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PATENT-RELATED MISCONDUCT ISSUES IN U.S. LITIGATION

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Patent-Related Misconduct Issues in U.S. Litigation

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Introduction

THIS BOOK ADDRESSES the wild cards of patent enforcement, that is, conduct issues—actions by a patent holder—that can defeat patent infringement liability or give rise to liability by the patent holder. The book encompasses not only issues of patent law but also other areas, such as antitrust claims against the patent holder and sanctions against either side in litigation.[1] Although the book deals primarily with defenses and counterclaims, it also covers declaratory judgment actions, standalone antitrust cases, and sanctions (fee) motions by either side.

This brief volume is intended as a survey, or guide, to the party considering patent litigation, whether as plaintiff or defendant, to the variety of conduct issues that can arise. The conduct issues described here encompass issues that can arise in patent procurement, patent-related litigation, or patent licensing. Accordingly, we intend it to be of use to, the patent prosecutor, or the business person concerned with patent licensing or deciding whether to seek patent protection. The patent professional may be familiar with issues that can give rise to invalidity or inequitable conduct claims but not be equally familiar with the misconduct issues that would concern the antitrust professional, and vice versa. The businessperson considering litigation may want an orientation to the risks that will arise in the litigation context. The book's focus is, however, on issues as they arise during court proceedings, and it assumes that the reader has the knowledge of a general litigator. As a survey, it is intended to give accurate and current legal citations but not to provide a treatise's compendium of relevant cases. The thrust of this book is practical. In addition to describing the framework of settled law, we discuss uncertainties and conflicts that we anticipate future case law will clarify. We do not, however, generally offer our own policy preferences. Since the first edition of this book, changes have been most dramatic in the statute and precedents that concern conduct issues under the Patent Act. While these changes attempt to cabin the effects of misconduct, they create new procedures and give rise to new uncertainties. We hope these pages provide a useful roadmap through the thicket.

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[1] *Patent holder may refer not* only to the patentee, but also to an assignee, or to an exclusive licensee authorized to enforce the patent.

The Leahy-Smith America Invents Act of 2011 ("America Invents Act" or "AIA") is the most comprehensive rewriting of the United States' patent laws since 1952. Among many other changes, relevant to the topic of this book, it converts the United States' patent law from a "first to invent" system to what has been called, with pardonable inaccuracy, a "first inventor to file" system.[2] The authors of the America Invents Act were clearly concerned with the costs to patentees of the conduct defenses that this book addressed in its first edition. Thus, while the Act maintains as a ground of patentability the requirement that the patent applicant disclose the best mode of practicing the invention, it eliminates the failure to disclose the best mode as an invalidity defense. The Act also institutes a new procedure for cleansing a patent of inequitable conduct that patentees will need to consider before initiating litigation. Some elements of the America Invents Act (such as the change in the law of best mode) apply to all issued patents, others only to patents issued after the effective date. The Act thus requires this book to have a dual focus both on the old law and the new.

Concurrently with this change in the statute, the exclusive court of appeals for patent cases, the Court of Appeals for the Federal Circuit, sitting en banc, reconsidered the judge-made doctrine of inequitable conduct.[3] Among other holdings, the court changed the law of the materiality of undisclosed information so that (at least absent egregious misconduct) information not disclosed to the U.S. Patent and Trademark Office during the patent application process would not be regarded as material unless but-for its nondisclosure, the Office would not have issued the patent. Like the changes made in the Patent Act, this change in a judge made defense primarily affects Part I of this volume, the section concerned with conduct during patent procurement. However, before this change in the inequitable conduct doctrine of materiality, litigation of inequitable conduct defenses had limited relevance to antitrust claims, since under the *Walker Process* doctrine misconduct before the Patent Office gave rise to an antitrust claim only if the patent was fraudulently procured. The new but-for materiality standard for inequitable conduct brings these doctrines closer and thus requires new consideration as this volume treats antitrust issues in patent cases as well.

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[2] See H. Rep. 112-98, at 40, 64 (2011); AIA, §§ 3(0), (p), 125 Stat. 293 (sense of Congress to adopt first inventor to file system; *See also, e.g., Brookings Policy Brief #184* September 2011). http://www.brookings.edu/research/ papers/2011/09/patents-villasenor (as of May 25, 2011) (discussing exceptions to first inventor to file principle).

[3] *Therasense, Inc. v. Becton, Dicknson and Co.*, 649 F.3d 1276 (Fed. Cir. 2011) (en banc).

§ 0.01 Basic Issues: Infringement, Novelty

The basic defense in patent infringement litigation is noninfringement, that is, the asserted patent claims, properly construed, do not read on the accused product or process. As to this issue, the plaintiff has the burden of proof, by a preponderance of the evidence. The most common affirmative defense in such cases is that the patent is not valid, either because the invention was not novel,[4] was obvious,[5] or was otherwise unpatentable.[6] Invalidity defenses can involve issues of patent applicant conduct, as when the patent does not adequately disclose the invention or name the correct inventors or when the patentee's own invention becomes prior art because the applicant has exploited the invention too long before seeking patent protection. As to these issues, defendant has the burden of proof. That burden is set high ("clear and convincing evidence") because granted patents benefit from a presumption that the United States Patent and Trademark Office (PTO) acted correctly.[7]

§ 0.02 Bad Conduct Issues

The wild cards in patent litigation are bad conduct allegations. For a firm anticipating or facing infringement charges, establishing bad conduct by the patentee or patent holder or enforcer can accomplish two things. First, proof of laches or estoppel, inequitable conduct, or misuse will allow the defendant to prevail even though the patent may be both valid and infringed. Second, as will be discussed, allegations that the plaintiff sued on an invalid or unenforceable patent, or possessed little or no proof of infringement, will not only allow the defendant to prevail but may well shift the risks or costs of the litigation. Normally, in U. S. litigation, each side bears its own fees and costs. On the other hand, if the defendant can show that the plaintiff should have known that the patent was invalid, unenforceable, or not infringed, such defendant can go beyond the American rule and win an award of fees and costs that perhaps will even be multiplied if antitrust law is implicated. Conversely, if a clearly meritorious infringement suit is delayed and made extra costly by recalcitrance and the assertion of frivolous defenses, fees and costs may be awarded to the prevailing patent holder.

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[4] 35 U.S.C. § 102.

[5] 35 U.S.C. § 103.

[6] *See* 35 U.S.C. §§ 101 (nonstatutory subject matter, lacks utility), and 112 (claims not enabled, claims lack written description, claims indefinite).

[7] 35 U.S.C. § 282(a); *See Microsoft Corp. v. I4I Limited Partnership*, 131 S.Ct. 2238 (2011).

§ 0.03 Offensive Use of Bad Conduct Contentions

A conduct *defense* can sometimes be asserted offensively, among other ways, by filing a declaratory judgment action against the patent holder alleging invalidity based on certain types of bad conduct. Doing this has been made easier by the U.S. Supreme Court's *MedImmune*[8] decision, which holds that a firm may take a license on a patent and still have standing to attack the patent's validity by means of a declaratory judgment action.

Also, patentee misconduct can be asserted as a basis for counterclaims or separate damage actions. Such counterclaims or such separate suits usually involve allegations of antitrust law violation but can include tort claims such as tortious interference or defamation, and on rare facts, Racketeer Influenced and Corruption Organizations Act (RICO) claims.

In sum, successful assertion of a conduct defense, claim, or counterclaim can bring three levels of reward to an accused infringer: (1) Any such defense, if successful, brings the defendant legal peace and perhaps legal security. The alleged infringement is excused and/or need not be defended; (2) In cases in which the conduct is egregiously bad, the reward for prevailing may be not only defeat of the claim but also an award of the costs of defense, including attorney's fees. Such award is usually granted under the Patent Act, 35 U.S.C. § 285. Requests for fee awards are only proper after the movant has prevailed on the merits, and thus are neither defenses nor counterclaims; (3) In cases in which the bad conduct is proved to have been aimed at the likely monopolization of the product or service market covered by the patent and its substitutes, the successful defendant is deemed to be a benefactor to the consuming public under the antitrust laws, and is awarded three times its damages, including its cost of defense, plus the fees and costs involved in asserting the antitrust claim.[9] Successful RICO claims would also entitle defendant to treble damages, but court rulings have made this defense difficult to invoke in patent litigation.[10]

§ 0.04 Degrees of Fault and Their Consequences

As will be demonstrated in subsequent chapters, the various levels of sanctions force trial judges and appellate courts to seek to define subtle gradations of fault. For instance, an unexplained failure to cite a relevant reference may be deemed so lacking in fault that no sanction is appropriate.

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[8] *MedImmune v. Genentech*, 549 U.S. 118, 137 (2007).

[9] Clayton Act § 4.

[10] *See* Chapter 10, "E. RICO Claims or Counterclaims," *infra.*

If the omission is intentional and material to obtaining a patent, inequitable conduct may be found, leading to unenforceability and the loss of an infringement suit. Such inequitable conduct can justify a finding that the lawsuit based on that patent was recklessly brought, leading to a shifting of legal fees to the losing plaintiffs.

The courts must weigh whether the inequitable conduct caused the bringing of the infringement suit to be egregiously unwarranted. Deciding factors might be whether the crucial facts about the conduct were frankly admitted during the litigation or were elicited only due to pressure from the defendant. Lastly, it must be determined whether (1) the omission or commission amounts to the fraudulent obtaining of a market-dominating patent and thus an undeserved monopoly; or (2) the patent was used as an instrument of illegal monopolization or cartelization. Either justifies an award to an injured rival of treble damages, including defense costs, under antitrust law standards, specifically, the Sherman and Clayton Acts.

Conduct defenses comprise virtually all affirmative defenses that can be asserted by an accused infringer, except, as noted above, the defenses that the patent is invalid as anticipated or obvious. It is the thesis of this book that conduct defenses or counterclaims raise issues that, for ease of review, can be grouped into three broad categories of conduct: (1) in the patenting process, (2) during patent litigation, (3) in the licensing or exploiting of the invention. In regard to each category, this book will first set out the conduct standards and then examine procedural and evidentiary issues relating to when and how the issue can be raised and resolved. Final sections of each chapter will deal with tactics and strategy.

At the trial level, patent cases are triable in any federal district court. The aberration is that plaintiffs favor "rocket dockets" and/or districts with trial judges known for patent law expertise.[11] These have included the Eastern District of Virginia, the Eastern District of Texas, the District of Delaware, and the Western District of Wisconsin. However, attitudes, personnel, and practicalities change over time. Forum shopping remains important.

Patent plaintiffs can utilize the prompt procedure and broad, *in rem* relief granted to the U.S. International Trade Commission (ITC) by Section 337 of the Tariff Act. However, to invoke ITC remedies, patent holders must show that a domestic industry in the patented product or process exists or is in the process of coming into existence, through such actions as the patentee's

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[11] Cono A. Carrano, Cecil E. Key & Brian Su, *Rocket Dockets: Coming Soon to a Venue Near You?*, INTELL. PROP. TODAY, 10 (December 2006).

investment in plant and equipment, employment, research and development, or licensing.[12] Parallel ITC and district court proceedings are allowed, since the ITC cannot grant damages and the district court cannot issue injunctions against importation of classes of merchandise.[13] Thus, this book will discuss ITC cases and strategies.

All appeals of district court, ITC, and PTO patent rulings since 1981 are channeled by law to the Court of Appeals for the Federal Circuit (Federal Circuit).[14] The Federal Circuit will defer to the antitrust jurisprudence of the circuit in which a mixed patent-antitrust case originated, unless proper resolution of the issue is viewed as crucial to sound patent law and policy.[15]

We now examine the three types of conduct issues, in turn, in the following sections.

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[12] *See* 19 U.S.C. § 1337(a)(2), (3), discussed *in John Mezzalingua Assocs., Inc. v. U.S. International Trade Comm'n*, 660 F.2d 1322 (Fed. Cir. 2011).

[13] See 19 U.S.C. §§ 1337 (c), (f), (l).

[14] The Supreme Court *in Holmes Group, Inc. v. Vornado Air Circulation Systems, Inc.*, 535 U.S. 826 (2002) had held that the Federal Circuit's jurisdiction did not extend to appeals from cases in which a claim sounding in patent law is pleaded as a counterclaim, but none appears in the plaintiff's well-pleaded complaint. The America Invents Act remedies that exception by amending 28 U.S. C. § 1295 (a)(1) to extend the court's appellate jurisdiction to "any civil action in which a party has asserted a compulsory counterclaim arising under any Act of Congress relating to patents or plant variety protection." AIA.

[15] *See* Chapter 11, "D. Choice of Law," *infra.*

I

Conduct Issues Arising Out of Incorrect Preparation or Prosecution of Patent Applications

THE PATENT ACT makes a wide range of failures in the prosecution of patent applications grounds for defense to allegations of patent infringement. Having established, inter alia, in its first paragraph that a patent is entitled to a presumption of validity, the second paragraph of 3 U.S.C. § 281 (recodified in the AIA as 281(a) and (b) respectively) sets forth the grounds of defense. Among these grounds of defense are several that will be the subject of this chapter: unenforceability, specified in § 281(a)(1); any of the conditions of patentability 35 U.S.C. Part II, in § 281(2); and failure to meet the requirements of 35 U.S.C. § 112 except for its best mode requirement, in § 281(3). The courts have long held that the conditions of patentability to which § 281(2) refers are "utility and eligibility [under § 101], novelty [under § 102], and nonobviousness [under § 103] are the only so-called conditions for patentability."[1]

The Federal Circuit has held both that there are some defenses arising from actions before the PTO that are not enumerated in section 282,[2] and that other missteps not enumerated do not constitute a defense.[3] Nevertheless, much of patent litigation centers around allegations of missteps by the patent applicant that section 282 makes defenses to infringement liability. Recent changes in the statute and case law have sought to ameliorate some of those issues. Many, however, remain and even the changes in law will be the source of dispute in court for many years.

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[1] *Aristocrat Technologies Australia Pty Ltd. v. International Game Technology,* 543 F.3d 657, 662 (2008), *cert. denied,* 129 S.Ct. 2791 (2009), relying on *Graham v. John Deere*, 383 U.S. 1, 12 (1962).

[2] *Quantum Corp. v. Rodime, PLC,* 65 F.3d 1577 (Fed. Cir. 1995) (improper broadening of claims in reexamination contrary to 35 U.S.C. § 305).

[3] *Aristocrat Technologies,* 543 F.3d at 662–64 (2008) (improper revival of abandoned application, absent inequitable conduct, does not constitute ground for invalidity defense).