walker Process Equipment, Inc. v. Food Machinery and Chemical Corp.*, 382 U.S. 172, 147 U.S.P.Q. 404 (1965). In *Walker Process* the Supreme Court held that enforcement of a patent known to have been procured by fraud could lead to liability if all prerequisites under § 2 of the Sherman Act were shown.

[n.7] See, *Kimberly-Clark Corp. v. Johnson & Johnson*, 645 F.2d 1437, 1454, 223 U.S.P.Q. 603, 614 (Fed. Cir. 1984).

[n.8] *Akzo N.V. v. E.I. duPont deNemours*, 810 F.2d 1148, 1154, 1 U.S.P.Q. 2d 1704, 1709 (Fed. Cir. 1987).

[n.9] *Environmental Designs, Ltd. v. Union Oil Co. of California*, 713 F.2d 693, 698, 218 U.S.P.Q. 865, 870 (Fed. Cir. 1984).

[n.10] *Environmental Designs Ltd. v. Union Oil Co. of California*, 713 F.2d 693, 698, 218 U.S.P.Q. 865, 870 (Fed. Cir. 1984).

[n.11] *Norton v. Curtiss*, 433 F.2d 779, 793, 167 U.S.P.Q. 532, 543 (CCPA 1970).

[n.12] *A.B. Dick Co. v. Burroughs Corp.*, 798 F.2d 1392, 1397-98, 230 U.S.P.Q. 849, 854 (Fed. Cir. 1986).

[n.13] In a footnote the Court stated that as a general rule there is no duty to conduct a prior art search and thus there is no duty to disclose art of which an applicant simply "could" have been aware. However, the Court went on to warn that one should not be able to cultivate ignorance, or disregard numerous warnings that material information or prior art may exist, merely to avoid actual knowledge of that information.

[n.14]. See, *Dorsey v. Kingsland*, 173 F.2d 405, 406 (D.C. Cir.), rev'd on other grounds, 338 U.S. 318 (1949).

[n.15] *Gardco Mfg. Inc. v. Herst Lighting Co.*, 820 F.2d 1209, 1215, 2 U.S.P.Q. 2d 2015, 2020 (Fed. Cir. 1987).

[n.16] *Walker Process Equipment, Inc. v. Food Machinery & Chemical Corp.*, 382 U.S. 172, 147 U.S.P.Q. 404 (1965).

[n.17] *Argus Chemical Corp. v. Fibre Glass-Evercoat Co.*, 812 F.2d 1381, 1384, 1 U.S.P.Q. 2d 1971, 1973-1974 (Fed. Cir. 1987).

[n.18] See generally, Vol. 16, Issue No. 1, of the *AIPLA Quarterly Journal*, devoted to "The Duty of Candor Under Rule 56 and the Evolution of Proposed Rule 57."