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Higher Pleading Standard For Inequitable Conduct

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Law360, New York (September 21, 2009) -- The Federal Circuit recently articulated a high standard for pleading inequitable conduct in *Exergen Corp. v. Wal-Mart Stores Inc.*, when it affirmed a district court's decision denying a defendant's motion to add an inequitable conduct defense.[1]

While it is well-settled that allegations of fraud — such as inequitable conduct — must be pled with particularity pursuant to Federal Rule of Civil Procedure 9(b), the *Exergen* court's application of that law to the facts demonstrates that the level of particularity for pleading inequitable conduct is very high.

The District Court Denied SAAT's Motion to Amend

In its proposed amended pleading, the defendant, SAAT, articulated three specific instances of alleged inequitable conduct during the prosecution of the '685 patent-in-suit:

- 1) Exergen's previously filed '808 patent was material and not cumulative and intentionally withheld during prosecution with an intent to deceive;
- 2) the '998 patent cited in an IDS during the prosecution of a different Exergen patent — the '205 patent — was material and not cumulative and intentionally withheld with an intent to deceive; and
- 3) Exergen's statements to overcome rejections during prosecution were contradicted by specific statements from its own website, and the misrepresentation and omission was material and not cumulative and was made with an intent to deceive.[2]

The district court denied SAAT's motion to amend because SAAT failed to plead fraud with particularity pursuant to Federal Rule of Civil Procedure 9(b).[3]

The Federal Circuit Wants to Know Who, What, Where, When, Why and How

On appeal, the Federal Circuit first recognized that whether inequitable conduct is pled with particularity is governed by Federal Circuit law and that, pursuant to Rule 9(b), allegations of fraud must be stated with particularity, while conditions of mind may be averred generally.[4]

The court then explained that to plead the circumstances of inequitable conduct with the requisite particularity, the pleading must identify the “who, what, where, when, and how” of the material

misrepresentation or omission.[5]

It also asserted that while knowledge and specific intent to deceive may be averred generally, the pleading must “include sufficient allegations of underlying facts from which a court may reasonably infer that a specific individual (1) knew of the withheld material information or of the falsity of the material misrepresentation, and (2) withheld or misrepresented this information with a specific intent to deceive the PTO.”[6]

Considering the specific facts of the case, the court concluded that SAAT failed to properly identify the who, what, where, why and how of the representation and omissions and thus failed to plead inequitable conduct with the required specificity.

With respect to “who,” the court explained that the pleading referred generally to “Exergen, its agents and/or attorneys,” but failed to name the specific individual associated with the filing or prosecution of the application who both knew of the material information and deliberately withheld or misrepresented it.[7]

With respect to the “what” and “where,” the court explained that the pleading failed to identify which claims, and which limitations in those claims, the withheld references were relevant to, and where in those references the material information was found.[8]

With respect to the “why” and “how,” the court asserted that the pleading stated generally that the withheld references were “material” and “not cumulative to the information already of record,” but did not identify the particular claim limitations, or combination of claim limitations, that were absent from the prior art in the record.[9]

The court explained that such allegations are necessary to explain “why” the withheld information is material and not cumulative and “how” an examiner would have used it in assessing the patentability of the claims.[10]

The court also concluded that the facts that alleged did not give rise to a reasonable inference of intent to deceive.[11]

With respect to the prior art references, the court asserted that the pleading provided no factual basis to infer that any specific individual who owed a duty of disclosure knew of the allegedly material information in the references.[12]

The court explained that a reference may be many pages long with teachings relevant to different applications for different reasons, so “one cannot assume that an individual, who generally knew that a reference existed, also knew of the specific material information contained in that reference.”[13]

With respect to the alleged misrepresentation, the court asserted that no facts were alleged from which one could reasonably infer that, at the time of the allegedly false statement, the individual who made the statement to the PTO was aware of an allegedly contradictory statement on Exergen’s Web site.[14]

The court concluded 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.”[15]

Meet Rule 9(b)’s Pleading Requirements by Giving Sufficient Detail

The Exergen court's detailed discussion of the Rule 9(b) pleading requirements for inequitable conduct provide both a reason for district courts to deny motions to amend and a roadmap for alleged infringers to follow when pleading inequitable conduct.

If a party sufficiently sets forth the "who" (e.g. the name of the specific individual who knew of the material and deliberately withheld or misrepresented it), "what" (that is, what claims and what limitations in those claims), "where" (where in the withheld prior art references the material information was found), "why" (why the withheld information is material and not cumulative) and "how" (how an examiner would have used it in assessing the patentability of the claims), its inequitable conduct pleading should be sufficient.

In its opinion, the court also suggests that a party should set forth "when," but does not elaborate on this element. If the party sets forth a time that the conduct occurred, it seems this element should be met as well.

As many patent litigators will agree, inequitable conduct pleadings do not generally set forth the detail demanded in Exergen. From the facts of the Exergen case, it seems that SAAT could have met this standard with a more detailed pleading. But it appears that SAAT did not attempt to re-plead the claim it with more detail.

In many cases it will be difficult to meet the pleading standard set forth in Exergen at the beginning of the case before any discovery, which is why some courts (such as the District of Minnesota[16]) may allow a party to engage in discovery related to a defense of inequitable conduct without pleading the defense first.

The Exergen court was reviewing the district court's denial of a motion to amend a pleading — something it reviews for an abuse of discretion.

Thus, this opinion appears to give district courts broader leeway in denying motions to amend when they have inequitable conduct defenses.

But if a district court allows a party's inequitable conduct claim, the Exergen case should have no impact on the ultimate viability of the claim.

The takeaway from the Exergen case is simple: make sure your inequitable conduct defense is pleaded with sufficient detail. If your claim sets forth who, what, where, when, why and how, you should not have any issues with the procedural pleading requirements. Proving your claim may be another matter.

--By Rachel Clark Hughey, [Merchant & Gould](#) PC

Rachel Clark Hughey is an associate with Merchant & Gould in the firm's Minneapolis office and a former law clerk to the Honorable Alvin A. Schall of the United States Court of Appeals for the Federal Circuit.

The opinions expressed are those of the author and do not necessarily reflect the views of Portfolio Media, publisher of Law360.

[1] Exergen Corp. v. Wal-Mart Stores Inc., Nos. 06-1491, 07-1180, slip op. at 9 (Fed. Cir. Aug. 4, 2009).

[2] Id. at 19-20.

[3] Id. at 3.

[4] Id. at 19-22.

[5] Id. at 24.

[6] Id. at 24-25.

[7] Id. at 25.

[8] Id. at 26.

[9] Id.

[10] Id.

[11] Id. at 27.

[12] Id.

[13] Id.

[14] Id. at 28.

[15] Id. at 29.

[16] See D. Minn. Local Rules Form 4 & 2005 Advisory Committee's Note to Rule 16.2 and Forms 4 and 5.



TODAY'S LAW NEWS



Supreme Court Braces For Bilski Battle

In a case that has captured widespread attention and fueled a debate over whether methods made by the software, medical and financial services industries are patentable, the U.S. Supreme Court is preparing to hear oral arguments in the Bilski matter on Monday.

Rothstein Rosenfeldt Sues Partner Over Ponzi Scheme

South Florida firm Rothstein Rosenfeldt Adler PA appears to have come undone after equity partner Stuart A. Rosenfeldt filed a suit strongly suggesting the firm's other principal — political impresario and local celebrity Scott W. Rothstein — is engulfed in a multimillion-dollar Ponzi scandal.

Winston & Strawn Again Defers Associate Start Date

Winston & Strawn LLP has reportedly pushed back the start date for incoming associates again, citing budget concerns in its decision to have new associates start in three groups throughout 2010.

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