

September 3, 2009

The Federal Circuit Addresses Pleading Requirements for Inequitable Conduct

Exergen Corp. v. Wal-Mart Stores, Inc., ___ F.3d ___, Nos. 2006-1491, 2007-1180 (Fed. Cir. Aug. 4, 2009)

On August 4, 2009, the Federal Circuit reversed the jury's finding that the defendant, SAAT, willfully infringed Exergen's patents and affirmed the district court's denial of defendant's motion for leave to allege inequitable conduct because the district court correctly held that SAAT's proposed allegation of inequitable conduct failed to satisfy the pleading requirement of Federal Rule of Civil Procedure 9(b). The focus of this summary is on the requirements for a successful pleading of inequitable conduct.

Rule 9(b) states that "[i]n alleging fraud or mistake, a party must state with particularity the circumstances constituting fraud or mistake" and that "[m]alice, intent, knowledge, and other conditions of a person's mind may be alleged generally." Accordingly, the Federal Circuit held that "a pleading that simply avers the substantive elements of inequitable conduct, without setting forth the particularized factual bases of the allegation, does not satisfy Rule 9(b)" and that "Rule 9(b) requires identification of the specific who, what, when, where, and how of the material misrepresentation or omission before the U.S. Patent & Trademark Office." The Federal Circuit further explained that "the pleadings must allege sufficient underlying facts from which a court may reasonably infer that a party acted with the requisite state of mind, although 'knowledge' and 'intent' may be averred generally."

First, the Federal Circuit found that the defendant's pleading failed to identify the "who" of the material omission and misrepresentation, because it only referred generally to "Exergen, its agents and/or attorneys" and did not name the specific individual "associated with the filing or prosecution of the application issuing as the patent, who both knew of the material information and deliberately withheld or misrepresented it." Second, the Federal Circuit found that the pleading also failed to identify the "what" and "where" of the material omissions because the pleading did not state "which claims and which limitations in those claims, the withheld references were relevant to, and where in those references the material information was found." Third, the Federal Circuit held that the pleading failed to explain both "why the withheld information was material and not cumulative" and "how an examiner would have used this information in assessing the patentability of the claims" because the pleading only generally stated that "the withheld references were material and not cumulative to the information already of record."

Moreover, the Federal Circuit found that the pleading did not allege facts that gave rise to a reasonable inference of scienter, including both knowledge of the withheld material information and specific intent to deceive the U.S. Patent & Trademark Office. The court explained that the defendant's pleading not only failed to identify any specific individual who owed a duty of disclosure but deliberately withheld

information, but also failed to disclose the information that was withheld and its materiality to patentability; the pleading only generally asserted that “Exergen was aware of the references” and that “Exergen had become aware of them during prosecution of Exergen’s own prior applications.” The court stated that “one cannot assume that an individual, who generally knew that a reference existed, also knew of the specific material information contained in that reference.”

Furthermore the court explained that “pleading based 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.” However, in this case, the defendant’s pleading provided “neither the ‘information’ on which it relied nor any plausible reasons for its ‘belief.’” In addition, the court held that the circumstances that the defendant alleged, “even if true, do not plausibly suggest any ‘deliberate decision to withhold a known material reference’ or to make a knowingly false misrepresentation—a necessary predicate for inferring deceptive intent.” The court further explained that “the mere fact that an applicant disclosed a reference during prosecution of one application, but did not disclose it during prosecution of a related application, is insufficient to meet the threshold level of deceptive intent required to support an allegation of inequitable conduct.”

In summary, this case illustrates that to successfully plead inequitable conduct as a defense, the pleading must identify the specific who, what, when, where, and how of the material misrepresentation or omission committed before the U.S. Patent & Trademark Office.

A copy of the opinion may be found at <http://www.cafc.uscourts.gov/opinions/06-1491.pdf>.

An IP Update from the U.S. District Court for the Eastern District of Texas

There have been three recent interesting decisions in the Eastern District of Texas. First, the Texas courts addressed issues of indefiniteness in means-plus-function claims. Second, parties and their attorneys were strongly reminded of the consequences of violating a court’s order during trial. Third, confirming that a jury was correct in relying on an internal email stating that Microsoft would make the patentee’s technology “obsolete,” the court affirmed a \$200 million award for damages, found willfulness, and issued an injunction against Microsoft’s Word products.

1. In *Typhoon Touch Technologies, Inc. v. Dell, Inc.*, No. 6:07cv546, 2009 WL 2243126 (E.D. Tex. July 23, 2009), Judge Davis granted Dell’s motion for summary judgment that certain means plus function language was indefinite. In so ruling, Judge Davis explained that when the “claimed structure is a computer, a degree of specificity is required beyond merely disclosing a computer.” The patentee must also disclose the algorithm used by such a computer to perform the claimed function. The same analysis was also applied to the term “portable processing means” in the Southern District of Texas, which was also held indefinite. See *Brown v. Baylor Health Care System*, No. H-08-0372, 2009 WL 2170050 (S.D. Tex. July 20, 2009).
2. *O2 Micro International Ltd. v. Beyond Innovation Technology*, No. 2:04cv-32, 2009 WL 2047617 (E.D. Tex. July 10, 2009), is highly instructive on the importance of following court orders. The plaintiff is registered as a corporation in the Cayman Islands. Before trial, Judge Everingham ordered that the defendants, including the defendant BiTEK, could not say that the plaintiff was registered in the Cayman Islands because of tax purposes. During voir dire (the jury-selection process), BiTEK’s attorney asked the jury panel: “Are there any of you who have a problem with a company that puts its headquarters offshore on a Caribbean island in order to avoid paying U.S. taxes?” The court rejected an argument that defendant’s counsel made that it was a mere hypothetical question, and the court found that sanctions should be imposed on BiTEK. Among other sanctions, the court ordered

that plaintiff could have a separate new trial against the defendant BiTEK alone (without the other co-defendants), in which the new jury would be told that the defendant had violated the court's order, which resulted in the new trial, and the defendant would not be entitled to call an expert witness on the issue of infringement.

3. In *i4i Limited Partnership v. Microsoft Corp.*, No. 6:07cv113, 2009 WL 2449024 (E.D. Tex. Aug. 11, 2009), a Canadian company, i4i, Inc., won a landmark ruling against Microsoft for infringement of i4i's patent related to processing and storing content and metacodes. Judge Davis (1) affirmed a jury verdict that awarded i4i \$200 million in damages, (2) awarded \$40 million in willfulness damages, (3) awarded \$37 million in prejudgment interest, and (4) issued a permanent injunction against future sales of Microsoft's Word 2003 and Word 2007 products that are capable of opening custom XML files. i4i presented the jury with an internal Microsoft email that identified i4i and the asserted patent, and included a statement that Word would make i4i's technology "obsolete." The court held that the email was legally sufficient evidence for the jury's contributory and induced infringement findings. The court also held that this email was particularly important evidence supporting the willfulness finding, because it confirmed that Microsoft was aware of the asserted patent and the patent's relationship with i4i's products, and that Microsoft intended to implement similar capabilities in Word. In issuing the injunction, the court found that the infringing technology was one of thousands of features in Word, and as issued, would have little effect, if any, on the daily operations of Microsoft's current customers.

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