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THE INEQUITIES OF INEQUITABLE CONDUCT: A CASE STUDY OF JUDICIAL CONTROL OF ADMINISTRATIVE PROCESS

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ABSTRACT

The current doctrine of inequitable conduct creates a highly unusual relationship between the courts and the executive agency charged with administering the patent system. In other fields of administrative law, courts do not attempt to regulate the conduct of administrative proceedings through their inherent judicial powers. Such judicial regulation of administrative process is, however, precisely what the inequitable conduct doctrine fosters. This Article shows that the modern scope of inequitable conduct doctrine traces back not to the trilogy of Supreme Court decisions typically cited as the doctrine's foundation but instead to lower court precedent decided decades later during an era in which lower courts generally assumed that judges could and should exercise nonstatutory powers to supervise administrative process. That approach to judicial supervision of agencies was, however, firmly rejected by the Supreme Court's 1978 *Vermont Yankee* decision. The current scope of inequitable conduct doctrine is a case study in the approach rejected by the Supreme Court, and that case study demonstrates that many of the problems observed with inequitable conduct doctrine are precisely those predicted by the Supreme Court in *Vermont Yankee*. This Article concludes that inequitable conduct doctrine should be modified to reconcile its scope with modern principles of administrative law.

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TABLE OF CONTENTS

I. INTRODUCTION

Under current lower court case law, patent law's "inequitable conduct" doctrine allows courts to refuse all enforcement of otherwise valid patents based on a judicial determination that some administrative misconduct occurred in the prosecution of the patent. The current sweep of the doctrine suffers from numerous weaknesses that remain unaddressed even as the doctrine has, to some degree, been limited by the Federal Circuit's en banc decision in *Therasense, Inc. v. Becton, Dickinson & Co.*[1]

Among its other difficulties, the doctrine is inconsistent with historical practice, for nineteenth century law quite clearly barred private parties from seeking judicial relief based on allegations of fraud in the Patent Office.[2] Moreover, the sole Supreme Court precedent supporting the doctrine—the Court's 1945 decision in *Precision Instrument Manufacturing Co. v. Automotive Maintenance Machinery Co.*—recognized a defense

1. *See* Therasense, Inc. v. Becton, Dickinson & Co., 649 F.3d 1276, 1290 (Fed. Cir. 2011) (en banc) (requiring a showing, supported by clear and convincing evidence, that the patentee's intent to deceive was knowing and deliberate).

2. 2 WILLIAM C. ROBINSON, THE LAW OF PATENTS FOR USEFUL INVENTIONS § 717, at 458 (1890) (explaining that procurement by fraud was not a defense to an infringement action); *see also infra* Part II.

only to "the maintenance of this suit in equity,"[3] but the doctrine is now applied without regard to the traditional distinction between law and equity.[4]

Precision Instrument also recognized the doctrine only as a punishment for a patentee who failed to observe "minimum ethical standards," and in that case the patentee had engaged in truly extraordinary behavior—specifically, obtaining another applicant's patent rights through blackmail.[5] By contrast, modern lower court case law allows inequitable conduct to be based merely on intentional omissions of material information in disclosures to the Patent and Trademark Office (PTO), with the concepts of "intent" and "materiality" defined by judicial standards that have varied widely over the years.[6] The doctrine is also deeply troubling as an optimal enforcement strategy, for the key punishment associated with inequitable conduct—denying any enforcement of patent rights—typically has an inverse incremental relationship with the seriousness of the offense. This is so because the punishment imposes

3. Precision Instrument Mfg. Co. v. Auto. Maint. Mach. Co., 324 U.S. 806, 819 (1945); *see* Allan Bullwinkel, Comment, *Specifically Fighting Inequitable Conduct*, 48 HOUS. L. REV. 349, 354 (2011) (noting that the Supreme Court did not recognize inequitable conduct until *Precision Instrument*).

4. *See, e.g.*, Avid Identification Sys. v. Crystal Imp. Corp., 603 F.3d 967 (Fed. Cir. 2010) (applying the inequitable conduct doctrine as a defense even though the underlying claim of patent infringement was tried to a jury as a purely legal, not equitable, claim for money damages and the defense resulted in the court setting aside the jury's verdict). This Article will only note, but not attempt to resolve, the issue of whether an equitable defense such as "unclean hands" (which is the historical basis for the inequitable conduct doctrine) may be asserted in a modern action at law. *See, e.g.*, T. Leigh Anenson, *Beyond Chafee: A Process-Based Theory of Unclean Hands*, 47 AM. BUS. L.J. 509, 515 (2010) (noting that, in applying the unclean hands doctrine, some but not all courts continue to respect the traditional distinction between law and equity). In its 2013 term, the Supreme Court is likely to provide some insight into that issue as it decides whether an action at law for copyright infringement (which seeks money damages) is subject to the equitable defense of "laches." *See* Petrella v. Metro-Goldwyn-Mayer, Inc., No. 12-1315, 2013 WL 5430494 (U.S. Oct. 1, 2013) (order granting certiorari); Petition for a Writ of Certiorari at i, Petrella v. Metro-Goldwyn-Mayer, Inc., No. 12-1315 (U.S. *cert. granted* Oct. 1, 2013), *available at* http://sblog.s3.amazonaws.com/wp-content/uploads/2013/08/Petrella-v-MGM-filed-cert-petn-w-app.pdf ("The question presented is: Whether the nonstatutory defense of laches is available without restriction to bar all remedies for civil copyright claims filed within the three-year statute of limitations prescribed by Congress, 17 U.S.C. § 507(b)."). If the Supreme Court rules in favor of the petitioner in *Petrella*, that decision could cast doubt on the continuing practice of allowing inequitable conduct to be a defense to infringement actions tried at law.

5. *See Precision Instrument*, 324 U.S. at 816–19 (discussing how, rather than disclosing its proof of the inventor's fraud, the eventual patent holder used that proof to pressure the inventor into a settlement that assigned away all his patent rights).

6. *See, e.g.*, *Therasense*, 649 F.3d at 1287 (noting that, under Federal Circuit precedent, "the standards for intent to deceive and materiality have fluctuated over time"); *id.* at 1287–88 (discussing the variable standards for intent); *id.* at 1294 (discussing the multiple judicial standards used to determine materiality).

incrementally less hardship the more the applicant's patent rights were based solely on lies and thus would be invalid anyway.[7]

The most serious theoretical problem is not, however, the doctrine's lack of historical foundation, its weak basis in Supreme Court precedent, or its poorly calibrated punishment structure. It is instead the highly unusual institutional relationship that the doctrine creates between courts and the agency charged with administering the patent system. In every other field of administrative law, it is assumed that courts cannot rely on nonstatutory, inherent judicial power to regulate the conduct of administrative proceedings,[8] but such regulation is precisely what the inequitable conduct doctrine not only permits but fosters. Patent law is thus radically different on this point as compared to standard, modern administrative law.

Yet despite the divergence between current inequitable conduct doctrine and modern administrative law, the doctrine in fact owes a great debt to administrative law—just not *modern* administrative law. Inequitable conduct as it exists today has its foundations not in 1940s Supreme Court precedent, but in 1970s decisions from the lower courts. In that era, one highly respected—perhaps even dominant—view in administrative law was that courts should give the most scrutiny not to the substance and reasoning of administrative decisions, but to the *process* by which agencies reached those decisions. This vision of the relationship between courts and agencies was most

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7. *See* Tun-Jen Chiang, *The Upside-Down Inequitable Conduct Defense*, 107 NW. U. L. REV. 1243, 1251 (2013) (recognizing that "contrary to conventional wisdom, the unenforceability penalty is not severe in one critical class of cases: cases where the patent is invalid" and noting that, "in the cases with the highest culpability, the punishment and deterrence is weakest"). Professor Chiang is correct in observing that punishment for inequitable conduct declines in serious cases of fraud, but he goes too far in asserting that punishment structure "is like saying that murderers (the worst criminals) get the least prison time." *Id.*; *see also id.* at 1257 (also overstating the point by comparing inequitable conduct's punishment structure to "a criminal sentencing regime where murderers are let go and jaywalkers are executed"). Under current inequitable conduct doctrine as it is applied in the lower courts, truly bad actors do not receive *less* punishment than less culpable actors. Rather, the doctrine metes out the same punishment to everyone. That punishment, however, means less to bad actors because it overlaps with other legal remedies. Thus, the key problem with the punishment structure of inequitable conduct is that, given the other legal doctrines, the *incremental* punishment for inequitable conduct declines with the seriousness of the offense. A good analogy would be a system that requires the forfeiture of the automobile being driven by any motorist who commits an offense related to that automobile. Such a system imposes the same punishment on the carjacker as on the speeder, but obviously the punishment means more to the speeder (who otherwise would be entitled to keep the car) than to the carjacker (who otherwise would lose the car in an action by the true owner).

8. *See infra* Part V.

prominently advocated (and embraced) by Judge David Bazelon of the D.C. Circuit,[9] and it was a widely respected view supported by academics and by other judges (including, most likely, a majority of judges on the D.C. Circuit).[10]

Modern inequitable conduct doctrine—with its willingness to regulate the conduct and process that *should* occur at the administrative level—traces back to this era, beginning with the influential decision of the Court of Customs and Patent Appeals in *Norton v. Curtiss*.[11] That case rebuked the Commissioner of Patents for having unduly "narrowed" the concept of fraud in deciding whether to punish a patent applicant for misconduct before the agency.[12] *Norton v. Curtiss* was soon followed by other lower courts, and soon a flood of litigation was generated by the judicial rejection of the agency's narrow conception of sanctionable misconduct.[13]

Under standard modern administrative law, a decision such as *Norton v. Curtiss* would be inconceivable today, but it was not so in the first half of the 1970s. At that time, Judge Bazelon's views represented cutting-edge administrative law, and he, his fellow D.C. Circuit judges, and judges from other courts were embarking on a theoretically interesting experiment in which judicial review of administrative action would focus on the processes afforded at the administrative level. In that era, the doctrine of inequitable conduct (as it is known today) fit comfortably in standard administrative law. But that era was

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9. Ronald J. Krotoszynski, Jr., *"History Belongs to the Winners": The Bazelon-Leventhal Debate and the Continuing Relevance of the Process/Substance Dichotomy in Judicial Review of Agency Action*, 58 ADMIN. L. REV. 995, 999–1002 (2006) (detailing Judge Bazelon's "process-based review").

10. *See* Antonin Scalia, *Vermont Yankee: The APA, the D.C. Circuit, and the Supreme Court*, 1978 SUP. CT. REV. 345, 348 & n.13 (discussing the various D.C. Circuit decisions establishing precedent for judicial supervision of agency procedures and noting that the basic developments in those cases "received the explicit support of most of the [D.C. Circuit's] members"); *id.* at 366 (noting that the D.C. Circuit's approach of permitting judicial supervision of agency process was, during the mid-1970s "fast becoming an accepted part of administrative law theory and practice" and, moreover, was being accepted by federal agencies and embraced by "the academic community").

11. *See* Norton v. Curtiss, 433 F.2d 779, 795–96 (C.C.P.A. 1970) (engaging in an examination of the conduct and process that occurred at the administrative level); *see also* Thomas L. Irving et al., *The Evolution of Intent: A Review of Patent Law Cases Invoking the Doctrine of Inequitable Conduct from* Precision *to* Exergen, 35 U. DAYTON L. REV. 303, 313 (2010) (describing *Norton* as "a watershed case expanding the doctrine of inequitable conduct"); Charles M. McMahon, *Intent to Commit Fraud on the USPTO: Is Mere Negligence Once Again Inequitable?*, 27 AIPLA Q.J. 49, 56 (1999) (also concluding that "[t]he more modern era of inequitable conduct began with the [court's] decision in *Norton v. Curtiss*").

12. *Norton*, 433 F.2d at 796.

13. *See infra* Part IV.

before Judge Bazelon's vision was resoundingly rejected by the Supreme Court in *Vermont Yankee Nuclear Power Corp. v. Natural Resources Defense Council, Inc.*[14] And it was long before the Court's holding in *ABF Freight System, Inc. v. NLRB*, which held that, in at least some circumstances, the courts must respect, and indeed help to enforce, an administrative order granting relief to a party despite that party's own perjury at the administrative level.[15]

Today's divergence between standard administrative law and inequitable conduct doctrine arose because administrative law changed, and changed dramatically, in the late 1970s. Somehow, however, inequitable conduct doctrine has survived in the canon of patent law. To be sure, the doctrine has also had its own vicissitudes, but even in its narrowest forms, the doctrine still allows courts to rely on their inherent powers to oversee the processes and conduct at the administrative level to a degree that would be unfathomable in any other area of administrative law.

Inequitable conduct doctrine can thus be seen as a case study in judicial control of administrative process. It is a unique case study simply because in other branches of administrative law, courts would not intrude into an agency's policing of its own processes. Yet the experiment with judicial regulation of administrative process cannot be viewed as having entirely positive results.[16] This Article recommends possible changes to the inequitable conduct doctrine that would reconcile the doctrine with modern administrative law and suggests that other currently available legal remedies may provide more effective means for policing against dishonesty at the administrative level.

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14. *See* Vt. Yankee Nuclear Power Corp. v. Natural Res. Def. Council, Inc., 435 U.S. 519, 549 (1978); *see also* Krotoszynski, *supra* note 9, at 996 (describing the Supreme Court's decision in *Vermont Yankee* as having "definitively rejected process-based review of agency action"); Scalia, *supra* note 10, at 369 (noting that the Supreme Court's *Vermont Yankee* opinion included "direct criticisms" of the D.C. Circuit's "general tendencies" that were "extraordinary" in their sharpness).

15. ABF Freight Sys., Inc. v. NLRB, 510 U.S. 317, 325 (1994).

16. *See* Therasense, Inc. v. Becton, Dickinson & Co., 649 F.3d 1276, 1288–90 (Fed. Cir. 2011) (en banc) (discussing "numerous unforeseen and unintended consequences" of judicial regulation of administrative process, including "increased adjudication cost and complexity, reduced likelihood of settlement, burdened courts, strained PTO resources, increased PTO backlog, and impaired patent quality"); *see also* T. Leigh Anenson & Gideon Mark, *Inequitable Conduct in Retrospective: Understanding Unclean Hands in Patent Remedies*, 62 AM. U. L. REV. 1441, 1454–55 (2013) (collecting authorities that have described inequitable conduct as "a 'monster,' a 'beast,' a 'patent-killing virus,' a 'ubiquitous weed,' an 'atomic bomb,' and a 'plague'" (footnotes omitted)).

II. FRAUD ON THE PATENT OFFICE: THE LAW PRIOR TO 1944

It is not difficult to imagine a patent system with doctrine radically different from modern inequitable conduct law because such radically different doctrine existed throughout most of the nineteenth century and into the twentieth century.[17] As Professor William Robinson articulated the law in his great 1890 patent law treatise, a private party could not assert, even as a defense to an infringement action, "that the patentee had secured his grant by fraud or by corruption."[18] The patent system arrived at this result not by accident but by deliberate choice.

The very first Patent Acts of the nation did include provisions by which private parties could petition a court to invalidate a patent if the patent was "obtained surreptitiously by, or upon false suggestion."[19] These provisions were limited in that the plaintiff had to petition within a short period of time (initially one year, extended to three years in the Act of 1793) after the patent was issued, and the plaintiff had to pay the defendant's costs of defending the suit if the court ruled against the challenge to the patent.[20] These provisions were, however, omitted from the 1836 Patent Act, so parties seeking to raise charges of fraud on the Patent Office were relegated to whatever nonstatutory remedies existed.[21]

In *Mowry v. Whitney*,[22] the Supreme Court made clear that such nonstatutory remedies existed only for the government, not for private parties. The litigation in *Mowry*, which ultimately would generate *two* opinions in the same volume of the United States Reports,[23] began when the patentee, Whitney, filed a bill against Mowry alleging patent infringement and seeking the equitable remedies of an injunction and an accounting of the

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17. *See* 2 ROBINSON, *supra* note 2, § 717, at 458 (explaining that procurement by fraud was not a defense to an infringement action prior to 1890).

18. *Id.*

19. Act of Apr. 10, 1790, ch. 7, § 5, 1 Stat. 109, 111; Act of Feb. 21, 1793, ch. 11, § 10, 1 Stat. 318, 323.

20. Act of Apr. 10, 1790, ch. 7 § 5, 1 Stat. 109, 111; Act of Feb. 21, 1793, ch. 11, § 10, 1 Stat. 318, 323.

21. *Compare* Act of Apr. 10, 1790, ch. 7, § 5, 1 Stat. 109, 111 (allowing a patent to be invalidated if it was "obtained surreptitiously by, or upon false suggestion"), *and* Act of Feb. 21, 1793, ch. 11, § 10, 1 Stat. 318, 323 (including the same language as the Act of April 10, 1970), *with* Act of July 4, 1836, ch. 356, 5 Stat. 117 (omitting any language about fraud or false suggestion).

22. Mowry v. Whitney, 81 U.S. (14 Wall.) 434 (1871).

23. *See id.* at 435–36 (reporting the Supreme Court's decision in the suit by Mowry alleging that Whitney had obtained his patent by fraud); *see also* Mowry v. Whitney, 81 U.S. (14 Wall.) 620 (1871) (reporting the Court's decision in Whitney's patent infringement suit against Mowry).

defendant's profits.[24] During the course of the infringement litigation, Whitney submitted to the court certain financial data tending to show "that his profits had been very large," for this data helped to "swell his damages."[25] The problem was that Whitney had previously submitted contradictory data to the Patent Office.[26] In that era, a patentee could obtain a seven-year extension of the initial patent rights (which were for fourteen years) but only if the patentee could demonstrate to the Commissioner of Patents that the initial fourteen-year patent term had not been remunerative.[27] Thus, patentees seeking extensions had an incentive to understate their profits and thereby fraudulently procure a patent extension. That is precisely what Whitney did—or at least that is what Mowry thought Whitney had done.[28] Mowry thus sued Whitney in a separate equitable action seeking to have Whitney's patent declared void.[29]

The Supreme Court did not, however, decide whether Mowry's allegation of fraud was true.[30] Rather, the Court held that, even if the fraud had occurred, a private party such as Mowry could not raise the issue. "The fraud, if one exists," reasoned the Court, "has been practiced on the government, and as the party injured, it is the appropriate party to assert the remedy or seek relief."[31]

The Court's decision in *Mowry* may seem to impose a far too uncertain punishment for fraudulently obtained patents. After all, government attorneys are busy, and they may simply not get around to investigating and litigating instances of administrative fraud. But in fact, private parties were not entirely remediless.

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24. *See Mowry*, 81 U.S. (14 Wall.) at 630–31 (noting that Whitney filed a bill—i.e., a suit in equity—seeking to enjoin Mowry and that Whitney sought an accounting of Mowry's profits).

25. *Mowry*, 81 U.S. (14 Wall.) at 435.

26. *See id.* (discussing Whitney's statements in his infringement suit, where he argued that "his profits had been very large; greatly larger than what he had sworn they were in the statement which he made before the commissioner, when seeking his extension").

27. *See* Act of July 4, 1836, ch. 357, §§ 5, 18, 5 Stat. 117, 119, 124 (setting the term for patents at fourteen years and allowing for a seven-year extension of the initial term upon a showing that the patent was not remunerative); *see also* Act of May 27, 1848, ch. 47, § 1, 9 Stat. 231, 231 (vesting the power to extend patents exclusively in the Commissioner of Patents); *Mowry*, 81 U.S. (14 Wall.) at 434–35 (detailing the Patent Act of 1848, "which authorizes an extension where the patent has not been remunerative").

28. *See Mowry*, 81 U.S. (14 Wall.) at 437 (recounting Mowry's allegation that Whitney had secured his patent extension by "fraud").

29. *See id.* at 435–46.

30. *See id.* at 439–41 (refusing to rule on the merits of the fraud claim).

31. *Id.* at 441.

Even in *Mowry* itself, the defendant was rewarded for uncovering the discrepancy between the financial data Whitney submitted to the Patent Office and that submitted to establish damages. While Mowry lost his action to void the patent, the Supreme Court held that the accounting of profits due to Whitney in the infringement action had to be limited by the financial data that Whitney himself submitted to the Patent Office in justifying the extension of the patent.[32] The Court reasoned:

> It is very obvious, in view of what the patentee himself stated, under oath, in 1862, when applying for an extension of his patent, that the account has been erroneously stated. If he was correct in this statement the profits arising from the use of his patent in manufacturing 19,819 wheels (valuing iron at the price proved to have been paid for it by the defendant) must have been less than $5500, instead of over $91,000, decreed in the Circuit Court—about thirty cents per wheel, instead of four dollars and sixty cents. It is not an unfair presumption that if the profit to the patentee was no greater than he claimed it was, it could not have been more when the invention was used by an infringer.[33]

In other words, Whitney was not being honest; he was lying either to the Patent Office or to the courts (or perhaps even to both). Despite Whitney's dishonesty, the Court did not allow Mowry to void the patent or even to have Whitney's equitable action for infringement dismissed.[34] But the Court did not let Whitney get away with the inconsistent statements. It capped Whitney's damages with the low figures he had given to the Patent Office, and thus reduced his damages to, at most, a mere 6.5% of what had been awarded below.[35] In essence, Whitney was estopped to contradict the accuracy of the statements he previously made to the Patent Office.

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32. *See* Mowry v. Whitney, 81 U.S. (14 Wall.) 620, 648–49 (1871).

33. *Id.* (footnote omitted).

34. *See Mowry*, 81 U.S. (14 Wall.) at 439, 441 (dismissing Mowry's bill which sought to have Whitney's patent declared void); *Mowry*, 81 U.S. (14 Wall.) at 646 (sustaining the validity of Whitney's patent).

35. *Mowry*, 81 U.S. (14 Wall.) at 649. Whitney's damages might have been even lower under the Court's instructions on remand. Whitney's patented process was a method for slow cooling iron during the making of railroad wheels. *Id.* at 621. The Supreme Court noted that, under the findings of a special master in the case, other unpatented methods of slow cooling were available and "the defendant was at liberty to use [those methods] in preparing his car-wheels for market." *Id.* at 652–53. The Court held that the correct measure of damages was to be limited to "what advantage did the defendant derive from using the complainant's invention over what he had in using other processes then open to the public and adequate to enable him to obtain an equally beneficial result." *Id.* at 651.

Mowry was an atypical case in which the patentee was alleged to have given the Patent Office false financial data in order to justify a patent extension. In the more typical case, in which a patent applicant received a patent based on other false proofs about their inventions or the state of the prior art, accused infringers had an even more powerful remedy: The defendant in an infringement action was always free to prove that, under the true facts, the patent was invalid.[36]

What patent law did not allow in this era was for private parties to seek a nonstatutory remedy for relying on allegations of fraud as a basis for challenging the validity or enforceability of patent rights granted by the administrative agency.[37] There were two corollaries to that approach to allegations of fraud. First, while private parties did not have a nonstatutory remedy for fraud on the Patent Office, the government did. As Professor Robinson summarized the law, the issue of fraud or misconduct before the agency could be "raised only by a proceeding instituted for that purpose on behalf of the authority from whom the grant has been improperly procured."[38] The leading case was *United States v. American Bell Telephone Co.*, in which the Supreme Court sustained the power of the United States to bring suit in equity for invalidating a patent due to fraud even though "there is no express act of Congress authorizing such procedure."[39] The Court recognized that the federal government's power to seek nonstatutory equitable remedies against fraudulent patents covering inventions was "exactly similar" to the powers exercised by the federal government "in regard to patents issued by the government for lands conveyed to individuals or to corporations."[40]

A second corollary to the Court's approach to administrative fraud was that the Court would enforce *statutory* remedies for fraud. Thus, for example, the Court in *American Bell Telephone Co.* noted that, while a general private remedy for fraud at the Patent Office was repealed with the enactment of the 1836

36. *See* 2 ROBINSON, *supra* note 2, § 717, at 458 (noting that an accused infringer could set up the defenses that "the invention was not patentable" or that "the patentee was not its first inventor").

37. *See id.* (noting that "though an infringer may defeat the operation of the patent, as against himself, on the ground that if it covers the invention which he uses the Patent Office had no jurisdiction to award it, either because the invention was not patentable or because the patentee was not its first inventor, he cannot claim in his defence that a grant within the jurisdiction of the Patent Office is invalid because it was corruptly or fraudulently obtained").

38. *Id.* at 458–59.

39. United States v. Am. Bell Tel. Co., 128 U.S. 315, 358 (1888).

40. *Id.*

Patent Act,[41] the Patent Act of 1870 added a provision, later codified at Revised Statutes § 4920, that "specif[ied] various acts of fraud which the infringer may rely upon as a defence to a suit against him founded upon that instrument."[42] Those acts of fraud included "[t]hat for the purpose of deceiving the public the description and specification filed by the patentee in the [P]atent [O]ffice was made to contain less than the whole truth relative to his invention or discovery, or more than is necessary to produce the desired effect" and "[t]hat [the patentee] had surreptitiously or unjustly obtained the patent for that which was in fact invented by another."[43] Under the Court's interpretation, those provisions provided to private parties "a more limited form of relief, by way of defence to an action by the patentee" in cases of "fraud and deceit," but those limited private remedies for fraud did not impose an implied limit on government's power to seek additional equitable remedies against fraudulently procured patents.[44]

Prior to the 1940s, the Supreme Court strictly maintained such traditional limits on nonstatutory private remedies for fraud at the Patent Office.[45] Indeed, in *Corona Cord Tire Co. v. Dovan Chemical Corp.*,[46] the Court even resisted an innovative attempt to circumvent the traditional limits. The accused infringer in that case—Corona Cord Tire—found that false affidavits were submitted during prosecution of the patent-in-suit. That fraud was not a minor matter. The examiner had three times rejected the patent application, and the false affidavits were submitted to overcome the second rejection.[47] Furthermore, the false affidavits appeared to have succeeded: As the Supreme Court stated, "The third rejection was followed by acquiescence by the examiner."[48] The patent involved an improved process for the vulcanization of rubber and, in two separate affidavits, the inventor and a fellow chemist falsely claimed to have practiced the new process and found that it "'proved to be highly efficient

41. *Id.* at 371.

42. *Id.* at 371–72; *see also* Act of July 8, 1870, ch. 230, § 61, 16 Stat. 198, 208.

43. Act of July 8, 1870, ch. 230, § 61, 16 Stat. 198, 208.

44. *Am. Bell Tel.*, 128 U.S. at 372–73.

45. *Cf.* Ann Woolhandler & Michael G. Collins, *Federal Question Jurisdiction and Justice Holmes*, 84 NOTRE DAME L. REV. 2151, 2176 (2009) (noting that nineteenth century Supreme Court decisions "had largely limited actions arising under the patent laws to statutory actions," with the exception being that the Court "allowed nonstatutory actions by the United States to revoke patents for fraud").

46. Corona Cord Tire Co. v. Dovan Chem. Corp., 276 U.S. 358 (1928).

47. *Id.* at 373.

48. *Id.*

in the actual vulcanization of rubber goods, such as hose, tires, belts, valves and other mechanical goods.'"[49] In fact the method was practiced to produce only "test slabs of rubber," not finished goods like hoses and belts.[50]

Despite the serious fraud that had been practiced on the Patent Office, the defendant's lawyers did not try to overturn *Mowry* directly—i.e., they did not seek to have the patent invalidated or cancelled due to the fraud. Instead, they sought the more modest step of stripping the patent of its statutory presumption of validity.[51] That remedy seems highly appropriate, for it deprives the patentee of the key benefit that is conferred by the administrative process (the presumption of validity), without destroying patents that would be valid despite any flaws in the administrative process. Moreover, simply stripping the presumption of validity from the patent tends to protect against judicial error in assessing the existence and degree of administrative misconduct.

Nevertheless, the Supreme Court did not allow even such a small circumvention of the rule articulated in *Mowry*. The Court held that the submission of false affidavits to the Patent Office does not vitiate a patent's statutory presumption of validity, at least in a case in which false statements in the affidavits had not been "indispensable," "essentially material," or "the basis" for the issuance of the patent.[52]

Corona Cord Tire Co. shows that the Court continued to support the traditional approach to nonstatutory remedies for administrative fraud before the Patent Office well into the twentieth century. That approach continued for at least another decade. By 1937, the leading patent treatise of the time could confidently assert that an individual could not "bring any action to repeal or otherwise set aside a patent, on any ground of fraud . . . . Such action can be maintained only by the United States under the general principles of equity."[53] The law was, however, about to change.

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49. *Id.* (quoting the disputed affidavit).

50. *Id.* at 374.

51. *See id.* at 373 (noting that the petitioner was arguing "the patent was secured by false evidence and is [therefore] not entitled to the presumption of validity which ordinarly [*sic*] accompanies the grant").

52. *Id.* at 374. The modern codification of the presumption of validity for issued patents is found at 35 U.S.C. § 282. The presumption is, in effect, a degree of deference that the courts must afford to the judgment of the Patent Office in issuing the patent. *See* 35 U.S.C. § 282 (2012).

53. 2 ANTHONY WILLIAM DELLER, WALKER ON PATENTS § 233, at 1185–86 (1st ed. 1937) (citing *Mowry*, *American Bell Telephone Co.*, and other cases).

III. THE EMERGENCE OF THE INEQUITABLE CONDUCT DOCTRINE IN 1944–1945

Inequitable conduct doctrine is typically—and quite inaccurately—traced back to a "trio" of Supreme Court decisions issued between 1933 and 1945:[54]

1. Keystone Driller Co. v. General Excavator Co. (1933);[55]
2. Hazel-Atlas Glass Co. v. Hartford-Empire Co. (1944);[56]
3. Precision Instrument Manufacturing Co. v. Automotive Maintenance Machinery Co. (1945);[57]

Sometimes a fourth decision—Kingsland v. Dorsey (1949)[58]—is also cited, though most courts and commentators correctly appreciate that this fourth case involves the quite different issue of whether the Patent Office itself (not the courts) may impose sanctions on an attorney who engaged in misconduct before the agency.[59]

In fact, however, the first decision in the canonical trio of Supreme Court cases has nothing to do with the key feature of inequitable conduct, which is the judicial assessment and punishment of administrative misconduct. The second decision is similar at least in its holding, although one passage of dicta does suggest that courts could provide a remedy against administrative misconduct. Only the third and final of the three cases typically cited provides any solid support for the

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54. *See, e.g.*, Therasense, Inc. v. Becton, Dickinson & Co., 649 F.3d 1276, 1285 (Fed. Cir. 2011) (en banc) (recounting the canonical story that inequitable conduct doctrine is based on "a trio of Supreme Court cases"); *see also* Anenson & Mark, *supra* note 16, at 1449 (asserting that in "three cases decided between 1933 and 1945, the [Supreme] Court established inequitable conduct as a patent law remedy grounded in the equitable doctrine of unclean hands" (footnote omitted)); Derek J. Brader, *Distilling a Rule for Inferring Intent to Deceive the Patent Office*, 83 TEMP. L. REV. 529, 535 & n.55 (2011) (asserting that "three Supreme Court cases" are responsible for originating "modern inequitable conduct doctrine"); Melissa Feeney Wasserman, *Limiting the Inequitable Conduct Defense*, VA. J.L. & TECH., Fall 2008, at 1, 5–6 (2008) (claiming that the judge-made doctrine of inequitable conduct can be traced back to a "trio of Supreme Court cases" where the patentees had unclean hands).

55. Keystone Driller Co. v. Gen. Excavator Co., 290 U.S. 240 (1933).

56. Hazel-Atlas Glass Co. v. Hartford-Empire Co., 322 U.S. 238 (1944).

57. Precision Instrument Mfg. Co. v. Auto. Maint. Mach. Co., 324 U.S. 806 (1945).

58. Kingsland v. Dorsey, 338 U.S. 318 (1949) (per curiam).

59. *See, e.g.*, Anenson & Mark, *supra* note 16, at 1452 n.54 (noting that *Kingsland v. Dorsey* concerns whether the Patent Office could administer "regulations and sanctions of attorneys"). *Kingsland* presented the issue whether the Patent Office could disbar an attorney from further practice before the agency because the attorney had participated in a fraud on the Patent Office. *Kingsland*, 338 U.S. at 319–20. The Supreme Court sustained the agency's power to punish administrative misconduct, and that result is perfectly consistent with an approach that permits legal institutions to police against misconduct within the institution itself. *Id.*

proposition that courts may grant relief for administrative misconduct.[60]

The first of these three canonical cases—*Keystone Driller Co. v. General Excavator Co.* in 1933—involved the power of federal courts to dismiss a lawsuit based on misconduct *before the courts*, not before the Patent Office. In that case, the inventor of a new ditch-digging machine learned that, prior to the inventor's own dates of invention, another individual name Bernard Clutter had used the same type of machine.[61] The inventor initially ignored this information and proceeded to file for, and to obtain, a patent on the ditch-digging machine.[62] The patent was assigned to Keystone Driller Co. (Keystone), where the inventor worked as secretary and general manager.[63] As Keystone was preparing for a first infringement action against a competitor (the Byers Machine Company), the inventor was advised that Clutter's prior use "was sufficient to cast doubt upon the validity of the patent."[64] The inventor then went to Clutter and, for consideration of several thousand dollars, obtained from him an agreement "to keep secret the details of the prior use and, so far as he was able, to suppress the evidence."[65] Evidence of the prior use was never introduced in the first infringement trial, and Keystone won a judgment that its patent was valid and infringed.[66]

After the successful concealment of evidence in the first trial, Keystone brought to trial a separate infringement action against General Excavator.[67] Like the first case, the second was brought in equity because the patentee was seeking injunctive relief to enforce his patent right.[68] During the second trial, the defendant discovered the concealed evidence and argued that, because the plaintiff came to the litigation with unclean hands, the federal courts should dismiss the lawsuit.[69] The Supreme

60. *See* Sean M. O'Connor, *Defusing the "Atomic Bomb" of Patent Litigation: Avoiding and Defending Against Allegations of Inequitable Conduct After* McKesson et al., 9 J. MARSHALL REV. INTELL. PROP. L. 330, 333 n.18 (2009) (correctly noting that "the Supreme Court did not rule directly in [*Keystone Driller* and *Hazel-Atlas Glass*] on whether a court could dismiss a patent infringement suit solely on a defense of fraud or inequitable conduct" at the Patent Office).

61. Keystone Driller Co. v. Gen. Excavator Co., 290 U.S. 240, 243 (1933).

62. *Id.*

63. *Id.*

64. *Id.*

65. *Id.*

66. *Id.* at 241–43.

67. *Id.* at 243.

68. *Id.* at 242.

69. *Id.* at 243–44.

Court held that dismissal was a proper remedy for the chancery court to impose for "misconduct in the [prior] suit."[70]

In two important respects, *Keystone Driller* cannot be viewed as supporting modern inequitable conduct doctrine. First and most importantly, the Supreme Court justified dismissal based on misconduct that occurred *before the federal courts*.[71] Obviously, federal courts have inherent power to police against misconduct occurring within the federal court system itself, and such policing does not give rise to any administrative law issues.[72] Second, the Supreme Court expressly and repeatedly grounded its ruling on the powers of a court *sitting in equity*.[73] Quoting extensively from treatises on equity jurisprudence, the Court reasoned that

> one of the fundamental principles *upon which equity jurisprudence is founded* [is] that before a complainant can have a standing in court he must first show that not only has he a good and meritorious cause of action, but he must come into court with clean hands. He must be frank and fair with the court, nothing about the case under consideration should be guarded, but everything that tends to a full and fair determination of the matters in controversy should be placed before the court.[74]

Prior to 1944, neither *Keystone Driller* nor any other decision of the Supreme Court suggested any exception to the policy announced in *Mowry* and reaffirmed in *United States v. American Bell Telephone Co.*—which was that the remedy for fraud before the Patent Office was held exclusively by the executive branch of the U.S. government. The first suggestion of an exception to that traditional approach came in dicta in the 1944 decision *Hazel-Atlas Glass Co. v. Hartford-Empire Co*.[75] That case involved the fabrication of evidence and the successful use of the bogus evidence *both* in the Patent Office

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70. *Id.* at 246–47.

71. *See id.* at 243–47.

72. *See, e.g.*, Chambers v. NASCO, Inc., 501 U.S. 32, 42–44 (1991) (reaffirming the long tradition that federal courts have inherent power to punish misconduct occurring in the federal courts); Robert J. Pushaw, Jr., *The Inherent Powers of Federal Courts and the Structural Constitution*, 86 IOWA L. REV. 735, 857 (2001) (concluding that "[f]ederal courts possess inherent power to sanction misconduct as necessary to protect their independent authority and their exercise of 'judicial power'").

73. *See Keystone Driller*, 290 U.S. at 244–45 (emphasizing that the equitable powers of a court cannot be used on behalf of one who has acted fraudulently).

74. *Id.* at 244 (emphasis added) (quoting 1 JOSEPH STORY, COMMENTARIES ON EQUITY JURISPRUDENCE ch. 3, § 98, at 98 (W.H. Lyon, Jr. ed., 14th ed. 1918)).

75. *See* Hazel-Atlas Glass Co. v. Hartford-Empire Co., 322 U.S. 238 (1944).

and in the federal courts during subsequent infringement litigation.[76]

The fraud began in the Patent Office. While prosecuting an application for a patent that was faced with "apparently insurmountable Patent Office opposition," officials and attorneys for Hartford "determined to have published in a trade journal an article signed by an ostensibly disinterested expert which would describe" the claimed device as "a remarkable advance in the art."[77] The article "purported to be the work of one William P. Clarke, who had signed it as author," but it had in fact been written by one of Hartford's attorneys, who "procured Clarke's signature thereto as the author, . . . caused it to be published," and obtained the publisher's agreement that Hartford's connection to the article would not be disclosed.[78] After its publication, the article was introduced by Hartford into the record of the patent application proceedings without any indication that Hartford had a hand in the article.[79] The patent issued to Hartford.[80]

The fraud then continued in the courts. Hartford brought an infringement action against Hazel-Atlas seeking equitable relief.[81] Though Hartford lost in the trial court, it relied on the bogus article to prevail on appeal.[82] The opinion of the court of appeals, released in 1932, relied extensively on the Clarke article in sustaining the validity of the Hartford patent.[83] Thereafter investigators for the defendant Hazel-Atlas interviewed Clarke and he "insisted that he wrote the article and would so swear if summoned."[84] Hazel-Atlas then capitulated and agreed to a licensing arrangement.[85] Hartford paid Clarke $8,000 for pretending to be the author of the

76. *Id.* at 250 (finding that the "trail of fraud" went from the Patent Office through the district and appellate courts).

77. *Id.* at 240.

78. Hartford-Empire Co. v. Hazel-Atlas Glass Co., 137 F.2d 764, 765–66 (3d Cir. 1943).

79. *See id.*

80. *Id.* at 766.

81. The suit in district court sought the equitable remedies of an injunction and an accounting of the defendant's profits. *See* Hartford-Empire Co. v. Hazel Atlas Glass Co., 39 F.2d 111, 111 (W.D. Pa. 1930), *rev'd*, 59 F.2d 399 (3d Cir. 1943), *rev'd*, 322 U.S. 238 (1944).

82. *See Hazel-Atlas Glass Co.*, 322 U.S. at 247 (noting that Hartford "did not specifically emphasize the article" in the lower court but "urged the article" upon the appeals court and prevailed).

83. *See Hazel-Atlas Glass Co.*, 137 F.2d at 403–04 (quoting the article to support the assertion that the machine was new and had differentiating elements).

84. *Hazel-Atlas Glass Co.*, 322 U.S. at 242.

85. *Id.* at 243.

article and for his misrepresentations to the defendant's investigators.[86]

In 1941—nine years after Hartford had used the false evidence to prevail in the infringement suit—Hazel-Atlas learned the truth and petitioned for relief from the old ruling of the court of appeals.[87] The Supreme Court held that such relief was permissible because the fraud "demands the exercise of the historic power of equity to set aside fraudulently begotten judgments."[88] The Court stressed that the case presented "a deliberately planned and carefully executed scheme to defraud not only the Patent Office but the Circuit Court of Appeals,"[89] and that the facts were appropriate for the "judicially devised remedy" permitting "[e]quitable relief against fraudulent judgments."[90] The Court ruled that the "total effect of all this fraud, practiced both on the Patent Office and the courts, calls for nothing less than a complete denial of relief to [the patentee] Hartford."[91]

The holding of *Hazel-Atlas* is neither surprising nor theoretically troubling because the case involved misconduct that had extended into the courts, and *Keystone Driller* previously made clear that the federal courts sitting in equity had inherent power to dismiss a patent infringement suit based on misconduct *before court*s.[92] However, the *Hazel-Atlas* Court also stated in dicta that, "[h]ad the District Court learned of the fraud on the Patent Office at the original infringement trial, it would have been warranted in dismissing [the patentee's] case."[93] That sentence was the Court's first indication that, in private suits, federal courts sitting in equity could provide judicially devised remedies for fraud at the Patent Office.

The next year, the Supreme Court decided *Precision Instrument Manufacturing Co. v. Automotive Maintenance*

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86. *Hazel-Atlas Glass Co.*, 137 F.2d at 775.

87. *Hazel-Atlas Glass Co.*, 322 U.S. at 252–53.

88. *Id.* at 245.

89. *Id.* at 245–46.

90. *Id.* at 248–50.

91. *Id.* at 250. Subsequently, the Patent Office debarred one of the attorneys involved in the fraud, and that administrative order was affirmed in the Court's decision in *Kingsland v. Dorsey*, 338 U.S. 318 (1949).

92. *See Hazel-Atlas Glass Co.*, 322 U.S. at 245 (emphasizing that the party had engaged in a "deliberately planned and carefully executed scheme to defraud not only the Patent Office, but the Circuit Court of Appeals"); Keystone Driller Co. v. Gen. Excavator Co., 290 U.S. 240, 246–47 (1933) (focusing on the "plaintiff's misconduct in the [first infringement] suit" and detailing how that misconduct was "use[d] in subsequent infringement suits").

93. *Hazel-Atlas Glass Co.*, 322 U.S. at 250.

Machinery Co.,[94] the first and only case in which the Supreme Court has held that a federal court—and specifically, a federal court sitting in equity—may provide a judicially devised remedy for misconduct at the Patent Office.[95] The facts were unusual because the party sanctioned—Automotive Maintenance Machinery Co. (Automotive)—had engaged not in fraud, but in blackmail.

Automotive was initially the target of another inventor's fraud. That inventor, Larson, was working for Precision Instrument Manufacturing Co. (Precision) when he applied for a patent on an improved "tail-piece" for a particular kind of wrench.[96] During the course of prosecuting that application in the Patent Office, Larson expanded his claims of invention to encompass the entire wrench disclosed in the application and, to support the broader claims, he filed an affidavit setting forth fraudulent information concerning his purported invention of the wrench.[97] "[T]he Patent Office declared an interference" between Larson's application and an application being prosecuted by Automotive, which also claimed to have invented the wrench.[98] During the course of the interference, Automotive obtained proof that Larson's affidavit was fraudulent and that Larson had in fact stolen the idea for the wrench from Automotive.[99]

If it had disclosed the fraud to the Patent Office, Automotive could have prevailed in the interference and obtained its rightful

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94. Precision Instrument Mfg. Co. v. Auto. Maint. Mach. Co., 324 U.S. 806 (1945).

95. Prior commentators have also noted that, while *Keystone Driller* and *Hazel-Atlas* included dicta suggesting that courts could invoke the unclean hands doctrine based solely on administrative misconduct, it was not until *Precision Instrument* that "any doubt about the present state of the law" was removed. David C. Keaveney, *Fraud in the Procurement of a Patent as a Defense to Infringement*, 33 J. PAT. OFF. SOC'Y 482, 497–99 (1951); Gerald Sobel, *Reconsidering the Scope of the Inequitable Conduct Doctrine in View of Supreme Court Precedent and Patent Policy*, 18 FED. CIR. B.J. 169, 170 (2009); *see also* David P. Cullen & Robert V. Vickers, *Fraud in the Procurement of a Patent*, 29 GEO. WASH. L. REV. 110, 123–24 (1960) (describing *Precision Instrument* as the case in which "the defense of a patentee's fraud on the Patent Office was finally sustained by the Supreme Court"); O'Connor, *supra* note 60, at 333 & n.18 (identifying *Precision Instrument* as going beyond prior cases and "open[ing] up a whole new avenue" for patent infringement defendants to avoid liability).

96. Auto. Maint. Mach. Co. v. Precision Instrument Mfg. Co., 143 F.2d 332, 333–34 (7th Cir. 1944), *rev'd*, 324 U.S. 806 (1945).

97. *See id.* at 334 (noting that "Larson execute[d] for Snap-On an affidavit to the effect that . . . he alone had invented it; and that no other individual had contributed any concept or feature of it" and that Larson supported his broad claims to invention with "dates of his conception, disclosure, drawing, description and reduction to practice. . . . [that] were false").

98. *Precision Instrument*, 324 U.S. at 809.

99. *See id.* at 810–11 (detailing how Larson's fraud came to light while the Patent Office's interference proceedings were ongoing).

patent rights to the wrench. However, Automotive would have had no rights to claims covering the innovative tail-piece, which Larson had in fact invented.[100] Moreover, the claims to the tail-piece might have been lost entirely if the Patent Office decided to reject all of Larson's application because of his perjury.[101]

Rather than disclosing Larson's fraud to the Patent Office, Automotive set off on a course of blackmail. With thinly veiled threats that it would disclose Larson's fraud to the authorities,[102] Automotive pressured Larson and Precision into a settlement of the interference whereby Automotive received (1) Larson's concession that Automotive should win the interference; (2) an assignment from Larson and Precision of the perjury-tainted patent application; and (3) a contractual commitment from Larson and Precision never to question the validity of any of the subsequently issued patents.[103] After the settlement, Automotive received patents from both its own application and the perjury-tainted application originally filed by Larson.[104]

Later, Precision decided to renege on the coerced settlement and began manufacturing wrenches that fell within the claims of the patents, and Automotive sued Precision for infringement and breach of contract.[105] The Supreme Court held that Automotive's whole lawsuit should be dismissed because a federal court of equity should not assist in the enforcement of "these perjury-tainted patents and contracts."[106] The Court stressed that Automotive's misconduct lay in exploiting rather than reporting Larson's perjury and that such conduct did not "conform to

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100. *See Precision Instrument*, 143 F.2d at 334 (noting that the innovative tail-piece "was Larson's contribution").

101. *See Precision Instrument*, 324 U.S. at 816 ("Larson's application was admittedly based upon false data which destroyed whatever just claim it might otherwise have had to the status of a patent.").

102. One of the attorneys for Automotive wrote a letter to Larson's attorney stating that "you must recognize that a large part of the testimony taken on behalf of . . . Larson is, to put it mildly, not the whole truth." *Id.* at 813. Larson's attorney understood this letter to mean that Automotive's attorneys "were threatening to 'unloose the dogs' unless they got everything they requested in the settlement." *Id.* The court of appeals in the case also understood that Precision was alleging blackmail. It described Precision's allegations as being that Automotive "threatened [Precision and Larson] with criminal prosecution unless the defendants would sign the contracts hereinafter referred to, and it promised defendants that it would suppress such evidence of perjury as it had, if defendants would sign the contracts." *Precision Instrument*, 143 F.2d at 333.

103. *Precision Instrument*, 324 U.S at 813, 818–19.

104. *Id.* at 814, 819.

105. *See id.* at 814.

106. *Id.* at 816; *see also id.* at 819 (holding that "Automotive has not displayed that standard of conduct requisite to the maintenance of this suit in equity").

minimum ethical standards."[107] Requiring disclosure of such known frauds to the Patent Office reinforced the agency's responsibility to "pass upon the sufficiency of the evidence" and "to safeguard the public in the first instance against fraudulent patent monopolies."[108] Automotive's exploitation of fraud also went beyond the Patent Office, as the company used its knowledge of fraud to keep the parties from mounting any subsequent challenge (administrative or judicial) to the validity of the patents. The Court thus concluded that "inequitable conduct impregnated Automotive's *entire cause of action*," not merely the administrative proceeding, and such inequitable conduct "justified dismissal by resort to the unclean hands doctrine."[109]

For three reasons, *Precision Instrument* is a weak basis for modern inequitable conduct doctrine. First, the relevant conduct in *Precision Instrument* was really extreme. When the Supreme Court described the conduct as failing to "conform to minimum ethical standards,"[110] it meant it. The conduct was blackmail, plain and simple, which is itself a criminal offense.[111] Such conduct bears little resemblance to modern cases of inequitable conduct, which typically involve nondisclosure of some possibly material fact.

Second, the Court once again relied on the powers of a court sitting in equity.[112] The Court did not confront the issue of whether federal courts generally—even when no equitable relief is sought—could refuse to enforce otherwise valid patents because of administrative misconduct.

Third, and perhaps most importantly, Automotive's reprehensible conduct clearly extended beyond administrative misconduct.[113] The blackmail scheme used to obtain the settlement with Precision included threats of criminal enforcement, and such threats obviously involve abuse of judicial processes. Furthermore, the settlement itself included a

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107. *Id.* at 816.

108. *Id.* at 818.

109. *Id.* at 819 (emphasis added).

110. *Id.* at 816.

111. *See, e.g.*, 18 U.S.C. § 873 (2012) (prohibiting blackmail in present day); 18 U.S.C. § 250 (1934) (prohibiting blackmail at the time of the relevant conduct in *Precision Instrument*).

112. *Precision Instrument*, 324 U.S. at 819 (concluding that the settlement by which Automotive obtained Larson's patent rights "lacks that equitable nature which entitles it to be enforced and protected in a court of equity"); *id.* at 814 (repeatedly describing the "guiding doctrine in this case" in terms of rules applicable to "a court of equity").

113. *See id.* at 813 (discussing substantial evidence of blackmail).

commitment to cover up the whole matter, with Automotive "exact[ing] promises from the other parties never to question the validity of any patent that might be issued on [the Larson] application."[114] Because that contractual commitment to silence applied generally (i.e., it purported to forbid raising validity questions in *any* forum, including judicial proceedings), Automotive's misconduct involved abuse of the legal system generally, not mere administrative misconduct.

IV. THE EXPANSION OF THE INEQUITABLE CONDUCT DOCTRINE: 1965–1975

The narrowness of the Supreme Court's ruling in *Precision Instrument* is confirmed by the initial infrequency of its application. In the twenty years following *Precision Instrument*, the number of federal appellate court decisions holding an issued patent unenforceable based on fraud, misrepresentations, or similar misconduct at the Patent Office was a nice round number—zero.

Indeed, only two appellate court decisions during this period sustained findings that fraud had occurred at the Patent Office, but in neither case was the discovery of fraud used as a basis to hold otherwise valid patent rights unenforceable. For example, in *Mas v. Coca-Cola Co*., the Fourth Circuit affirmed a district court's decision that a party who committed fraud on the Patent Office (who was named Mas) was not entitled to seek judicial review of the agency's decision awarding a contested design patent to another party (the Coca-Cola Company).[115] The court in *Mas* thus *did* impose a penalty for administrative fraud, but the penalty was limited to a denial of judicial review. By its very nature, that penalty cannot cause much or any interference with administrative processes because the remedy results in the court leaving the agency's decision undisturbed. The limited penalty applied in *Mas* also did not preclude other penalties, and in fact, the court noted that Mas himself had already been criminally convicted and sentenced to a prison term because of his fraud at the Patent Office.[116]

Similar to *Mas* is the Third Circuit's 1955 decision in *Etten v. Lovell Manufacturing Co.*, which affirmed a decision of a trial court awarding priority of invention, and therefore the patent

114. *Id.* at 819.

115. Mas v. Coca-Cola Co., 163 F.2d 505, 510–11 (4th Cir. 1947).

116. *See id.* at 507 (citing Mas v. United States, 151 F.2d 32 (D.C. Cir. 1945), which affirmed Mas's conviction for making false statements in a matter before a federal agency).

rights, to a party who had lost a Patent Office interference to another inventor.[117] The trial court found that the other inventor had prevailed in the interference through fraud.[118] The award of patent rights to the plaintiff (who was the losing party at the Patent Office) was, however, based on the trial court's determination of *which inventor actually had priority* (i.e., was the first to invent).[119] Thus, the party committing the fraud was not penalized with the loss of otherwise valid patent rights; rather, the penalty for the fraud itself was merely the award of the plaintiff's attorney's fees.

Mas and *Etten* were the rare cases in which appellate courts imposed some penalty for fraud at the Patent Office (though not the penalty of unenforceability of otherwise valid patent rights). Most of the case law during this period tended to reject attempts to use allegations of fraud at the agency to obtain an advantage in private civil litigation. Some cases emphasized the high standard of proof to establish that fraud had occurred.[120] Other courts held that a misrepresentation to the Patent Office could not be "material," and thus could not provide grounds for holding the patent unenforceable, unless the party asserting misconduct was able to demonstrate that "the patent would not have been granted" had the misrepresentation not been made.[121]

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117. Etten v. Lovell Mfg. Co., 225 F.2d 844, 846 (3d Cir. 1955). The case was a civil action to obtain a patent brought under Revised Statutes § 4915—a provision later recodified after the Patent Act of 1952 as 35 U.S.C. §§ 145, 146. *Id.* at 845 (noting the new statutory section numbers).

118. *Id.* at 848–49 (affirming the trial court's finding that the defendant in the action—the party who had prevailed in the Patent Office and whose patent rights were being challenged in the civil action—had committed fraud through "lack of truth-telling, concealment of testimony and other deceptive conduct").

119. Etten v. Lovell Mfg. Co., 83 F. Supp. 178, 197 (W.D. Pa. 1949) (concluding, based on the evidence at trial, that the plaintiff Nicholas Etten was entitled to priority of invention), *vacated*, 184 F.2d 737 (3d Cir. 1950), *decision reaffirmed on remand*, 121 F. Supp. 291, 293 (W.D. Pa. 1954), *aff'd*, 225 F.2d 844 (3d Cir. 1955).

120. *See, e.g.*, Armour & Co. v. Wilson & Co., 274 F.2d 143, 148 (7th Cir. 1960) ("It is easy to make charges of fraud, but the law rightfully insists that before legal rights may be based upon such charges, they must be established by clear and convincing evidence."); Haloro, Inc. v. Owens-Corning Fibreglas Corp., 266 F.2d 918, 919 (D.C. Cir. 1959) (stressing the high standard of proof required and interpreting *Hazel-Atlas* and *Precision Instrument* narrowly).

121. Cataphote Corp. v. DeSoto Chem. Coatings, Inc., 450 F.2d 769, 773 (9th Cir. 1971); *see* Wen Prods. Inc. v. Portable Elec. Tools, Inc., 367 F.2d 764, 767 (7th Cir. 1966) (holding that the inventor's failure to disclose a known piece of prior art did not prove the inventor's "unclean hands . . . because [the prior art] did not embody the inventions of the claims in suit" (internal quotation marks omitted)); *see also* Feed Serv. Corp. v. Kent Feeds, Inc., 528 F.2d 756, 762 (7th Cir. 1976) (interpreting *Wen Products* as holding that "there [is] no 'unclean hands' [defense] . . . for failure to disclose a prior art patent that 'did not embody the inventions of the claims in suit'"); Admiral Corp. v. Zenith Radio Corp., 296 F.2d 708, 716–17 (10th Cir. 1961) (holding that the inequitable conduct

If *Precision Instrument* created a vast new doctrine—and a gaping exception to the traditional rule in *Mowry*—the lower appellate courts did not seem to notice that development for decades. Indeed, a 1960 law review article, which generally sought to encourage a broad application of *Precision Instrument*, nonetheless acknowledged that the decision had not yet been used much and concluded—with perhaps some degree of understatement and wishful thinking—that "the full implications of the *Precision* holdings have not been appreciated in all jurisdictions."[122] That article blamed *Precision Instrument*'s nonuse on "judicial inertia" and on "the difficulties encountered in the development of the defense [of fraudulent patent procurement], as well as the steadfast refusal of the courts to allow individual suit to cancel a fraudulently procured patent."[123] The article included the prediction, however, that a "growing body of law and comment on this subject will serve to bring about recognition of the defense throughout the profession."[124] It was a very accurate prediction.

In the next decade, the federal courts saw a significant increase in the number of allegations of fraud and misrepresentation being brought by litigants.[125] The surge in litigation can be traced to two causes. First, the Supreme Court, in *Walker Process Equipment, Inc. v. Food Machinery & Chemical Corp.*, held that knowingly and fraudulently procuring an invalid patent could provide the basis for antitrust claims under the Sherman and Clayton Acts.[126] Prior to this decision, defendants in patent infringement cases had less incentive to assert claims of fraudulent procurement because, if the true facts would render the patent invalid, then

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doctrine is restricted to circumstances when "an applicant knows of prior art which plainly describes his claimed invention or comes so close that a reasonable man would say that the invention was not original"); Autovox, S.p.A. v. Lenco Italiana, S.p.A., 208 U.S.P.Q. 412, 414 (N.D. Ill. 1980) (interpreting Seventh Circuit precedents of *Wen Products* and *Feed Service* to require that the party asserting fraud "must prove that the information withheld, if known to the examiner, would have resulted in the rejection of the [patent] claim"). The Ninth and Tenth Circuits later adopted a subjective "but for" test. Wasserman, *supra* note 54, at 15 n.105. The Seventh Circuit eventually aligned itself with the "might have been" test. *Id.*

122. *See* Cullen & Vickers, *supra* note 95, at 124–26, 133–34.

123. *See id.* at 124.

124. *Id.*

125. *Cf.* Lisa A. Dolak, *The Inequitable Conduct Doctrine: Lessons from Recent Cases*, 84 J. PAT. & TRADEMARK OFF. SOC'Y 719, 723–24 & n.21 (2002) (describing numerous cases involving allegations of fraud during in the 1990s).

126. Walker Process Equip., Inc. v. Food Mach. & Chem. Corp. 382 U.S. 172, 174 (1965).

the courts could invalidate the patent without inquiring into the patentee's possible scienter in obtaining the patent.

The inequitable conduct doctrine recognized in *Precision Instrument* would produce a different outcome in patent infringement litigation only if the true facts, once known, would *not* invalidate the patent. Only in that circumstance—when the applicant had engaged in some serious misconduct but that misconduct did not undermine the validity of the patent—would the *Precision Instrument* doctrine provide an unclean hands defense against the enforcement of what otherwise would be a valid patent. The facts of *Precision Instrument* provide a good example. Automotive had engaged in very serious misconduct—blackmail—and that misconduct was necessary *for it* (and not Precision) to obtain the relevant patent rights.[127] But misconduct by Automotive did not undermine the validity of the patent rights that it obtained through its duress. *Precision Instrument* is an unusual case in which the relevant misconduct had nothing to do with the grant of patent rights but was responsible for that particular patent holder being able to obtain the rights.

As the historical record of decided cases between 1945 and 1965 demonstrates, similar circumstances were extremely infrequent, and many infringement defendants may have rationally concluded that litigating the issue was not worth the trouble. *Walker Process*, however, gave infringement defendants a new and powerful incentive to search for fraud at the Patent Office because, if fraud were used to obtain an invalid patent, then the defendant could obtain not merely the unenforceability of the patent (which would matter little if the patent were invalid anyway) but also treble damages under the antitrust laws.[128]

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127. Precision Instrument Mfg. Co. v. Auto. Maint. Mach. Co., 324 U.S. 806, 813 (1945) (noting that, under the settlement obtained by Automotive's threats and duress, Larson's patent rights were assigned to Automotive).

128. *See also* Irving Kayton, John F. Lynch & Richard H. Stern, *Fraud in Patent Procurement: Genuine and Sham Charges*, 43 GEO. WASH. L. REV. 1, 27–28 (1974) ("[I]nequitable conduct in the procurement of patents received some judicial attention in the years following *Precision Instrument*, but it was only after [*Walker Process*] that the issue assumed its present proportions."). After *Walker Process* was decided, the Federal Trade Commission also helped to popularize antitrust actions based on fraud at the Patent Office. In a high profile case brought in the 1960s against the owners of the patent on the "wonder drug" tetracycline, the FTC imposed antitrust remedies based on fraud and misrepresentations at the Patent Office. *See* Am. Cyanamid Co. v. FTC, 363 F.2d 757, 770, 779 (6th Cir. 1966) (relying on *Walker Process* to sustain the authority of the FTC to impose antitrust remedies for misconduct at the Patent Office but remanding the case for additional proceedings). In another high profile case in the 1960s, the FTC imposed a compulsory license as a remedy for obtaining a tetracycline patent through misstatements and fraud. *See* Charles Pfizer & Co. v. FTC, 401 F.2d 574, 577–78 (6th Cir. 1968) (affirming the FTC's imposition of a compulsory license as a remedy for obtaining a

The second factor responsible for increased claims of administrative fraud was the development of a very expansive interpretation of *Precision Instrument*. A key decision, *Norton v. Curtiss*,[129] came from the Court of Customs and Patent Appeals (CCPA), which was a predecessor of the Federal Circuit vested with jurisdiction to review decisions of the Patent Office, but not district court decisions arising from infringement trials. Because of the limited scope of the CCPA's jurisdiction, the court heard cases alleging fraud at the Patent Office that were legally and practically different from cases such as *Precision Instrument*. The cases were legally different because the CCPA was always reviewing Patent Office decisions about whether the Patent Office itself should use its *administrative* powers (not inherent judicial power) to punish those who abused the agency's processes. The cases were also practically different because, in every case, the court had before it an authoritative administrative opinion expressing the Patent Office's views about whether the agency considered the information to be material for purposes of its proceedings.

Norton v. Curtiss was an appeal from a Patent Office interference proceeding that determined Curtiss to have invented the relevant invention prior to Norton.[130] In the course of the administrative interference proceeding, Norton had charged Curtiss with fraud and had argued that the Patent Office should penalize Curtiss by striking his patent application.[131] The Patent Office, in an opinion by its Board of Patent Interferences, rejected the fraud charge.[132] On appeal, the CCPA noted that "this is the first occasion on which this court has been asked to review an action of the Patent Office dealing with charges of fraudulent misconduct,"[133] and though it would ultimately sustain the agency's action, the court spent considerable effort in elaborating on the then-nascent appellate law concerning fraud before the Patent Office.[134] Importantly, the court broadened the law on both materiality and intent in ways that were not supported by the Patent Office.

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tetracycline patent through misstatements and fraud). In the *Pfizer* case, however, the FTC proved misconduct by having the relevant Patent Office examiner testify as to the deception, thus demonstrating that officers in the Patent Office believed that deception had occurred. *See id.* at 577.

129. Norton v. Curtiss, 433 F.2d 779 (C.C.P.A. 1970).

130. *Id.* at 782.

131. *Id.*

132. *Id.* at 789–91.

133. *Id.* at 781, 791.

134. *See id.* at 791–94.

The court began its analysis with an important—and telling—premise. The court reasoned that "any conduct which will prevent the enforcement of a patent after the patent issues should, if discovered earlier, prevent the issuance of the patent."[135] That premise, stated more pointedly, is that the decisions about what conduct should prevent patent issuance—decisions which occur at the administrative agency—should follow the decisions about what conduct would make a patent unenforceable—decisions which are made by courts. From that premise (that the Patent Office should follow the lead of the courts), the *Norton* court concluded, "The only rational, practical interpretation of the term 'fraud' in [the Patent Office's] Rule 56 which could follow is that the term refers to the very same types of conduct which the courts, in patent infringement suits, would hold fraudulent."[136] That conclusion is so extraordinary that it is worth careful attention.

The Patent Office's Rule 56 is the agency's longstanding rule, now codified at 37 C.F.R. § 1.56, setting forth the requirement that parties appearing before the agency refrain from committing fraud and also, in more recent times, adhere to a duty of candor to the agency.[137] At the time of *Norton*, Rule 56 merely provided the agency with authority to strike "any application fraudulently filed or in connection with which any fraud is practiced or attempted on the Patent Office."[138] The *Norton* court was trying to interpret the word "fraud" in the rule, and the extraordinary point is that *Norton* held that the *agency's* rule should follow how the *courts* would define fraudulent conduct in deciding whether to hold a patent unenforceable in patent infringement litigation.

The *Norton* court's conclusion, of course, followed directly from its premise that the agency should define misconduct in the same way that courts do in deciding whether to enforce a patent. But there is no good reason why the premise could not have been the reverse—that any conduct which would prevent the issuance of a patent at the administrative level should, if discovered *later*, prevent the enforcement of the patent at the *judicial* level. Indeed, from the perspective of modern administrative law, *Norton*'s premise and conclusion are doubly backwards. Courts

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135. *Id.* at 792.

136. *Id.*

137. *See* 37 C.F.R. § 1.56 (2013) (imposing "a duty of candor and good faith in dealing with the Office" upon "[e]ach individual associated with the filing and prosecution of a patent application").

138. *Norton*, 433 F.2d at 782 n.4 (setting forth the then-existing version Rule 56).

are supposed to follow agency interpretations of their rules, not the other way around.[139] Furthermore, agencies are supposed to be able—at least in the first instance—to set their own procedures.[140]

With its judicial authority over the matter established, the *Norton* court turned to deciding whether the Patent Office was properly following the courts' lead in defining the "materiality" and "intent" necessary to constitute fraud. On the materiality issue, the court recognized that, in the context of fraud on the Patent Office, "'materiality' has generally been interpreted to mean that if the Patent Office had been aware of the complete or true facts, the challenged claims would not have been allowed."[141] The court believed, however, that such a test "cannot be applied too narrowly if the relationship . . . between applicants and the Patent Office is to have any real meaning."[142] Instead, the court urged a broader test that included "the subjective considerations of the examiner and the applicant" in defining materiality, and it held that, at a minimum, a misrepresentation should be considered material if it passes what came to be known as a "subjective but for" test: "If it can be determined that the claims would *not* have been allowed *but for* the misrepresentation, then the facts were material regardless of their effect on the objective question of patentability."[143] The Patent Office, the court believed, had applied too narrow of a standard because it had stressed the ultimate patentability of the invention.[144]

On the intent issue, the court again believed that the Patent Office had applied the wrong standard because it had "narrowed

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139. *See* Bowles v. Seminole Rock & Sand Co., 325 U.S. 410, 414 (1945) (holding that the "ultimate criterion" for interpreting an administrative rule "is the administrative interpretation, which becomes of controlling weight unless it is plainly erroneous or inconsistent with the regulation"); *see also* Auer v. Robbins, 519 U.S. 452, 461 (1997).

140. *See* Vt. Yankee Nuclear Power Corp. v. Natural Res. Def. Council, Inc., 435 U.S. 519, 543–45 (1978). Agency decisions about procedural matters are, like other agency decisions, subject to judicial review, but the courts are not supposed to control an agency's choice of procedure in the first instance. *Id.* Moreover, even in reviewing an agency's procedural choices, the courts must grant a substantial measure of deference to the agency's choices. *Auer*, 519 U.S. at 461.

141. *Norton*, 433 F.2d at 794.

142. *Id.* at 795.

143. *Id.*; *see also* Digital Control Inc. v. Charles Mach. Works, 437 F.3d 1309, 1315 (Fed. Cir. 2006) (describing *Norton*'s materiality standard as the "subjective 'but for'" test).

144. *See Norton*, 433 F.2d at 795 ("In the case before us, we feel that both the Commissioner and the board placed too much emphasis on the apparently conceded fact of superiority of the glass-coated fibers to plastic-coated fibers and, in doing so, discounted the obvious fact that the examiner had allowed the claims which became the counts at issue directly as a result of the representations made by Curtiss in the challenged demonstration.").

the requirement almost to that of proving actual intent."[145] In the court's view, "it may suffice to show nothing more than that the misrepresentations were made in an atmosphere of gross negligence as to their truth."[146]

Even though it applied its new broader standards of materiality and intent, the *Norton* court still affirmed the Patent Office's decision that no inequitable conduct had occurred.[147] The court's decision would, however, still have a large effect both in the courts and at the agency.

Norton was soon applied by circuit courts in the infringement context.[148] By 1977, the Patent Office itself also responded to, and validated, *Norton* by revising Rule 56 to require all patent applicants to disclose any information "that a reasonable examiner would consider . . . important."[149] The new standards announced by the court in *Norton*, coupled with the incentives to charge fraud in the Patent Office to create possible antitrust liability, soon created an avalanche of litigation on inequitable conduct. In less than fifteen years after *Norton*, the newly created Federal Circuit would observe that "[f]raud in the PTO" claims were "appearing in nearly every patent suit" and complain that the issue was "overplayed" and "cluttering up the patent system."[150]

V. THE INEQUITABLE DOCTRINE: THEORETICAL PROBLEMS AND PRACTICAL DIFFICULTIES

Norton v. Curtiss is a foundational case for the modern inequitable conduct doctrine, but the decision's most interesting

145. *Id.* at 795–96.

146. *Id.* at 796.

147. *Id.* at 797.

148. *See, e.g.*, *In re* Multidistrict Litig. Involving Frost Patent, 540 F.2d 601, 611 n.36 (3d Cir. 1976) (citing *Norton* to support the proposition that, in Patent Office proceedings, "the standards of conduct and candor are necessarily high"); Carter-Wallace, Inc. v. Davis-Edwards Pharmacal Corp., 443 F.2d 867, 881 (2d Cir. 1971) (relying on *Norton* for the proposition that "the concept of misconduct [at the Patent Office] now goes considerably beyond the classic definition of 'fraud,' and includes a 'wider range of 'inequitable' conduct found to justify holding a patent unenforceable'" (citation omitted) (quoting *Norton*, 433 F.2d at 793)).

149. *See* 37 C.F.R. § 1.56(a) (1977); *see also* Irving et al., *supra* note 11, at 313 ("The seminal *Norton* decision provided the framework that was incorporated in the 1977 amendment to Rule 56."); O'Connor, *supra* note 60, at 341, 345 (noting that *Norton* "set the baseline analysis that would be incorporated in . . . the 1977 Rule 56" and that "[t]he most notable feature of the 1977 Rule was that Rule 56 was changed from a straightforward provision enabling the [Patent Office] to strike applications for fraud to one that formally established a duty of candor and good faith by patent applicants and their attorneys").

150. Kimberly-Clark Corp. v. Johnson & Johnson, 745 F.2d 1437, 1454 (Fed. Cir. 1984).

aspect is its deep conflict with modern administrative law. *Norton* was reviewing a decision of the Patent Office, and that administrative decision concerned (1) how the agency wanted to conduct its own administrative processes and (2) what punishments, if any, it wanted to mete out for any misconduct at the administrative level. Under modern administrative law, federal courts have little or no nonstatutory powers to second-guess agencies on either of these matters.

With respect to the first issue, the Supreme Court in *Vermont Yankee Nuclear Power Corp. v. National Resources Defense Council, Inc.* emphatically (and famously) held that "the formulation of procedures [is] basically to be left within the discretion of the agencies to which Congress had confided the responsibility for substantive judgments" because "administrative agencies and administrators . . . will be in a better position than federal courts or Congress itself to design procedural rules adapted to the peculiarities of the industry and the tasks of the agency involved."[151]

So, too, for the second issue, the Supreme Court held in *ABF Freight System, Inc. v. NLRB* that a federal court has very limited power to compel an agency to punish misconduct—even misconduct that rises to the level of perjury—when that misconduct occurs solely at the administrative level.[152] In *ABF Freight*, the National Labor Relations Board (NLRB) learned that the party seeking a remedy from the agency—an employee illegally fired because of his union activities—had lied under oath during one of the agency's formal hearings. Despite the employee's perjury, the NLRB adjudicated the case; found that ABF Freight (the employer) had wrongfully fired the employee; and ordered ABF Freight to reinstate the employee with backpay. On appeal, the Supreme Court held that the courts must defer to the NLRB's decision and enforce the agency's order in favor of the perjurious employee.

ABF Freight could be distinguished from the typical modern case of inequitable conduct, which usually involves a patent infringement defendant alleging for the first time in court that the plaintiff patentee engaged in misconduct during the prosecution of the patent at the administrative level. In such cases, the administrative agency does not have any opportunity to pass upon the merits of the allegation. *ABF Freight* cannot, however, be so easily distinguished from *Norton* because in that

151. Vt. Yankee Nuclear Power Corp. v. Natural Res. Def. Council, Inc., 435 U.S. 519, 524–25 (1978) (quoting FCC v. Schreiber, 381 U.S. 279, 290 (1965)).

152. ABF Freight Sys., Inc. v. NLRB, 510 U.S. 317, 323–25 (1994).

case the Patent Office *did* know about the alleged misconduct and *did* decide that the misconduct did not warrant a denial of favorable administrative action.

Supreme Court decisions such as *Vermont Yankee* and *ABF Freight* did not, of course, exist at the time of *Norton*, and they did not exist during the crucial period in the 1970s when the circuit courts were building a doctrine of inequitable conduct much different, and much more aggressive, than anything recognized by the Supreme Court in *Precision Instrument*.[153] To the extent that current inequitable conduct doctrine owes its broad scope to *Norton* and other decisions of that era, the doctrine has a foundation that is in deep conflict with more general principles of administrative law.

The conflict between inequitable conduct doctrine and modern administrative law may sound like a mere theoretical objection. But theory has consequences, and in this area, the theoretical problem manifests itself in specific practical problems that have plagued the modern inequitable conduct doctrine over the past forty years. Importantly, these practical problems are precisely the problems that post-*Vermont Yankee* administrative law doctrines are designed to prevent.

For example, one reason supporting the Supreme Court's decision in *Vermont Yankee* is a basic problem of timing—judicial consideration typically comes *after* the conclusion of administration processes. If the courts exercise a power to judge the propriety of administrative processes at that point, the courts would be engaging in "Monday morning quarterbacking" about what processes might, in hindsight, have been best for the agency.[154] Yet such a post-hoc decisional process leads to inherent uncertainty about which rules are governing current administrative procedures.[155]

This problem of Monday morning quarterbacking can be observed clearly with the varying "materiality" standards that the courts have used in enforcing the doctrine of inequitable conduct.[156]

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153. For the cases that continued the expansion of the inequitable conduct doctrine in the 1970s, see *supra* note 148. *See also* Monsanto Co. v. Rohm & Haas Co., 456 F.2d 592, 597–601 (3d Cir. 1972) (holding that Monsanto's "failure to make total disclosure" justified holding the patent unenforceable).

154. *Vt. Yankee*, 435 U.S. at 547.

155. *See id.* at 546–47 ("[I]f courts continually review agency proceedings to determine whether the agency employed procedures which were, in the court's opinion, perfectly tailored to reach what the court perceives to be the 'best' or 'correct' result, judicial review would be totally unpredictable.").

156. *See* Digital Control Inc. v. Charles Mach. Works, 437 F.3d 1309, 1315–16 (Fed. Cir. 2006) (explaining that "several different standards of materiality [have] emerged from the

A patent applicant seeking to avoid the possibility of future inequitable conduct findings needs to understand not what information the PTO currently believes to be material nor even what information the courts currently believe to be material. Rather, the applicant needs to know what information a future court applying the inequitable conduct doctrine—perhaps five, ten, or twenty years later—will view as being material. That task is compounded by the historical variability of the judicial materiality standards. Indeed, the Federal Circuit has acknowledged that, within the last decade, the PTO and the courts have applied at least four different materiality standards.[157]

That variability has since continued, as the en banc decision of the Federal Circuit in *Therasense, Inc. v. Becton, Dickinson & Co.* has created a new materiality standard.[158] While the *Therasense* materiality standard is generally thought to be more narrow than prior standards applied in recent years, a narrow standard does not eliminate the problem of Monday morning quarterbacking for two reasons. First, the narrow standard is supported by the bare majority of a court that is rapidly changing personnel.[159] Second, the narrow standard still needs to be applied, and a patent applicant today cannot be certain of precisely how the seemingly narrow standard will be applied by courts many years in the future.

Many, if perhaps not all, of the timing problems associated with post-hoc judicial evaluations of alleged misconduct would be eliminated or mitigated if the power to regulate and punish administrative misconduct were relocated from the courts back to the agency. At the very least, administrative agencies could not change their regulations governing disclosure retroactively,[160] so

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courts" including "the objective 'but for' standard . . . the subjective 'but for' test . . . and the 'but it may have' standard" and noting that, in addition, the PTO has established a "reasonable examiner" standard of materiality).

157. *See id.* at 1315 (enumerating four tests for materiality: the objective "but for" standard, the subjective "but for" test, the "but it may have" standard, and the PTO's "reasonable examiner" standard).

158. Therasense, Inc. v. Becton, Dickinson & Co., 649 F.3d 1276, 1291–92 (Fed. Cir. 2011) (en banc).

159. The opinion of the en banc court was joined in full by six judges, with four judges dissenting and Judge O'Malley concurring in part and dissenting in part. *Id.* at 1282. Since the decision, the Federal Circuit has welcomed four new judges into its ranks: Judge Evan Wallach (2011), Judge Richard Taranto (2013), Judge Raymond Chen (2013); and Judge Todd Hughes (2013). *See Judges*, U.S. COURT OF APPEALS FOR THE FED. CIRCUIT, http://www.cafc.uscourts.gov/judges (last visited Nov. 23, 2013). Because one of the judges in the *Therasense* majority has now taken senior status, the decision may no longer command the support of the majority of the active judges on the court.

160. *See* Bowen v. Georgetown Univ. Hosp., 488 U.S. 204, 209, 215–16 (1988).

patentees would not have to guess what standard might be applied many years in the future to judge their conduct during patent prosecution. Indeed, even if the agency attempts to reinterpret its own rules and apply the new interpretation retroactively, the agency may be reversed in court if the reinterpretation "significantly revises" a prior interpretation.[161] In sum, agency policing of administrative misconduct would be more stable, predictable, and reliable than the current system of after-the-fact evaluations of conducted by the courts.

A second practical problem with current inequitable conduct doctrine is that it creates incentives for *both* ignorance and over-disclosure.[162] Modern inequitable conduct doctrine targets not merely *malum in se* conduct like the scheme for obtaining patent rights via blackmail that the Court condemned in *Precision Instrument*, but also cases involving nondisclosure of facts known to the patent applicant.[163] At a minimum, knowledge of the undisclosed facts is needed, so parties who are ignorant of the prior art have little to fear from inequitable conduct doctrine. By contrast, knowledgeable parties will have an incentive to overdisclose—dumping large quantities of information into the administrative process that the agency neither wants nor needs.[164]

This problem is another recognized reason why modern administrative law protects agencies' power to regulate their own processes, for agencies themselves—not the courts—are in the best position to calibrate their rules to obtain the amount and type of information needed for administrative functions. This very point was recognized by the Supreme Court in *Buckman Co. v. Plaintiffs' Legal Committee*, which precluded private litigants

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161. Ala. Prof'l Hunters Ass'n v. FAA, 177 F.3d 1030, 1034 (D.C. Cir. 1999) (holding that "[w]hen an agency has given its regulation a definitive interpretation, and later significantly revises that interpretation, the agency has in effect amended its rule," and thus it must go through "notice and comment" rulemaking and apply the new rule prospectively only).

162. *See* Wasserman, *supra* note 54, at 3 & n.7 (discussing the belief of the director of the PTO that the inequitable conduct doctrine "results in counterproductive behavior" and arguing that the doctrine "discourages many applicants from conducting a search and leads others to be indiscriminate in the information they submit" in support of their patent applications (internal quotation marks omitted)).

163. *See Therasense*, 649 F.3d at 1287 ("As the inequitable conduct doctrine evolved from [unclean hands cases such as *Precision* and *Hazel-Atlas*], it came to embrace a broader scope of misconduct, including not only egregious affirmative acts of misconduct intended to deceive both the PTO and the courts but also the mere nondisclosure of information to the PTO.").

164. *Id.* at 1289–90 ("With inequitable conduct casting the shadow of a hangman's noose, it is unsurprising that patent prosecutors regularly bury PTO examiners with a deluge of prior art references, most of which have marginal value.").

from bringing "fraud-on-the-FDA" claims against drug manufacturers that allegedly were not forthcoming in FDA administrative processes.[165] Although *Buckman* concerned state law claims and thus part of the Court's reasoning rested on promoting national uniformity on the issue,[166] the Court also relied upon the disruptive effect such judicial actions would have on "the FDA's responsibility to police fraud consistently with the Administration's judgment and objectives."[167] If fraud-on-the-FDA claims were permitted, then applicants would fear that courts could hold inadequate administrative disclosure that the agency itself might consider to be appropriate, and because of that fear, "[a]pplicants would then have an incentive to submit a deluge of information that the Administration neither wants nor needs, resulting in additional burdens on the FDA's evaluation of an application."[168] The Court's reasoning in *Buckman* mirrors the position taken by the Solicitor General in the case, who argued that fraud-on-the-agency claims "conflict with the strong federal interest in permitting FDA to decide for itself whether it has been defrauded, and, if so, what statutorily authorized remedy to seek."[169]

A third practical problem with modern inequitable conduct doctrine is that the penalty currently imposed by the courts—unenforceability of patent rights—typically has an inverse incremental relationship with the seriousness of the misconduct.[170] This effect continues even under the more limited inequitable conduct doctrine endorsed by the *Therasense* court.

Consider for example, a party found to have intentionally withheld information that, if it had been disclosed to the PTO, would have resulted in the agency properly rejecting one dependent claim in a patent application containing twenty claims. Under *Therasense*, such information is material and will result in the other nineteen claims—which could be quite valuable—being held unenforceable.[171] For more serious

165. Buckman Co. v. Plaintiffs' Legal Comm., 531 U.S. 341, 347–48 (2001).

166. *See id.* at 343, 347–50.

167. *Id.* at 350.

168. *Id.* at 351.

169. Brief for the United States as Amicus Curiae Supporting Petitioner at 23, *Buckman Co.*, 531 U.S. 341 (No. 98-1768).

170. As previously noted, see Chiang, *supra* note 7. Professor Chang has also noted this problem but has described it with somewhat inaccurate analogies.

171. Therasense, Inc. v. Becton, Dickinson & Co., 649 F.3d 1276, 1288 (Fed. Cir. 2011) (en banc) (calling inequitable conduct the "'atomic bomb' of patent law" because "inequitable conduct regarding any single claim renders the entire patent unenforceable" (quoting Aventis Pharma S.A. v. Amphastar Pharm., Inc., 525 F.3d 1334, 1349 (Fed. Cir. 2008) (Rader, J., dissenting))); *see also* Kingsdown Med. Consultants, Ltd. v. Hollister

misconduct, however, the incremental penalty is less. Consider another party—a much more malicious party—who intentionally withholds information that, if it had been disclosed to the PTO, would have resulted in the agency properly rejecting all twenty claims contained in a patent application. For that party, the incremental penalty imposed by an inequitable conduct finding is nothing, for the claims would have been invalid anyway.

The inverse incremental relationship between seriousness and punishment is again a practical problem that can be traced back to a known reason for making agencies, rather than courts, primarily responsible for policing against administrative misconduct.[172] Thus, in *ABF Freight*, the Supreme Court relied upon the longstanding principle in administrative law that courts should be especially deferential to an agency's remedial decisions "[b]ecause the relation of remedy to policy is peculiarly a matter for administrative competence."[173] Agencies are better left to devise remedies for administrative misconduct in part because agencies have more tools available to punish misconduct.[174] The inequitable conduct doctrine has one major punishment—unenforceability of otherwise valid patent rights. That is not an optimal tool for punishing misconduct, but it is the primary one available to the courts under the doctrine. Yet rather than using that tool liberally because it is the only one available to them (as has often been the situation in the last forty years), the courts should view the paucity of remedial choices as a reason for keeping the doctrine limited to exceptional circumstances such as those presented in *Precision Instrument*.

VI. RECONCILING INEQUITABLE CONDUCT WITH MODERN ADMINISTRATIVE LAW

If the courts are to reconcile inequitable conduct doctrine with basic principles of modern administrative law, they will need to restrict the doctrine even more than it has been under the Federal Circuit's decision in *Therasense*. Indeed, the best rule might very well be that nonstatutory judicial power to dismiss

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Inc., 863 F.2d 867, 877 (Fed. Cir. 1988) ("When a court has finally determined that inequitable conduct occurred in relation to one or more claims during prosecution of the patent application, the entire patent is rendered unenforceable.").

172. *See* ABF Freight Sys., Inc. v. NLRB, 510 U.S. 317, 324 (1994) ("[C]ourts must not enter the allowable area of the [agency's] discretion and must guard against the danger of sliding unconsciously from the narrow confines of law into the more spacious domain of policy." (quoting Phelps Dodge Corp. v. NLRB, 313 U.S. 177, 194 (1941))).

173. *Id.* (quoting *Phelps Dodge Corp.*, 313 U.S. at 194).

174. *See infra* text accompanying notes 178–83 (enumerating other remedies available for punishing fraud and misrepresentation).

actions to enforce patent rights should not be exercised unless the misconduct extends beyond the administrative process, as was the case in *Precision Instrument* (as well as in *Keystone Driller* and *Hazel-Atlas*).[175] That approach would limit inherent judicial power to policing against misconduct in the courts, rather than in another constitutional branch of government. This approach would draw a sensible line that allows each constitutional division of government to ensure the integrity of its own processes.

If, however, the courts are to continue granting a remedy of unenforceability for misconduct occurring solely within the executive branch, they should deploy that remedy only in those cases in which, if the agency were to choose to overlook the alleged administrative misconduct, the court would reverse the agency's decision and hold that the agency could not, as a matter of law, fail to sanction the conduct.[176] Cases such as *ABF Freight* and *Corona Tire* suggest those cases should be exceedingly rare, and *Vermont Yankee* suggests that the courts should not rely on nonstatutory powers to interfere with an agency's procedures except in "extremely compelling circumstances."[177]

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175. Precision Instrument Mfg. Co. v. Auto. Maint. Mach. Co., 324 U.S. 806, 816–19 (1945) (noting that Automotive Maintenance Machinery Company pressured the other parties who knew about the underlying fraud into agreements purporting to bar them "from ever questioning [the tainted patent's] validity" even after the administrative processes were complete and the "patent [had] issued on th[e] application"); Hazel-Atlas Glass Co. v. Hartford-Empire Co., 322 U.S. 238, 239 (1944) (addressing fraud perpetrated during appellate court proceedings); Keystone Driller Co. v. Gen. Excavator Co., 290 U.S. 240, 243–44 (1933) (discussing attempts to conceal evidence in district court case).

176. Though the PTO supported a broad doctrine of inequitable conduct in the *Therasense* litigation, see Brief for the United States as Amicus Curiae on Rehearing En Banc in Support of Neither Party at 8–14, *Therasense*, 649 F.3d 1276 (Fed. Cir. 2011) (No. 2008-1511) (arguing that the pre-*Therasense* "inequitable conduct framework is sound as it exists" and that "[t]he single proper standard for materiality should be Rule 56"), that administrative support cannot justify an extension of judicial power to police administrative misconduct. Agencies cannot merely cede their lawful powers to the courts. Moreover, the agency's position could change, and indeed, the agency does in fact appear to be in the process of changing its position. *See* Brief for the United States as Amicus Curiae at 19, Sony Computer Entm't Am. LLC v. 1st Media, LLC, No. 12-1086 (U.S. *cert. denied* Oct. 15, 2013), *available at* http://www.justice.gov/osg/briefs/2013/2pet/6invit/2012-1086.pet.ami.inv.pdf (noting that, after *Therasense*, the PTO published a proposed rule that would "adopt a definition of materiality under PTO Rule 56 that would mirror 'the standard for materiality required to establish inequitable conduct as defined in *Therasense*'") (quoting 76 Fed. Reg. 43,631, 43,632 (July 21, 2011) (to be codified at 37 C.F.R. pt. 1)). As was the case in 1977 when the PTO adopted its duty of candor after the *Norton* decision, the agency once again appears to be following the lead of the courts in this area—which is precisely backwards.

177. Vt. Yankee Nuclear Power Corp. v. Natural Res. Def. Council, Inc., 435 U.S. 519, 543 (1978).

Such an approach would also have the benefit of returning patent law to a state approximating the traditional position articulated in *Mowry*, which was both a stable position that endured for most of the lifetime of the U.S. patent system and also a reasonable approach to the problem of fraud given the alternative remedies for fraud. If patent rights have been *obtained* by fraud or misrepresentations—i.e., the fraud or misrepresentations caused the PTO to issue a patent that, under the true facts, is not *valid*—then throughout the history of the American patent system the federal courts have generally had statutory authorization to hold the patent invalid in litigation. Moreover, at least five other remedies exist to punish the fraud and misrepresentation at the PTO:

- Criminal liability under 18 U.S.C. § 1001, which makes it a crime for any person "knowingly and willfully" to falsify or conceal any material fact in any statements to the executive, judicial, or legislative branches of the U.S. government;[178]
- Administrative punishment under 35 U.S.C. § 32, which authorizes the Director of the PTO to disbar from PTO practice patent attorneys and agents who are disreputable, commit gross misconduct, or fail to follow PTO rules;[179]
- Shifting of attorney's fees under 35 U.S.C. § 285;[180]
- Revocation of patent rights under the nonstatutory process recognized by the Supreme Court in *United States v. American Bell Telephone Co.*;[181] and
- Antitrust liability under *Walker Process* (if the misrepresentations result in unlawful monopoly).[182]

Those alternative remedies for fraud and misconduct at the PTO mirror the remedies in other areas of administrative law,

178. 18 U.S.C. § 1001 (2012); *see* Mas v. United States, 151 F.2d 32, 32–33 (D.C. Cir. 1945) (affirming criminal conviction of defendant who submitted false statements in a Patent Office proceeding); *see also* 35 U.S.C. § 25(b) (2012) (requiring that certain declarations submitted to the PTO warn the declarant of § 1001's consequences).

179. 35 U.S.C. § 32; *see* Kingsland v. Dorsey, 338 U.S. 318, 320 (1949) (affirming the disbarment from Patent Office practice of an attorney who participated in fraud before the agency).

180. *See* 35 U.S.C. § 285; Monolith Portland Midwest Co. v. Kaiser Aluminum & Chem. Corp., 407 F.2d 288, 293–94 (9th Cir. 1969) (finding that fraudulent procurement of an invalid patent coupled with misconduct in litigation justified the award of fees under § 285).

181. *See* United States v. Am. Bell Tel. Co., 128 U.S. 315, 358 (1888) (observing "the right of the United States to bring suits in its own courts to be relieved against fraud committed" in patent cases).

182. *See* Walker Process Equip., Inc. v. Food Mach. & Chem. Corp., 382 U.S. 172, 176–77 (1965) (finding that proof a patent was secured "by knowingly and willfully misrepresenting facts to the Patent Office . . . . would be sufficient to strip [the misrepresenting party] of its exemption from the antitrust laws").

where 18 U.S.C. § 1001, specialized statutory remedies,[183] and administrative punishments are all typically available to punish misconduct.

A substantial restriction in the scope of inequitable conduct doctrine would also shift power over regulating proper administrative conduct from the courts to the agency, which is the entity that Congress expressly commanded to regulate "the conduct of proceedings in the Office."[184] Ever since *Norton v. Curtiss*, the courts have visibly taken the leadership role in deciding what constitutes sanctionable misconduct at the agency and, relatedly, what constitutes appropriate disclosure of information at the administrative level. Thus, *Norton v. Curtiss* decided in 1970 that the agency should hold patent applicants to a higher standard of candor, and the agency codified that standard in 1977.[185] The Federal Circuit modified the test for inequitable conduct in a 1988 en banc decision, and the agency adopted that change in its 1992 modification of rules.[186] Now, in the wake of the Federal Circuit's en banc *Therasense* decision, the agency is proposing once again to follow the court's lead.[187] That dynamic—judicial leadership in regulating the conduct required of parties at the agency, followed by administrative acquiescence in that leadership—is utterly backwards given both the statutory authority conferred on the agency and fundamental principles of modern administrative law.

Finally, a dramatic restriction on the scope of lower court inequitable conduct doctrine would reconcile this area of patent law not only with modern administrative law, but also with the fundamental principles governing the inherent equitable powers of federal courts. Federal courts do possess inherent equitable powers "over their own process, to prevent abuses, oppression, and injustice"—a point the Supreme Court made clear more than

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183. *See, e.g.*, 8 U.S.C. § 1451(a) (2012) (concerning fraud in the immigration process); 15 U.S.C. § 1064 (2012) (permitting the administrative cancellation of trademarks fraudulently procured).

184. 35 U.S.C. § 2(b)(2)(A).

185. See sources cited in *supra* note 149.

186. Notice of Proposed Rulemaking: Duty of Disclosure, 56 Fed. Reg. 37,321, 37,323 (Aug. 6, 1991) (to be codified in 37 C.F.R. pt. 1, 10) (proposing to modify existing PTO rules on the duty of disclosure "to reflect binding precedent of the U.S. Court of Appeals for the Federal Circuit [in] *Kingsdown Medical Consultants, Ltd. v. Hollister, Inc.*, 863 F.2d 867, 9 USPQ 2d 1384 (Fed. Cir. 1988) (*en banc*)"); *see also* Notice of Final Rulemaking: Duty of Disclosure, 57 Fed. Reg. 2021 (Jan. 17, 1992) (to be codified in 37 C.F.R. pt. 1, 10) (adopting the proposed rules as final and rejecting a commentator's argument that the agency should not change its standard to follow the approach articulated by Federal Circuit's 1988 en banc *Kingsdown* decision).

187. See sources cited in *supra* note 176.

a century ago.[188] Yet the Court has always followed a "traditionally cautious approach" to exercising such "inherent equitable power[s]."[189] Indeed, even in cases where a party has attempted to perpetrate a fraud on the court, the Supreme Court has instructed that inherent judicial powers must be "exercised with restraint and discretion."[190] If federal courts balk at using their inherent powers to punish misconduct occurring in courts, they should be even less, not more, willing to resort to those same inherent powers to punish perceived misconduct that occurs before an administrative agency.

188. Gumbel v. Pitkin, 124 U.S. 131, 144 (1888).

189. Grupo Mexicano de Desarrollo S.A. v. Alliance Bond Fund, Inc., 527 U.S. 308, 329 (1999).

190. Chambers v. NASCO, Inc., 501 U.S. 32, 43–44 (1991); *see id.* at 43 (quoting *Ex parte* Burr, 22 U.S. (9 Wheat.) 529, 531 (1824) for the proposition that the inherent power of a federal court to impose sanction for attorney misconduct in the courtroom "ought to be exercised with great caution"); *see also* Missouri v. Jenkins, 515 U.S. 70, 124 (1995) (Thomas, J., concurring) (accepting that federal courts have some inherent equitable remedial power but emphasizing that "[a]s with any inherent judicial power," the inherent equitable powers of federal courts should not be put to "aggressive or extravagant use" but should instead be exercised "in a manner consistent with our history and traditions"); Lopez v. United States, 373 U.S. 427, 440 (1963) (holding that, while a federal court has inherent power to refuse to receive material evidence as a sanction for a party's misconduct, such an inherent power "must be sparingly exercised" and refused where there is "no manifestly improper conduct").